



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND

Financial Audit
For the Year Ended: June 30, 2013

Release Date: April 22, 2014

Summary of Findings:

Total this audit:	1
Total last audit:	0
Repeated from last audit:	0

INTRODUCTION

This report covers our financial audit of the Local Government Health Insurance Reserve Fund for the year ended June 30, 2013.

SYNOPSIS

- The Department's determination of unpaid claims liabilities was inadequate and the preparation of financial statements was not timely.

{Financial data and Supplementary Information is summarized on the reverse page.}

**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2013**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION (expressed in thousands)	Fiscal Year 2013	Fiscal Year 2012
OPERATING REVENUES		
Charges for sales and services.....	\$ 38,853	\$ 45,773
OPERATING EXPENSES		
Benefit payments and refunds.....	36,536	41,189
Interest.....	-	175
Depreciation.....	4	-
General and administrative.....	2,079	2,378
Total operating expenses.....	<u>38,619</u>	<u>43,742</u>
Operating income (loss).....	234	2,031
NONOPERATING REVENUES (EXPENSES)		
Interest and investment income.....	17	22
Other revenues.....	50	107
Capital contribution.....	<u>16</u>	<u>-</u>
Changes in net position.....	317	2,160
Net Position, July 1,.....	<u>490</u>	<u>(1,670)</u>
NET POSITION, JUNE 30.....	<u><u>\$ 807</u></u>	<u><u>\$ 490</u></u>

SUPPLEMENTARY INFORMATION	Fiscal Year 2013	Fiscal Year 2012
Number of local governmental entities participating.....	337	370
Approximate number of employees covered.....	2,677	3,195
Approximate number of dependents covered.....	1,666	2,087
Approximate number of retirees covered.....	128	202

AGENCY DIRECTOR
During Examination Period: Mr. Malcolm Weems (7/1/11 through 10/4/13)
Currently: Ms. Simone McNeil - Acting

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**WEAKNESSES IN INTERNAL CONTROL OVER
FINANCIAL REPORTING**

The Department of Central Management Services' (Department) internal controls over the determination of unpaid claims liabilities were inadequate and preparation of financial statements was not timely.

**Variance between financial and
actuary reports**

During our audit of the June 30, 2013 financial statements we noted the Department conducted an inadequate review of the independent actuarial valuation report for unpaid claims liabilities to evaluate the overall reasonableness of the Department's calculation of unpaid claims liabilities at June 30, 2013. A variance of \$290 thousand was noted between the unpaid claims liabilities calculation for claims reported in the fund as prepared by the Department and the independent actuary. In addition, individual plan variances of \$381 thousand were noted. The variances were not adequately evaluated to determine if the Department's calculations were reasonable or if the potential for factors which may cause divergent results were present. Such factors could include, but are not limited to, inaccurate data provided to the actuary or invalid assumptions used in the valuation methodology. In addition, the lack of an adequate evaluation conducted by the Department led to delays in obtaining a timely resolution as to whether the Department's calculation of unpaid claims liabilities for health insurance claims appeared reasonably stated as of June 30, 2013.

**Inadequate evaluation by the
Department**

**Auditors unable to complete testing
timely as a result**

As a result, auditors were unable to complete testing on a timely basis to opine on and issue the financial statements of the Local Government Health Insurance Reserve Fund.

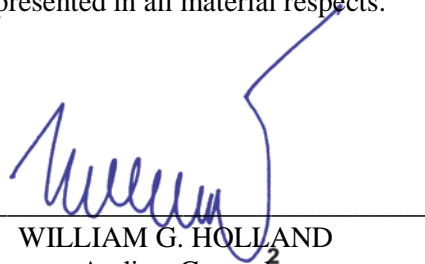
We recommended the Department implement procedures to ensure GAAP Reporting Packages prepared and submitted to the Office of the State Comptroller for financial reporting purposes are complete and accurate and financial statements are completed in a timely manner.

Department agrees with auditors

The Department concurred with the recommendation and stated that they will continue to work with the actuary to complete a review of the actuarial evaluation.

AUDITORS' OPINION

Our auditors state the financial statements of the Local Government Health Insurance Reserve Fund as of June 30, 2013, are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General²

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SPECIAL ASSISTANCE AUDITORS

Sikich LLP were our special assistant auditors.