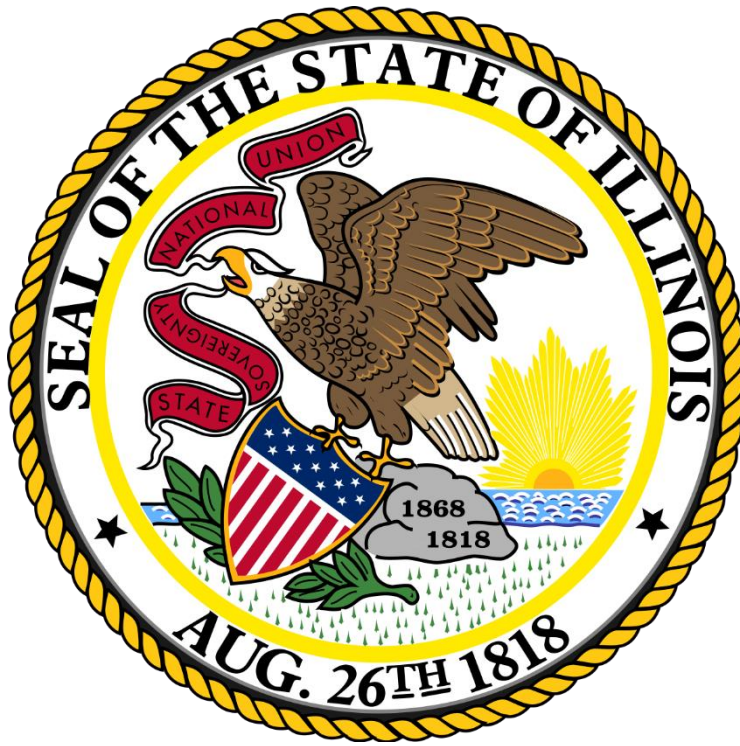


# LEGISLATIVE AUDIT COMMISSION



Review of  
Department of Insurance  
620 Stratton Office Building  
Springfield, Illinois 62706  
217/782-7097

## **REVIEW: #4584 DEPARTMENT OF INSURANCE FY21-22 COMPLIANCE**

### **REVIEW: #4584 DEPARTMENT OF INSURANCE TWO YEARS ENDED JUNE 30, 2022**

#### **RECOMMENDATIONS – 19**

##### **IMPLEMENTED/PARTIALLY IMPLEMENTED – 18 ACCEPTED – 1**

##### **REPEATED RECOMMENDATIONS – 9**

##### **PRIOR AUDIT FINDINGS/RECOMMENDATIONS – 11**

This review summarizes the auditors' report on the Department of Insurance for the two years ended June 30, 2022, filed with the Legislative Audit Commission on March 23, 2023. The auditors performed a compliance examination in accordance with *Government Auditing Standards* and State law.

The Department of Insurance was re-established on June 1, 2009 by Executive Order 2009-04. The Department was previously a part of the Department of Financial and Professional Regulation. The mission of the Department is to protect consumers by providing assistance and information, efficiently regulating the insurance industry's market behavior and financial solvency, and fostering a competitive insurance marketplace. The Department carries out this mission through effective administration and enforcement of the Illinois Insurance Code, the Illinois Pension Code, and related laws and regulations. The Department has 14 Divisions as follows:

- Office of Legal Affairs
- Legislative Affairs
- Internal Audit
- Finance
- Procurement and Administration
- Human Resources
- Property and Casualty
- Life and Annuities
- Health Products
- Financial/Corporate Regulatory
  - Financial Regulation Section
  - Actuarial Services Section
  - Financial Examinations Section
  - Corporate Regulations Section
  - Public Pension Section

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- Information Technology
- Consumer Education and Protection
- Get Covered Illinois
- Investigation
  - Workers' Comp Fraud Section
  - Producer Regulatory Section
  - Licensing/Education and Testing Section

The Department has three associated organizations as follows:

- The Office of the Special Deputy (OSD) assists the Director in carrying out the statutory responsibilities of conservator, rehabilitator, or liquidator of insurance companies declared insolvent or otherwise impaired from managing their own affairs.
- The Comprehensive Health Insurance Plan (CHIP) offers health insurance to a limited number of Illinois residents who can afford, but cannot find adequate health insurance coverage in the private market because of their medical or physical condition.
- The National Association of Insurance Commissioners (NAIC) is a central organization of nationwide chief insurance regulatory officials who strengthen and improve State regulation through the formulation of common goals and uniform policies.

The current Acting Director is Ann Gillespie who began serving on April 10, 2024. Ms. Gillespie is a former State Senator who championed health care and insurance reforms. Prior to joining the Illinois General Assembly in 2019, she practiced health care law, served as Chair of the Illinois HMO Guaranty Association, and consulted with state insurance departments managing HMOs in receivership. Ms. Gillespie held several leadership roles in the health care industry, including at CVS/Caremark. She was Vice President, Member Communications Operations, heading member communication strategy and operations for commercial and Medicare lines of business. Prior to that, she was Vice President, Operations Member Experience, leading the Pharmacy Benefit Manager (PBM) enterprise team and overseeing the member experience across Mail, Customer Care, Clinical, and Specialty operations. Previously, she was Vice President & General Manager, Mail Pharmacy Operations in the Chicago area. Dana Popish Severinghaus served as Director from 2021-2024.

The average number of employees for the fiscal years ended June 30 was as follows:

Division/Unit Based on Funding Source	2022	2021	2020
Workers' Comp Commission Operations	11	1	2
Public Pension Regulatory	4	4	10
Insurance Producer Administration	92	98	95
Insurance Financial Regulation	97	103	100
<b>Total</b>	<b>204</b>	<b>206</b>	<b>207</b>

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### Expenditures From Appropriations

Appropriations (\$ thousands)	FY21		FY22	
	Approp	Expend	Approp	Expend
OTHER STATE FUNDS				
Personal Services	40,192.1	30,706.3	35,883.0	32,452.2
Contractual Services	3,220.0	3,053.0	3,220.0	2,382.4
Other Operations	4,864.5	2,712.3	4,575.5	2,841.5
<b>Designated Purposes</b>				
Operations of Insurance Fraud Div. of Workers' Comp. Anti-Fraud Prog.	2,862.0	819.0	2,600.0	1,748.2
Get Covered IL Lump Sum	2,000.0	1,958.9	1,800.0	1,787.1
Operational Expenses	2,288.8	1,229.0	9,250.0	1,851.5
Support Parity Implementation and Enforc.	0.0	0.0	2,000.0	0.0
<b>Grants</b>				
George Bailey Memorial Program	100.0	0.0	100.0	0.0
<b>TOTAL OTHER STATE FUNDS</b>	<b>55,527.4</b>	<b>40,478.5</b>	<b>59,428.5</b>	<b>43,062.9</b>
<b>FEDERAL FUNDS</b>				
Insurance Market Flexibility	284.2	97.7	284.2	55.4
<b>TOTAL FEDERAL FUNDS</b>	<b>284.2</b>	<b>97.7</b>	<b>284.2</b>	<b>55.4</b>
<b>TOTAL</b>	<b>55,811.6</b>	<b>40,576.2</b>	<b>59,712.7</b>	<b>43,118.3</b>

### Security Deposit Fund

The Security Deposit Fund is a fiduciary fund created by the Insurance Code. The Code requires companies domiciled in the State to make and maintain, with the Director of the Department, 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. At the end of FY22, the total on deposit was \$846.7 million.

### Accountants' Findings and Recommendations

Condensed below are the 19 findings and recommendations included in the audit report. Of these, 9 are repeated from the previous audit. The following recommendations are classified on the basis of information provided by the Department of Insurance, via electronic mail received March 23, 2023.

1. **The auditors recommend the Department strengthen its controls over accounts receivable by performing thorough reviews and reconciliations of the data it**

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uses to generate the C- 97, C-98, and C-99 Forms. Further, they recommend the Department have the staff already allocated to review and monitor past due accounts also refer them to the Comptroller's Offset System, the Bureau, or to the Office of Attorney General as required by State laws, or hire additional staff to perform the required referrals.

**FINDING:** *(Inadequate Controls over Accounts Receivables) – First reported 2020, last reported 2022*

The Department of Insurance (Department) did not have adequate controls over the reporting and collection of its accounts receivable.

During their testing, auditors noted the following:

- The Department did not track and ultimately did not report accounts receivables for cost containment fees, data sales, and public sales for Fiscal Years 2021 and 2022 in the Quarterly Summary of Accounts Receivable Reports (C-97, C-98, and C-99 Forms) filed with the Illinois Office of Comptroller (Comptroller). The total billings for such fees amounted to \$2,475,161 and \$2,552,771 for Fiscal Year 2021 and Fiscal Year 2022, respectively.

The Statewide Accounting Management System (SAMS) Manual (Procedure 26.30.10) states the C-97, C-98, and C-99 Forms provide a summary of the status of the State's receivables and related collections activity on a quarterly basis.

Further, the Fiscal Control and Internal Auditing Act (FCIAA) (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 revenues are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Lastly, a good system of internal control includes ensuring receivables are properly and accurately recorded and maintained by the Department.

Department management indicated the Department failed to include the receivables related to cost containment fees, data sales, and public sales to the Accounts Receivables Reports due to oversight.

- For 2 of 25 (8%) June 30, 2022 accounts receivable balances tested (both aged 917 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 two accounts receivable balances totaled \$113,000 as of June 30, 2022.

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The SAMS Manual (Procedure 26.40.20) requires the Department to place all debts over \$250 and more than 90 days past due in the Comptroller's Offset System.

Further, the Illinois Administrative Code (Code) (74 Ill. Admin. Code 1200.60) requires the Department to refer to the Bureau all debt owed to the State, provided that the debt satisfies the requirements for referral of delinquent debt. The Code (74 Ill. Admin. Code 1200.50) defines "delinquent debt" as a debt to the State or any of its agencies that is owed by any person or entity, that is \$10 or more, and that is more than 90 days past due.

Department management stated the exception noted was due to oversight and lack of available staff to monitor delinquent receivables.

- For 8 of 25 (32%) June 30, 2022 long outstanding accounts receivable balances tested (aged between 1,056 to 3,433 days), the auditors noted the Department did not refer to the Office of the Attorney General for certification of debts' collectability. The 8 accounts receivable balances totaled \$32,418 as of June 30, 2022.

The Uncollected State Claims Act (30 ILCS 205/2(a)) requires the Department to request the Attorney General to certify the claim or accounts receivable as uncollectible when it is unable to collect any claim or account receivable of \$1,000 or more after having pursued the debt in accordance with State law.

Department management stated the exception noted was due to oversight and lack of available staff to monitor delinquent receivables.

Failure to maintain accurate accounts receivable records and accurately report accounts receivable balances could lead to the failure of properly collecting amounts owed to the State, inaccuracies in statewide financial statement reporting, increases the risk that errors and irregularities could occur and not be detected by the Department on a timely basis, and represents noncompliance with the Act and the SAMS Manual. Additionally, failure to utilize available mediums of debt collection hinders oversight authorities' ability to collect debts on behalf of State agencies, may result in a loss of State revenues, and represents noncompliance with State laws and regulations. Finally, failure to write-off uncollectible debts may result in unnecessary funds expended for monitoring and collection of such debts, and possible overstatement of State receivables.

### **DEPARTMENT RESPONSE:**

The Department agrees with the finding. Department staff has contacted the IOC on two separate occasions for guidance on reporting the revenues for Cost Containment, Data Sales and Public Sales. The Department has not received a response from the IOC in regard to procedures and if these funds need to be reported. The Department has performed initial steps in writing of procedures for placing outstanding accounts receivable into the Illinois Department of Revenue Debt Collection Bureau. Department staff contacted the Office of the Illinois Attorney General for procedures for submitting uncollectible debts.

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### **UPDATED RESPONSE:**

Partially Implemented.

- 2. The auditors recommend the Department perform the pension fund examinations every three years as required by the Code.**

**FINDING:** *(Failure to Perform Required Examination of Police and Firefighter Pension Funds) – First reported 2012, last reported 2022*

The Department of Insurance's (Department) Public Pension Division (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, 2022, there were 657 Article 3 downstate police pension funds and Article 4 downstate firefighters pension funds which were required to be examined once every three years.

With the implementation of Public Act 101-0610 (Act) on January 1, 2020, all police and firefighter pension funds were consolidated into two superfunds – Illinois Police Officer Pension Investment Fund (IPOPIF) and Illinois Firefighter Pension Investment Fund (FPIF). The Act also defined the "Transition Period" as the transfer period of custody and control of assets from the transferor funds to the Boards of IPOPIF and FPIF (Boards), which commenced on January 1, 2020 and shall end as determined by the Boards, but in no event later than July 1, 2022. Consequently, the Boards determined June 30, 2022 as the end of the transition period.

Further, the Act amended the Pension Code (40 ILCS 5/1A-104) which states (1) prior to the conclusion of the Transition Period, the Division is required to make the periodic examinations and investigations of all police and firefighter pension funds once every three years then (2) after the Transition Period, either the Division or IPOIF, and either the Division or FPIF shall perform the required examinations of police pension funds and firefighter pension funds, respectively.

Ultimately, the Department and FPIF entered into a memorandum of understanding (MOU) such that FPIF will be responsible for the examination of firefighter pension funds after June 30, 2022. The Department and IPOPIF did not have a similar MOU. Therefore, the Division will not be responsible for the periodic examination of firefighter pension funds after June 30, 2022, but was still responsible for the periodic examination of police pension funds prior to the conclusion of the Transition Period, as required by the Code.

As outlined above, during the examination period, the Division was still responsible for the three-year examination requirement for both police and firefighter pension funds prescribed by the Pension Code. Hence, their testing included all police and firefighter pension funds as of June 30, 2022. As a result of testing, auditors noted the following:

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- One (0.2%) pension fund has been examined on four occasions since it was initially due for examination. Specifically, the Department did not complete three required examinations for the fund since the examination due for 2004.
- 31 (5%) pension funds have been examined on three occasions since they were initially due for examination. Specifically, the Department did not complete four required audits for each of the six pension funds due for examination since 2004, three required audits for each of the 22 pension funds due for examination between 2005-2007, and two required audits for each of the three funds due for examination between 2008-2010.
- 373 (57%) pension funds have been examined on two occasions since they were initially due for examination. Specifically, the Department did not complete five required audits for each of the 57 pension funds due for examination since 2004, four required audits for each of the 131 pension funds due for examination between 2005-2007, three required audits for each of the 166 pension funds due for examination between 2008-2010, and two required audits for each of the 19 funds due for examination between 2011-2013.
- 244 (37%) pension funds have been examined on one occasion since they were initially due for examination. Specifically, the Department did not complete five required audits for each of the three pension funds due for examination between 2005-2007, four required audits for each of the 83 pension funds due for examination between 2008-2010, three required audits for each of the 126 pension funds due for examination between 2011-2013, two required audits for each of the eight funds due for examination between 2014-2016, and one required audit for each of the 22 funds due for examination between 2017-2019. The two pension funds were examined once as required.
- Eight (1%) pension funds were currently under examination as of June 30, 2022. Specifically, the Department did not complete four required audits for one pension fund due for examination between 2005-2007, three required audits for each of the four pension funds due for examination between 2008- 2010, and two required audits for each of the three pension funds due for examination between 2011-2013.

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

This finding was first reported in the Department's *State Compliance Examination* for the two years ended June 30, 2012. In subsequent years, the Department has been unsuccessful in implementing an adequate corrective action plan.



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Department management stated the noncompliance with the three-year audit cycle requirements of the Code was due to the Public Pension Division operating with inadequate staff resources.

Failure to perform the required examination of a pension fund every three years has resulted in the Department not being able to fully monitor pension funds and represents noncompliance with the Code.

### **DEPARTMENT RESPONSE:**

The Department agrees with the finding. The Department is taking the following corrective actions to address this finding: (1) continue to use a risk-based examination system to narrow the focus of subsequent examinations; (2) use performance criteria of a fund to select those funds who are under performing for examination; and (3) use the current review of the pension funds' annual statements to examine funds on the material data of benefits and contributions and management of the fund and follow-up with further examination if necessary. The Department is also in the process of obtaining a third-party vendor and adding staff to aid it with completing examinations of Article 3 pension funds in a timely manner.

Additionally, the Department will continue to work with interested parties to review whether legislative changes related to the examination cycle are appropriate and to clarify the role of the Department and its requirement to perform examinations of pension funds.

### **UPDATED RESPONSE:**

Partially Implemented.

- 3. The auditors recommend the Department design and maintain internal controls to provide assurance its data entry of key attributes into ERP is complete and accurate. Further, they recommend the Department process proper bills within 30 days of receipt and approve vouchers for payment of interest due to vendors.**

**FINDING:** *(Voucher Processing Internal Controls not Operating Effectively) – First reported 2018, last reported 2022*

The Department of Insurance's (Department) internal controls over its voucher processing function were not operating effectively during the examination period.

Due to their ability to rely upon the processing integrity of the Enterprise Resource Planning (ERP) System operated by the Department of Innovation and Technology (DoIT), auditors were able to limit their voucher testing at the Department to determine whether certain key attributes were properly entered by the Department's staff into the ERP. In order to determine the operating effectiveness of the Department's internal controls related to voucher processing and subsequent payment of interest, they selected a sample

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of key attributes (attributes) to determine if the attributes were properly entered into the State's ERP System based on supporting documentation. The attributes tested were 1) vendor information, 2) expenditure amount, 3) object(s) of expenditure, and 4) the later of the receipt date of the proper bill or the receipt date of the goods and/or services.

The auditors testing noted 11 of 140 (8%) attributes were not properly entered into the ERP System. Therefore, the Department's internal controls over voucher processing **were not operating effectively.**

The Statewide Accounting Management System (SAMS) Manual (Procedure 17.20.20) requires the Department to, after receipt of goods or services, verify the goods or services received met the stated specifications and prepare a voucher for submission to the Comptroller's Office to pay the vendor, including providing vendor information, the amount expended, and object(s) of expenditure. Further, the Illinois Administrative Code (Code) (74 Ill. Admin. Code 900.30) requires the Department to maintain records which reflect the date goods were received and accepted, the date services were rendered, and the proper bill date. Finally, 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 assurance expenditures are properly recorded and accounted for to maintain accountability over the State's resources.

Due to this condition, the auditors qualified their opinion because they determined the Department had not complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

Even given the limitations noted above, auditors conducted an analysis of the Department's expenditures data for Fiscal Years 2021 and 2022 to determine compliance with the State Prompt Payment Act (Act) (30 ILCS 540) and the Code (74 Ill. Admin. Code 900.70). The auditors noted the following noncompliance:

- The Department did not timely approve 285 of 3,088 (9%) vouchers processed during the examination period, totaling \$4,406,086. They noted these late vouchers were submitted by the Department to the Comptroller's Office between 1 and 215 days late.

The Code (74 Ill. Admin. Code 900.70) requires the Department to timely review each vendor's invoice and approve proper bills within 30 days after receipt.

- The Department owed one vendor interest totaling \$14 in Fiscal Year 2022; however, the Department had not approved this voucher for payment to the vendor.

The Act (30 ILCS 540) requires agencies to pay vendors who had not been paid within 90 days of receipt of a proper bill or invoice interest.

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This finding was first reported in the Department's *State Compliance Examination* for the two years ended June 30, 2018. In subsequent years, the Department has been unsuccessful in implementing an adequate corrective action plan.

Department management stated the issues noted were due to employee oversight, turnover, and lack of manpower.

Failure to properly enter the key attributes into the State's ERP System when processing a voucher for payment hinders the reliability and usefulness of data extracted from the ERP System, which can result in improper interest calculations and expenditures. Further, failure to timely process proper bills and approve vouchers for payment of interest due represents noncompliance with the Code and the Act.

### **DEPARTMENT RESPONSE:**

The Department agrees with the finding. While the Voucher Processing Unit experienced employee turnover causing a lack of manpower, the Department will continue to strive to have all vouchers processed/approved within the required time frames.

### **UPDATED RESPONSE:**

Partially Implemented.

- 4. The auditors recommend the Department work with DoIT to obtain an understanding of each of the Departments' roles and responsibilities. Further, they recommend the Department maintain documentation of each applications' users and ensure the users' rights are appropriate.**

### **FINDING:** *(Failure to Implement Controls over User Access) - New*

The Department of Insurance (Department) failed to implement internal controls over users' access.

As part of its mission in regulating the insurance market, the Department utilizes several applications and maintains confidential data. As part of their examination, auditors requested the Department provide populations of users with access to the Accounting Management System, Medical Malpractice Claims Reporting System, and the State's Enterprise Resource Planning (ERP) System in order to determine if access was appropriate. However, the Department **did not have** the requested populations.

In addition, auditors requested the Department provide populations of users with access to the Central Time and Attendance System (CTAS), eTime, Central Payroll System (CPS), midrange, and mainframe environments in order to determine if access was properly approved and timely disabled. However, the Department **did not have** the requested populations.

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Further, they requested the Department provide documentation that periodic review of access rights had been conducted. However, the Department **did not have** the requested documentation.

As a result of the Department not providing the above, they could not conduct testing to determine if user rights to the applicable application(s) was appropriate.

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 assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over the State's resources.

The Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Access section, requires entities to maintain internal controls over access to their applications and data.

Department management indicated the Department of Innovation and Technology (DoIT) was responsible for the Department's security controls, and the Department did not have sufficient resources to carry out these responsibilities.

Failure to implement controls over users' access could result in inappropriate access to the Department's applications and data.

### **DEPARTMENT RESPONSE:**

The Department agrees with this finding. Previously, the Department followed DoIT's Policies and Procedures for user access controls. Going forward, the Department will review user access controls and identify any additional controls needed. The Department will then develop its own written policies and procedures for user access controls.

### **UPDATED RESPONSE:**

Not Started.

**5. The auditors recommend the Department work with DoIT to obtain a detailed understanding of each Departments' roles and responsibilities. They also recommend the Department implement controls to identify and document all service providers utilized. Further, they recommend the Department:**

- **Obtain SOC reports and review.**
- **Monitor and document the operation of CUECs related to the Department's operations.**
- **Either obtain and review SOC reports for subservice organizations or perform alternative procedures to satisfy itself that the existence of the**

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subservice organization would not impact its internal control environment.

- Document the review of the SOC reports and all significant issues with subservice organizations to ascertain if a corrective action plan exists and when it will be implemented, any impact to the Department, and any compensating controls.
- Ensure all contracts and agreements contain requirements for an independent review.

### **FINDING:** *(Failure to Implement Controls over Service Providers) - New*

The Department of Insurance (Department) failed to implement adequate internal controls over its service providers.

The auditors requested the Department provide the population of service providers utilized to determine if they had reviewed the internal controls over their service providers. In response to the auditors request the Department provided two different populations; however, they noted neither population was complete and accurate.

Due to these conditions, auditors were unable to conclude the Department's populations were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.36). ***Even given the population limitations noted above, which hindered the ability of the accountants to conclude whether the population was complete,*** they performed testing.

The service providers identified by the Department provided the following services:

- Personnel monitoring, accounting, and payroll and voucher processing
- Industry regulation consulting
- Financial regulation and examination assistance
- Online payment processing

The auditors requested the Department provide documentation on their review of internal controls for the service providers. The Department provided 10 System and Organization Control (SOC) reports from four service providers during the examination period. Their testing noted:

- Documentation on the Department's analysis of the SOC reports to determine the impact of the opinions and noted deviations was not provided.
- An analysis of the Complementary User Entity Controls (CUECs) documented in the SOC reports and the Department's compliance with the CUECs was not completed.
- Three of four (75%) service providers SOC reports did not cover the entire examination period.

In addition, they requested a meeting with the Department's employees to obtain an understanding of their control over their service providers. After conducting multiple

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meetings with the Department on the subject, auditors noted the Department did not have knowledge on how it monitored their service providers during the examination period. As a result, auditors were unable to test the Department's controls over its service providers.

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 assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over the State's resources.

The Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Maintenance and System and Service Acquisition sections, requires entities outsourcing their information technology environment or operations to obtain assurance over the entities' internal controls related to the services provided. Such assurance may be obtained via System and Organization Control reports or independent reviews.

Department management indicated the Department of Innovation and Technology (DoIT) was responsible for the Department's security controls, and the Department did not have sufficient resources to carry out these responsibilities.

Failure to implement adequate controls over service providers could result in inadequate internal controls at the service providers and has created unknown risks to the Department's applications and data.

### **DEPARTMENT RESPONSE:**

The Department agrees with this finding. The Department will work with DoIT to hire a dedicated Risk Manager to oversee and manage all interactions with service providers.

### **UPDATED RESPONSE:**

Partially Implemented.

- 6. The auditors recommend the Department work with DoIT to obtain a detailed understanding of each party's responsibilities related to cybersecurity controls. Further, they recommend the Department:**

**Conduct an analysis of DoIT's policies and procedures to determine if the Department is meeting the requirements set forth in DoIT's policies and procedures. In addition, the Department should develop detailed policies and procedures related to, at a minimum:**

- **Configuration Management**
- **Acceptable Use**
- **Access Control**

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- Access request requirements
  - Access modification requirements
  - Access termination requirements
  - Periodic access reviews
  - Security Awareness and Training
  - On-boarding for staff and contractors
  - Data maintenance and destruction
  - Disaster recovery and response
  - Backup verification and off-site storage
  - Project Management Framework
  - Reporting security violations and suspected violations.
- Upon development, review policies and procedures at least annually to ensure they reflect the current environment.
  - At least annually, communicate policies and procedures to staff and contractors and have them acknowledge their understanding of responsibilities.
  - Develop a risk management methodology and conduct a risk assessment. Additionally, the Department should implement risk reducing internal controls.
  - Develop a data classification methodology, classify its data, and implement proper safeguards accordingly.
  - Work with DoIT to obtain an understanding of the security solutions utilized to secure the Department's assets.
  - Obtain understanding of the security events being monitored for, the frequency and the follow-up actions being taken.
  - Obtain documentation of the vulnerability scan results and work with DoIT in remediating vulnerabilities.

In addition, auditors recommend the Department strengthen its controls to ensure complete and accurate records of completed cybersecurity training are maintained. Further, they recommend contractors complete the annual cybersecurity training.

**FINDING:** *(Failure to Implement Controls Related to Cybersecurity Programs, Practices, and Control of Confidential Information) - New*

The Department of Insurance (Department) failed to implement internal controls related to cybersecurity programs, practices and control of confidential information.

The Department of Insurance'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." In order to carry out their mission, the Department utilizes several Information Technology (IT) applications which contain confidential and personal information.

The Illinois State Auditing Act (30 ILCS 5/3-2.4) requires the Auditor General to review

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State agencies and their cybersecurity programs, practices and control of confidential information. During the auditor's examination, they requested the Department's documentation demonstrating their cybersecurity programs, practices and control of confidential information. However, the Department **did not have**:

- Policies or procedures documenting controls related to:
  - Maintenance of data;
  - Onboarding of staff and contractors;
  - Verification of backups and off-site storage;
  - Security awareness training;
  - Disaster recovery and response; and
  - Reporting security violations or suspected violations.
- Data classification methodology or documentation they had classified their data.
- Cybersecurity plan describing the security program, policies, and procedures.
- Documentation related to the security solutions utilized to provide security and resilience of their assets.

Although, the Department provided the Department of Innovation and Technology's (DoIT) security policies, auditors noted the security policies were not the current version. Further, DoIT's security policies state the user agency must establish additional policies and procedures to ensure the agency is in compliance with DoIT's security policies. However, the Department **did not have** such policies or procedures.

In addition, auditors noted the Department **had not**:

- Developed a project management framework to ensure new applications were adequately developed and implemented in accordance with management's expectations.
- Established or assigned cybersecurity roles and responsibilities.
- Developed a risk management methodology, conducted a comprehensive risk assessment, or implemented risk reducing internal controls.

The Department's Policy Manual, dated February 2011, stated each employee who utilized the Department's IT resources or was assigned a state-owned personal computer must read the agency's IT Policy and Procedures Manual' and complete the IT Policy and Procedures Acknowledgment Form. However, the information within the Policy Manual did not reflect the current IT environment, State laws, processes, actual responsibilities of the employees, or DoIT's responsibilities. Further, as noted above, the Department had not developed policies and procedures documenting the Department's security requirements. Therefore, the Department had not ensured their employees and contractors were aware of the security requirements and responsibilities.

The auditors requested the Department provide the population of employees who completed the annual cybersecurity training for CY2020 and CY2021. In response to their request, the Department provided two different populations and noted neither population was complete and accurate. Due to these conditions, they were unable to conclude the



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Department's populations were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AT-C § 205.36). ***Even given the population limitations noted above, which hindered the ability of the accountants to conclude whether the population was complete***, the auditors tested 24 employees to determine if they completed the annual cybersecurity training noting no exceptions.

Additionally, they noted the Department did not require contractors to complete the annual cybersecurity training.

Lastly, auditors noted the Department **did not have** knowledge on how their assets were monitored, how or if security events were timely detected, and the actions taken in response to a security event.

*The Framework for Improving Critical Infrastructure and the Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology requires entities to consider risk management practices, threat environments, legal and regulatory requirements, mission objectives and constraints in order to ensure the security of their applications, data, and continued business mission.

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 assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over the State's resources.

Department management indicated DoIT was responsible for internal controls over cybersecurity controls, and the Department did not have sufficient resources to carry out these responsibilities.

Failure to implement internal controls related to cybersecurity programs, practices, and control of confidential information has resulted in unidentified risks and vulnerabilities and ultimately lead to the Department's volumes of personal information being susceptible to cyber-attacks and unauthorized disclosure.

### **DEPARTMENT RESPONSE:**

The Department agrees with this finding. Previously the Department followed DoIT's Policies and Procedures for controls related to cybersecurity. Going forward, the Department will review controls related to cybersecurity and identify any additional controls needed. The Department will then develop its own written policies and procedures for controls related to cybersecurity.

### **UPDATED RESPONSE:**

Partially Implemented.

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7. **The auditors recommend the Department work with the Department of Innovation and Technology (DoIT) to transition and fully utilize the PCSD-Receipts, PCSD- Billings/Payments, PCSD-Accounts Receivable modules of the ERP System.**

**FINDING:** *(Failure to Fully Utilize the State's Enterprise Resource Planning System) - New*

The Department of Insurance (Department) did not utilize all capabilities of the State's Enterprise Resource Planning (ERP) System which resulted in unnecessary inefficiency.

The State's implementation of an ERP System centralized the finance, procurement, grants management, and asset management processes by replacing outdated manual systems and technologies. The ERP System can enhance transparency of data, reduce processing time, and improve the timeliness of financial reporting. During the examination period, the ERP System's processing integrity was sufficient to enable reliance upon ERP System's processing of transactions.

For processing billings, receipts and receivables, the ERP System has several functionalities which reduce the processing time and enables financial reporting to the Illinois Office of Comptroller (IOC).

During their testing, auditors noted the Department did not utilize the Public Sector Collection and Disbursement (PSCD)-Receipts, PSCD-Billings and Payments, and PSCD-Accounts Receivables modules of the State's ERP System. Instead, the Department uses the Accounting Management System (AMS) for assessment and collection of insurance entity taxes and fees.

*Government Auditing Standards* (§ 1.02) states the concept of accountability for use of public resources and government authority is key to our nation's governing processes. Management and officials entrusted with public resources are responsible for carrying out public functions and providing service to the public effectively, efficiently, economically, and ethically within the context of the statutory boundaries of the specific government program.

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 assurance that resources are utilized efficiently, effectively, and in compliance with applicable laws. Good internal controls over compliance includes ensuring the full capabilities of the ERP System are used to efficiently process, record, and report transactions.

Department management stated they were unfamiliar with the requirements to fully utilize the specific modules and believed the Department had been effectively utilizing the ERP System in its operations.

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Failure to fully utilize the State's ERP System could result in outdated financial systems not being supported, untimely financial information being prepared at the State level, and the lack of full transparency.

### **DEPARTMENT RESPONSE:**

The Department agrees with the finding and has met with DoIT personnel overseeing the ERP System. The Department will continue to utilize the AMS for assessment and collection of insurance entity taxes and fees, however, meetings with DoIT will continue until a viable method of transferring receipt and receivable files from AMS for download/transfer to the ERP System is finalized, ensuring that the ERP System is the State's book of record, allowing for complete transparency.

### **DEPARTMENT UPDATED RESPONSE:**

Implemented.

- 8. The auditors recommend the Department strengthen its controls over State property and equipment to ensure compliance with State laws and regulations.**

**FINDING:** *(Inadequate Controls over State Property and Equipment) – First reported 2018, last reported 2022*

The Department of Insurance (Department) did not maintain adequate internal controls over the reporting and monitoring of its State Property and Equipment.

Specifically, auditors noted the following:

- In the floor-to-list testing, they noted 5 of 25 (20%) property items tested were considered high theft assets (2 MiFi's and 3 mobile phones) but not included in the Fiscal Year 2022 annual inventory listing submitted to the Department of Central Management Services (DCMS). Further, auditors also noted an additional 11 property items (7 MiFi's and 4 mobile phones) found in the same location of the 5 devices previously discussed which were considered high theft assets but not included in the Fiscal Year 2022 annual inventory listing submitted to DCMS.

Department officials indicated these items were included in the Asset Shell of the Enterprise Resource Planning (ERP) System. The Asset Shell Report was not included in the DCMS certified inventory listing submission due to employee oversight. Department management explained that inventory items contained in the Asset Shell of the ERP System are items for which a State Agency does not have all required information that is required in order to put the items onto the official inventory listing (examples include cost information, assignment designations, etc.).

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The Illinois Administrative Code (Code) (44 Ill. Admin Code 5010.460(c)) requires the Department to provide DCMS, on an annual basis, a listing of all equipment items with an acquisition value of \$1,000 or more and equipment subject to theft with an acquisition value of less than \$1,000.

- In the asset additions testing, auditors noted 3 of 16 (19%) property items tested (mobile phones) were added to the Department's property listing 11 to 148 days after the 90-day requirement.

Department management indicated these items were recorded late due to employee oversight.

The Code (44 Ill. Admin. Code 5010.400) requires the Department to adjust property records within 90 days after acquisition, change or deletion of equipment items.

This finding was first reported in the Department's *State Compliance Examination* for the two years ended June 30, 2018. In subsequent years, the Department has been unsuccessful in implementing an adequate corrective action plan.

Failure to exercise adequate internal controls over State property may result in inaccurate property control records, increases the potential for fraud and possible loss or theft of State property, and represents noncompliance with the Code.

### **DEPARTMENT RESPONSE:**

The Department disagrees with this finding. However, to understand the reason for our disagreement we want to describe the items the auditor has noted are in error:

The Department receives Cell Phones and MiFi devices through the Department of Innovation and Technology (DoIT). These items are entered into the inventory system upon receipt (The high theft box is not checked). The Department stores these items in a locked room until DoIT provides us with a written billing statement and the item assigned. The assigned item is activated by DoIT working directly with the vendor and added to the official inventory listing by the Department.

Please note that we would agree with the finding if the Department defined these equipment items as subject to theft. However, the Department has determined these items are not high theft. The Department considers activated phones (phones that can be hacked and possibly contain discreet information) as high theft but do not consider nonactivated phones as subject to theft.

Also, the items identified as being added to the inventory late were also Cell phone and MiFi devices. As stated, until they are activated, the Department does not consider them subject to theft. Prior to activation they are neither high theft nor over \$1,000. Therefore, they would not be included in inventory submission to DCMS.

### **ACCOUNTANT'S COMMENT:**

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The Department indicates the cell phones and MiFi devices in the exceptions noted were not subject to theft as they were inactive. However, the Department's written policy states mobile devices are considered high theft without any distinction of whether they are activated or not. We believed mobile devices whether activated or not activated are subject to theft.

### **UPDATED RESPONSE:**

Partially Implemented.

- 9. The auditors recommend the Department strengthen its controls over reporting to ensure statutorily required reports are prepared and submitted timely as required by State laws.**

**FINDING:** *(Inadequate Controls over Reporting) – First reported 2014, last reported 2022*

The Department of Insurance (Department) failed to file statutorily required reports or did not file them timely.

Specifically, auditors noted the following:

- The Department submitted one of 4 (25%) Travel Headquarters (TA-2) reports to the Legislative Audit Commission (LAC) 18 days after the January 15, 2022 due date.

The State Finance Act (30 ILCS 105/12-3) requires the Department to file Form TA-2 reports with the LAC no later than July 15 for the period from January 1 through June 30 of that year and no later than January 15 for the period from July 1 through December 31 of the preceding year.

- During the prior examination, they noted the Department did not accurately report information on its Fiscal Year 2018 Agency Workforce Report (Report). During the current examination, auditors noted the Department failed to submit the corrected Report within 30 days after the release of the Department's prior audit by the Auditor General. Specifically, they noted the Report was filed with the Governor and the Secretary of State 105 days after the required due date of April 23, 2021.

The Illinois State Auditing Act (30 ILCS 5/3-2.2(b)) requires a State agency that has materially failed to comply with the requirements of the State Employment Records Act, within 30 days after release of the audit by the Auditor General, shall prepare and file with the Governor and the Office of the Secretary of State corrected reports covering the periods affected by the noncompliance.

- For 3 of 13 (23%) published General Assembly reports tested, the Department did

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not provide copies to the State Library and State Government Report Distribution Center for the General Assembly.

The State Library Act (15 ILCS 320/21(a)) requires the Department to provide and deposit with the Illinois State Library sufficient copies of all publications issued by such State agencies for its collection and for exchange purposes. In addition, the State Library Act (15 ILCS 320/7(t)) creates and maintains a State Government Report Distribution Center for the General Assembly to receive all reports in all formats available required by law or resolution to be filed with the General Assembly.

- The Department did not prepare and submit separate annual reports of its acts and doings to the Office of the Governor for Fiscal Years 2021 and 2022.

The State Finance Act (30 ILCS 105/3) requires the Department, no later than January 7 of each year, to make and deliver to the Governor an annual report of its acts and doings, respectively, arranged so as to show the acts and doings of each for the fiscal year ending in the calendar year immediately preceding the calendar year in which that regular session of the General Assembly convenes.

This finding was first reported in the Department's *State Compliance Examination* for the two years ended June 30, 2014. In subsequent years, the Department has been unsuccessful in implementing an adequate corrective action plan.

Department management stated their initial understanding was the Annual Report submitted to the Governor pursuant to the Insurance Code (215 ILCS 5/406) already included the reports of the Department's acts and doings. In addition, Department management stated the other reporting exceptions were due to employee turnover and oversight.

Failure to submit statutorily required reports 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.

### **DEPARTMENT RESPONSE:**

#### **Bullet item #1 for Finding 2022-009:**

The Department agrees with the finding regarding the TA-2 report. An employee within the Voucher Processing Unit responsible for Department travel updates and reporting retired at the end of the calendar year 2021 and did not return for 75-day contractual work until after the report's due date. The Fiscal Unit will maintain adequate staffing levels, and cross train employees when necessary, assuring timeliness of future reporting.

#### **Bullet item #2 for Finding 2022-009:**

#### **Bullet item #2 for Finding 2022-009:**

The Department agrees with the finding. Due to changes in personnel and onboarding new staff, the Department encountered challenges in meeting the 30 day deadline. Going

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forward the Department does not anticipate further issues with correcting any material deficiencies in Agency Workforce Reports in a timely manner if necessary.

### **Bullet item #3 for Finding 2022-009:**

The Department agrees with this finding. The Mental Health and Substance Use Disorder (MHSUD) Task Force Annual Report accounts for 2 of the 3 reports identified in the finding. Legislative Affairs acknowledges the finding and attributes the lack of furnishing the copy of the MHSUD Report to the Illinois State Library to miscommunication due to staff turnover.

In response to this finding, the Department has instituted a new standard operating procedure regarding the submission of reports and will now coordinate with Department staff who can submit the annual MHSUD Report to the Illinois State Library and is in the process of doing so for the 2022 Report.

Health Products had 1 of 3 reports identified above, specifically, the Annual Office of Consumer Health Insurance (OCHI) Report. Health Products acknowledges the finding and attributes the lack of furnishing the copy of the Annual OCHI Report to the Illinois State Library to the staff assigned with the annual submission being unaware of this requirement as it is not specially referenced in the Managed Care Reform and Patient Rights Act (215 ILCS 134/90).

In response to this finding, the Department has added and implemented the formal submission to the Illinois State Library as a procedural filing requirement. Health Products now coordinates with Department staff who can submit the Annual OCHI Report to the Illinois State Library.

### **Bullet item #4 for Finding 2022-009:**

The Department agrees with the finding. Original interpretation was that the Annual Report satisfied both the requirements of the Acts and Doings Report as well as the Annual Report to the Governor. Legislation effective May 13, 2022 changed the due date of the Acts and Doings report to January 7th. The Department submitted the Acts and Doings report to the Governor's office on 12/30/22 and the report was also uploaded to the Illinois State Library on 1/06/23. The report included both Fiscal Year 2021 and Fiscal Year 2022 information. Going forward separate reports will be submitted pursuant to the respective statutes governing each.

### **UPDATED RESPONSE:**

Partially Implemented.

- 10. The auditors recommend the Department strengthen its internal controls to enforce its policies concerning maintenance of documentation required by laws and regulations, prior approval and documentation of employee vacation and overtime, and employee performance evaluations are completed timely.**

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**FINDING:** *(Inadequate Controls over Personal Services) – First reported 2018, last reported 2022*

The Department of Insurance (Department) did not maintain adequate internal controls over employee personnel files, timely reporting, and employee performance evaluations.

During their testing, the auditors noted the following:

- For 2 of 24 (8%) employees tested, the Employment Eligibility Verification Forms (Form I-9) were not included in the employee personnel files. In addition, for one (4%) employee tested, the Form I-9 was not dated, thus they were unable to test the timeliness of completion of the form.

The Code of Federal Regulation (CFR) (8 CFR § 274a.2), Verification of Identity and Employment Authorization, designates the Employment Eligibility Verification Form I-9 (Form I-9) as the means of documenting this verification. In addition, the CFR requires employers to retain a copy of the original signed version of Form I-9 for three years after the date of the hire or one year after the date the individual's employment is terminated, whichever is later. The CFR further requires a person or entity that hires or recruits or refers for a fee an individual for employment must ensure that the individual properly completes section 1 - "Employee Information and Verification" - on the Form I-9 at the time of hire and signs the attestation.

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

Failure to maintain a copy of the signed Form I-9 is a violation of the CFR requirements and may result in potential employment issues.

- In their detail testing of 24 Department employees' timesheets, auditors noted:
  - Two (8%) employees did not have their Time Use Authorization Form approved by the supervisor prior to vacation leave for a total of 5 hours.
  - One (4%) employee did not have an Overtime Pre-Approval Request approved by the supervisor prior to the overtime hours worked for a total of 10 hours.

The Department's Policy Manual Chapter 2, Section 25 requires an employee to request approval of the use of leave on the Time Use Authorization Form reasonably in advance of the time it will be used and in approving time, the supervisor shall consider both the employee's preference and the operating needs of the division. In addition, Section 5 requires employees to complete and sign the Overtime Form in advance, and the employee's immediate supervisor must review and approve the employee's request in advance of the of the time to be worked.



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Department management stated leave and overtime requests were not approved in advance due to oversight.

Failure to ensure leave and overtime requests are approved in advance undermines accountability controls and may result in unnecessary personal services expenditures.

- In their testing of 43 performance evaluations for 24 employees, auditors noted four (9%) performance evaluations were not completed. In addition, they noted three (7%) performance evaluations were not completed timely by the Department. The employee evaluations were completed between 23 to 26 days late. Auditors considered evaluations not performed within 30 days after the end of the evaluation period to be untimely.

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.

Department management stated the exceptions noted on performance evaluations were due to employee oversight.

This finding was first reported in the Department's *State Compliance Examination* for the two years ended June 30, 2018. In subsequent years, the Department has been unsuccessful in implementing an adequate corrective action plan.

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.

### **DEPARTMENT RESPONSE:**

The Department agrees with the finding. The Department will continue its efforts to strengthen the related internal controls to enforce policies and procedures governing the submission and completeness of I-9 forms as well as the requirement for prior approval and documentation of employee vacation and overtime. The Department will also continue to

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strengthen the procedures for monitoring performance evaluations to ensure they are completed timely and for the necessary timeframes.

### **UPDATED RESPONSE:**

Partially Implemented.

- 11. The auditors recommend the Department comply with the statutory requirements of the Illinois Insurance Code and the HMO Act, or seek legislative remedy if the time periods allowed by statute are not deemed reasonable for the routine processing of the forms.**

**FINDING:** *(Inadequate Controls over the Timeliness of Approving and Denying of Insurance and HMO Company Policy Forms) – First reported 2018, last reported 2022*

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, they noted the following:

- Two of 25 (8%) life, accident, and health policy forms filed by insurer companies were not approved or disapproved by the Department within the required 60-day period after the form's submission. The Department approved the policy 109 and 171 days late. In addition, 2 of 25 (8%) life, accident, and health policy forms filed by insurer companies with a 30-day extension were not approved or disapproved by the Department within the required 90-day period after the form's submission. The Department approved the policy forms 25 and 39 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 the period within which he is to approve or disapprove any such form by giving written notice to the insurer of such extension before expiration of the initial 60-day period.

- One of 22 (5%) HMO policy forms was not approved or disapproved by the Department within the required 60-day period after the form's submission. The Department approved the policy form 86 days late. In addition, 7 of 22 (32%) HMO policy forms with a 30-day extension were not approved or disapproved by the Department within the required 90-day period after the form's submission. The Department approved the policy forms between 10 to 36 days late.

The HMO 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

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days after submission, unless the Director extends the period by not more than an additional 30 days.

This finding was first reported in the Department's *State Compliance Examination* for the two years ended June 30, 2018. In subsequent years, the Department has been unsuccessful in implementing an adequate corrective action plan.

Department management stated the exceptions noted were due to employee turnover and oversight.

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.

### **DEPARTMENT RESPONSE:**

The Department agrees with the finding and continues to vigilantly monitor all filing in efforts to ensure the timely approval of form filing by the 60- or 90-day requirement in statute. The Department notes the recommendation and will present proposed legislation in efforts to remedy the timing issue of form filing submissions for plans subject to the Affordable Care Act which can often be subject to state and federal reviews and timelines.

### **UPDATED RESPONSE:**

Partially Implemented.

## **12. The auditors recommend the Department strengthen its controls over State vehicles to ensure compliance with State laws and regulations.**

**FINDING:** *(Inadequate Controls over State Vehicles) – First reported 2020, last reported 2022*

The Department of Insurance (Department) did not have adequate internal controls over its state vehicles.

The Department follows the Department of Central Management Services (CMS) requirements pertaining to inspections and maintenance. During their testing of the maintenance records for two State vehicles, they noted the following:

- Both (100%) State vehicles did not undergo periodic oil change at mileage or time intervals required by CMS. Department records showed the State vehicles were driven 118 to 1,052 miles more than allowed by the maintenance policy before the required oil change maintenance was performed.

CMS Vehicle Usage Program requires an oil change every 3,000 miles or 12

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months whichever comes first for vehicles aging 10 years or more.

- One of 2 (50%) State vehicles did not undergo an annual inspection in Fiscal Year 2021 as required by CMS. Department records showed the vehicle was brought in for inspection 126 days after the required annual inspection.

The Illinois Administrative Code (Code) (44 Ill. Admin. Code 5040.410) requires the Department to have vehicles inspected by CMS or an authorized vendor at least once per year or as required by law and shall maintain vehicles in accordance with the schedules provided by CMS or with other schedules acceptable to CMS that provide for proper care and maintenance of special use vehicles.

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

Failure to perform regular maintenance of State vehicles could result in more significant expenditures related to the repair or replacement of vehicles and represents noncompliance with the Code and CMS Vehicle Usage Program.

### **DEPARTMENT RESPONSE:**

The Department agrees with the finding. Vehicle maintenance delays were due to employee oversight by staff members to whom the vehicles were assigned. The Department has already taken corrective action by implementing new procedures and updating the Department's vehicle use policy that we believe will strengthen controls and ensure that this issue does not reoccur in the future.

### **UPDATED RESPONSE:**

Partially Implemented.

- 13. The auditors recommend the Department ensure reports are completed and submitted timely to comply with the statutory requirements of the Illinois Insurance Code.**

**FINDING:** *(Failure to Submit the Annual Report of the Working Group Regarding Treatment and Coverage of Substance Abuse Disorders and Mental Illness) - New*

The Department of Insurance (Department) failed to submit the Calendar Year 2020 annual report of the Working Group Regarding Treatment and Coverage of Substance Abuse Disorders and Mental Illness (Workgroup) to the General Assembly as required by the Illinois Insurance Code (Code).

The Code (215 ILCS 5/370c.1(h)(2)) requires the Department to submit an annual report to the General Assembly that includes a list of the health care insurance carriers, mental health advocacy groups, substance abuse patient advocacy groups, and mental health physician groups that participated in the Workgroup meetings, details on the issues and topics covered, and any legislative recommendations developed by the Workgroup.

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Department management stated the failure to complete and submit the Calendar Year 2020 required report was due to staff turnover.

Failure to submit statutorily required reports prevents the appropriate oversight authorities from receiving relevant feedback and monitoring on programs which can have an effect on future decisions of rulemaking bodies and represents noncompliance with the Code.

### **DEPARTMENT RESPONSE:**

The Department agrees with this finding. Legislative Affairs acknowledges the finding and the Department's process for the Calendar Year 2022 Report has been corrected. The Calendar Year 2022 Report has been submitted to the General Assembly and posted on the website in a timely manner.

### **UPDATED RESPONSE:**

Partially Implemented.

- 14. The auditors recommend the Department work with DHFS and the Workgroup to ensure the recommendations are completed and submitted to the General Assembly. They further recommend the Department work with DHFS and the applicable members of the General Assembly to have the members of the Workgroup comply with the statutory requirements of the Illinois Insurance Code.**

**FINDING:** *(Noncompliance with the Requirements of the Illinois Insurance Code Regarding Mental Health Parity) - New*

The Department of Insurance (Department), in conjunction with the Department of Healthcare and Family Services (DHFS), did not comply with the requirements of the Illinois Insurance Code (Code) regarding Mental Health Parity.

As required by the Code, the Department and the DHFS convened the Mental Health Parity Workgroup (Workgroup) during the examination period. During testing, however, they noted the following:

- As of June 30, 2022, the Workgroup lacked 2 of the 11 (18%) required members. Specifically, the Workgroup lacked one mental health parity expert and one representative of a Medicaid managed care organization required to be appointed by the President of the Senate and the Minority Leader of the House of Representatives, respectively.
- The Workgroup did not submit the required recommendations on health plan data reporting requirements to the General Assembly by December 31, 2019. Further, the Workgroup did not completely develop the format and definitions for reporting

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requirements mandated by the Code. As of June 30, 2022, the recommendations and reporting requirements were 912 days overdue.

The Code (215 ILCS 5/370c.1(j)) requires the Department and DHFS to convene and provide technical support to a Mental Health Parity Workgroup of 11 members comprised of mental health parity experts, behavioral health providers, Medicaid managed care organizations, commercial insurers, and Medicaid managed care plans. The Code further requires the Mental Health Parity Workgroup to provide recommendations to the General Assembly on health plan data reporting requirements that separately break out data on mental, emotional, nervous, or substance use disorder or condition benefits and data on other medical benefits, including physical health and related health services no later than December 31, 2019. Lastly, the Code requires the Mental Health Parity Workgroup to develop the format and provide any needed definitions for reporting requirements.

Department management stated the issues noted were due to the Workgroup's ongoing discussion of the recommendations and the definitions for reporting requirements which had not yet been concluded as of June 30, 2022.

Failure to submit statutorily required reports and not having the required workgroup composition prevents the appropriate oversight authorities from receiving relevant feedback and monitoring on programs which can have an effect on future decisions of rulemaking bodies and represents noncompliance with the Code.

### **DEPARTMENT RESPONSE:**

The Department agrees with this finding. Legislative Affairs consistently alerts those with appointment authority to any vacancies on any Task Force or Working Group the Department has administrative duties for. Unfortunately, while we regularly follow up on those vacancies and offer suggestions for possible appointments to fill the vacancies, ultimately, we do not have the authority over this aspect of the Task Force.

The Workgroup continues to meet regularly and is diligently working through the complexities of developing the format and definitions for reporting requirements. Several phases of this work have been completed, with one remaining, and the Department will work with DHFS and the Workgroup to ensure the recommendations are completed and submitted to the General Assembly.

### **DEPARTMENT UPDATED RESPONSE:**

Partially Implemented.

- 15. The auditors recommend the Department's internal audit function ensure audits of major systems of internal accounting and administrative control are conducted on a periodic basis so that all major systems are reviewed at least once every 2 years.**

**FINDING:** *(Internal Audit Function did not Adhere with FCIAA) - New*

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

The Act (30 ILCS10/2003 (a)(2)) requires the Director to ensure that the internal auditing program includes audits of major systems of internal accounting and administrative control conducted on a periodic basis so that all major systems are reviewed at least once every 2 years. Such audits must include testing the use of public funds of the State and of funds held in trust to determine whether those activities are in accordance with applicable laws and regulations.

During their testing, they noted the internal audit function of the Department did not perform audits of the Security Safekeeping Deposit Fund, a locally held fund (LHF) by the Department during the examination period. As of June 30, 2021 and 2022, the Department's LHF balance was \$850,954,637 and \$846,610,000, respectively.

Department management stated the exception noted was due to competing priorities and staff shortages.

Failure to perform regular audits of major systems of internal and administrative controls including the testing of the LHF process may result in internal control weaknesses not being detected timely and represents noncompliance with the Act.

### **DEPARTMENT RESPONSE:**

The Department agrees with this finding. In an effort to address the issue, the internal audit division has updated the needed job descriptions and received the Department of Central Management Services approval for these updates. It is our intention to hire additional personnel in the near future. Also please note, the internal audit has started the LHF audit in Fiscal Year 2023 that was needed in Fiscal Year 2022.

### **DEPARTMENT UPDATED RESPONSE:**

Partially Implemented.

**16. The auditors recommend the Department establish a system development policy documenting the Department's controls and responsibility over developments of applications. In addition, they recommend the Department update its change management policy to include controls over:**

- **Reviewing,**
- **Approving,**
- **Testing, and**
- **Documentation requirements.**

**FINDING:** *(Failure to Implement Controls over System Developments and Changes) - New*

## **REVIEW: #4584 DEPARTMENT OF INSURANCE FY21-22 COMPLIANCE**

The Department of Insurance (Department) failed to implement adequate internal controls over system developments and changes to its applications and data.

During their examination, auditors noted the Department had not established a system development standard to ensure new application developments met the Department's requirements. Additionally, the Department's change management policy, did not document the Department's responsibilities related to:

- Reviewing,
- Approving,
- Testing, and
- Documentation requirements.

*The Framework for Improving Critical Infrastructure and the Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology, Configuration Management and System and Services Acquisition sections, requires entities to document their controls to ensure system development projects met their needs, are timely and stay within budget. Further, entities are to document the control over changes to applications and data to ensure changes are authorized and reviewed.

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 assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over the State's resources.

Department management indicated the Department of Innovation and Technology (DoIT) was responsible for internal controls over system development, and changes and the Department did not have sufficient resources to carry out these responsibilities.

Failure to implement controls over system developments and changes to applications and data could result in developments not meeting the Department's requirements and unauthorized changes being made.

### **DEPARTMENT RESPONSE:**

The Department agrees with the finding. Previously the Department followed DoIT's Policies and Procedures for Controls over System Development. Going forward, the Department will review system development controls and identify any additional controls needed. The Department will then develop their own written policies and procedures for System Developments.

### **UPDATED RESPONSE:**

Partially Implemented.



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- 17. The auditors recommend the Department implement adequate internal controls which may include hiring additional staff, so Department personnel who are members of the advisory council can prioritize work needed to comply with the statutory requirements of the Act.**

### **FINDING:** *(Failure to Convene Education Advisory Council) - New*

The Department of Insurance (Department) did not comply with the requirement of the Director of Insurance Hearings and Review Act (Act).

The Act (215 ILCS 5/401.3) requires an advisory council to be created within the Department to review and make recommendations to the Department regarding rules to be adopted with respect to continuing education courses for which the approval of the Department is required under the provisions of the Insurance Code. In addition, the Act requires the advisory council to make recommendations to the Department regarding rules with respect to course materials, curriculum, and credentials of instructors.

During their testing, the auditors noted the advisory council was created by the Department on January 10, 2019. However, there were no meetings conducted by the advisory council during the examination period. In addition, the advisory council was not able to submit recommendations to the Department regarding rules with respect to course materials, curriculum, and credentials of instructors.

Department management stated the advisory council was not able to convene during the examination period due to COVID-19 pandemic restrictions and competing priorities of the Department personnel who are members of the advisory council, thus no recommendations were submitted to the Department.

The advisory council's failure to submit the required recommendations does not achieve the legislative intent and constitutes noncompliance with the Act.

### **DEPARTMENT RESPONSE:**

The Department agrees with this finding and has begun communications with interested parties to participate on the Advisory Council. Informal meet and greets with interested parties, as well as email communications, have begun to identify individuals interested in participating on the Advisory Council. Anticipated first meeting in 2023 will be sometime in May or June.

Additionally, the Department has posted an Insurance Analyst Specialist position for hire. The position closed on February 10th and the unit is awaiting the Department of Central Management Services approval of the candidates in order to begin the candidate vetting process and make a final selection for the position. This will provide relief to the Assistant Deputy Director, who serves as the Chairperson of the Advisory Council, giving that person more time to focus on the council and the charges of the council as outlined in the statute.

### **UPDATED RESPONSE:**

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Partially Implemented.

- 18. The auditors recommend the Department work with DHFS to ensure reports are completed timely and education presentations are provided annually to comply with the reporting requirements of the Code.**

**FINDING:** *(Noncompliance with the Reporting Requirements on Mental, Emotional, Nervous, and Substance Use Disorders) - New*

The Department of Insurance (Department), in conjunction with the Department of Healthcare and Family Services (DHFS), did not comply with the reporting requirements of the Illinois Insurance Code (Code) pertaining to mental, emotional, nervous and substance use disorder benefits.

The Code (215 ILCS 5/370c.1(h)(3)) requires the Department, in conjunction with DHFS, to issue a joint report to the General Assembly and provide an educational presentation pertaining to various elements of mental, emotional, nervous and substance use disorders to the General Assembly no later than August 1st of each year. Subsequently, Public Act 102-0579 changed the August 1<sup>st</sup> due date to January 1st of each year, effective August 25, 2021.

During their testing, auditors noted the following:

- The Department and the DHFS issued the 2020 and 2021 annual joint reports on mental, emotional, nervous and substance use disorder as required by the Code. However, they noted the 2020 and 2021 annual joint reports were submitted to the General Assembly 6 and 103 days late, respectively.
- The Department was unable to provide support that the Department and the DHFS performed an educational presentation to the General Assembly on the information reported in either the 2020 or 2021 annual joint reports.

Department management stated the issues noted were due to staff turnover and oversight.

Untimely submission of statutorily required reports and presentations prevents the appropriate oversight authorities from receiving relevant feedback and monitoring on programs which can have an effect on future decisions of rulemaking bodies and represents noncompliance with the Code.

### **DEPARTMENT RESPONSE:**

The Department accepts the finding and agrees to work with DHFS to better meet deadlines for the report.

### **UPDATED RESPONSE:**

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Partially Implemented.

- 19. The auditors recommend the Department follow-up on required appointments from the Governor, Speaker of the House, President of the Senate and Minority Leader of the House and Senate or seek legislative remedy.**

**FINDING:** *(Failure to Timely Appoint Members to the Task Force on Disability Income Insurance) – First reported 2020, last reported 2022*

The Task Force on Disability Income Insurance (Task Force) convened by the Department of Insurance (Department) did not ensure the timely appointment of its members as mandated by the Illinois Insurance Code (Code).

During their testing, auditors noted the following:

- As of June 30, 2022, the Task Force lacked 1 of 10 (10%) members as required, 966 days past the required due date. Specifically, the Task Force lacked an expert in the behavioral health conditions and treatment industry required to be appointed by the Governor.
- Seven of 10 (70%) required members of the Task Force were not timely appointed, 250 to 895 days late.

The Code (215 ILCS 5/370c.2) requires the Department to form a task force to review the plans and policies for individual and group short-term and long-term disability income insurance issued and offered to individuals and employers in this State in order to examine the use of such insurance for behavioral health conditions. The task force shall be comprised of the following ten members:

1. Two representatives of the disability income insurance industry appointed by the Governor;
2. Two experts in the behavioral health conditions and treatment industry appointed by the Governor.
3. Two consumers of disability income insurance who have experienced or are experiencing a behavioral health condition appointed by the Governor.
4. One member of the General Assembly appointed by the Speaker of the House of Representatives.
5. One member of the General Assembly appointed by the President of the Senate.
6. One member of the General Assembly appointed by the Minority Leader of the House of Representatives.

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7. One member of the General Assembly appointed by the Minority Leader of the Senate.

The Code further required appointments to the Task Force be made 90 days after the effective date of Public Act 101-0332, which would have been November 7, 2019.

Department management stated the Code names the Department as the developer of the Task Force. However, the Department was not given appointment authority.

Failure to appoint the required members (both in number and representation) limits the Task Force's resources and perspective in providing recommendation on the economic feasibility and cost-effectiveness of requiring individual and group short-term and long-term disability income insurance to cover behavioral health conditions.

### **DEPARTMENT RESPONSE:**

The Department agrees with this finding. The Department consistently alerts those with appointment authority to any vacancies on any Task Force or Working Group the Department has administrative duties for. Unfortunately, while we regularly follow up on those vacancies and offer suggestions for possible appointments to fill the vacancies, ultimately, we do not have the authority over this aspect of the Task Force.

### **UPDATED RESPONSE:**

Implemented.

## **Emergency Purchases**

The Illinois Procurement Code (30 ILCS 500/) states, "It is declared to be the policy of the state that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts...." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption when there exists a threat to public health or public safety, or when immediate expenditure is necessary for repairs to state property in order to protect against further loss of or damage to state property, to prevent or minimize serious disruption in critical state services that affect health, safety, or collection of substantial state revenues, or to ensure the integrity of state records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

Notice of all emergency procurement shall be provided to the Procurement Policy Department and published in the online electronic Bulletin no later than five business days after the contract is awarded. Notice of intent to extend an emergency contract shall be

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provided to the Procurement Policy Department and published in the online electronic Bulletin at least 14 days before the public hearing.

A chief procurement officer making such emergency purchases is required to file a statement with the Procurement Policy Department and the Auditor General to set forth the circumstance requiring the emergency purchase. The Legislative Audit Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

The Department had no emergency purchases in FY21 or FY22.

### **Headquarters Designations**

The State Finance Act requires all state agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each state agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

As of June 30, 2022, the Department had 37 employees assigned to locations others than official headquarters.