

**STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND**

**FINANCIAL AUDIT  
For the Year Ended June 30, 2008**

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
FINANCIAL AUDIT  
For the Year Ended June 30, 2008

**AGENCY OFFICIALS**

|                                    |   |
|------------------------------------|---|
| Director                           | Barry S. Maram                          |
| Assistant Director                 | Sharron Matthews                        |
| General Counsel                    | Nancy Shalowitz (7/1/07-12/28/07)       |
| General Counsel                    | Kyong Lee (Acting) (12/31/07 – Current) |
| Inspector General                  | John C. Allen                           |
| State Purchasing Officer           | Thomas Meirink (7/01/07 – 6/25/08)      |
| State Purchasing Officer           | Tom Sestak (Acting) (6/26/08 – Current) |
| Division of Finance, Administrator | Michael Moss                            |
| Office of Fiscal Management, Chief | Jack Dodds                              |

Department of Healthcare and Family Services offices are located at:

201 South Grand Avenue East  
Springfield, IL 62763

2200 Churchill Road  
Springfield, IL 62702

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
FINANCIAL AUDIT  
For the Year Ended June 30, 2008

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying financial statements of the Illinois Department of Healthcare and Family Services' Community College Health Insurance Security Fund was performed by the Office of the Auditor General.

Based on their audit, the auditors expressed an unqualified opinion on the Community College Health Insurance Security Fund's financial statements.

**SUMMARY OF FINDINGS**

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 17-24 of this report as finding 08-1, no controls over Community College Health Insurance Security Fund contributions, finding 08-2, third party internal control reviews not obtained, and finding 08-3, incorrect health insurance premium rates charged. The auditors also consider finding 08-1 to be a material weakness.

**EXIT CONFERENCE**

The financial audit findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on May 22, 2009.

The responses to the recommendations were provided by Peggy Edwards, Audit Liaison for the Department, on June 1, 2009.

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OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

We have audited the accompanying financial statements of the Community College Health Insurance Security Fund of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Department of Healthcare and Family Services' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community College Health Insurance Security Fund of the State of Illinois, Department of Healthcare and Family Services, as of June 30, 2008, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

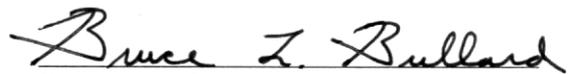
In accordance with *Government Auditing Standards*, we have also issued a report dated June 26, 2009 on our consideration of the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting of the Community College Health Insurance Security Fund and on our tests of the State of Illinois, Department of Healthcare and Family Services' compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INTERNET ADDRESS: AUDITOR@MAIL.STATE.IL.US

RECYCLED PAPER • SOYBEAN INKS

The Schedule of Funding Progress for the year ended June 30, 2008 and the Schedule of Contributions from Employers and Other Contributing Entities for the year ended June 30, 2008 on pages 13-14 are not a required part of the financial statements of the Community College Health Insurance Security Fund but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The State of Illinois, Department of Healthcare and Family Services has not presented a management's discussion and analysis for the Community College Health Insurance Security Fund that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.



Bruce L. Bullard, CPA

Director of Financial and Compliance Audits

June 26, 2009

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**STATEMENT OF PLAN NET ASSETS**  
June 30, 2008

(amounts expressed in thousands)

|   |          |
|---|----------|
| <b>Assets</b>   |          |
| Cash and short-term investments                                   | \$ 8,929 |
| Receivables   |          |
| Employer  | 169      |
| Employee  | 170      |
| Federal government  | 450      |
| Interest  | 15       |
| Other receivables   | 495      |
| Total receivables   | 1,299    |
| <b>Total assets</b>   | 10,228   |
| <br><b>Liabilities</b>  |          |
| Accounts payable and other  | 2,837    |
| Due to other funds  | 54       |
| <b>Total current liabilities</b>                                  | 2,891    |
| Long-term compensated absences                                    | 5        |
| <b>Total liabilities</b>  | 2,896    |
| <b>Net assets held in trust for other postemployment benefits</b> | \$ 7,332 |

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**STATEMENT OF CHANGES IN PLAN NET ASSETS**  
For the Year Ended June 30, 2008

(amounts expressed in thousands)

**Additions**

|  |               |
|--|---------------|
| Contributions                                  |               |
| Employer                                       | \$ 3,716      |
| State  | 4,740         |
| Plan member                                    |               |
| Actives  | 3,716         |
| Retirees                                       | 11,482        |
| Federal government Medicare Part D             | 1,737         |
| Consolidated Omnibus Budget Reconciliation Act | <u>12</u>     |
| Total contributions                            | 25,403        |
| <br>   |               |
| Interest income                                | <u>434</u>    |
| Total additions                                | <u>25,837</u> |

**Deductions**

|                        |               |
|------------------------|---------------|
| Benefit payments       | 27,610        |
| Administrative expense | <u>457</u>    |
| Total deductions       | <u>28,067</u> |

**Net increase/(decrease)** (2,230)

**Net assets held in trust for other  
postemployment benefits**

|                   |                        |
|-------------------|------------------------|
| Beginning of year | <u>9,562</u>           |
| End of year       | <u><u>\$ 7,332</u></u> |

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008

The Community College Health Insurance Security Fund (CCHISF) is a non-appropriated trust fund held outside the State Treasury, with the State Treasurer as custodian. Revenues deposited into the Trust are for the sole purpose of providing the health benefits to retirees and their dependents as established under the plan, and associated administrative costs. CCHISF is a cost-sharing multiple-employer defined benefit post-employment healthcare plan that covers retired employees and their dependents of Illinois community college districts throughout the State of Illinois, excluding the City Colleges of Chicago. CCHISF health coverage includes provision for medical, prescription drugs, vision and dental benefits and behavioral health benefits.

Eligibility to participate in the CCHISF is defined in the State Employees Group Insurance Act of 1971 (Act) (5 ILCS 375/3). The Act (5 ILCS 375/6.9) also establishes health benefits for community college benefit recipients and dependent beneficiaries. The Illinois Departments of Healthcare and Family Services (HFS) and Central Management Services (CMS) administer the plan with the cooperation of the State Universities Retirement System and the boards of trustees of the various community college districts.

#### **A. Summary of Significant Accounting Principles**

**Basis of Accounting:** CCHISF's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**Cash and Cash Equivalents:** Cash and cash equivalents include cash on hand and cash in banks for locally held funds. Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash.

**Investments/Deposits:** The investments are in the State Treasury Investment Pool (Illinois Funds). Investments are reported at fair value.

**Compensated Absences:** The liability for compensated absences reported in the statement of plan net assets consists of unpaid, accumulated vacation and sick leave balances for Department employees. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., Social Security and Medicare tax).

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008

Legislation that became effective January 1, 1998, capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997, (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997, will be converted to service time for purposes of calculating employee pension benefits.

**Use of Estimates:** The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and to disclose contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**B. Contribution Information**

Membership in the plan consisted of the following at June 30, 2008:

|  |               |
|--|---------------|
| Retirees and beneficiaries receiving benefits                      | 5,162         |
| Waived retirees who may elect healthcare coverage in the future    | 1,692         |
| Terminated plan members entitled to but not yet receiving benefits | 4,660         |
| Active plan members  | <u>21,219</u> |
| Total  | <u>32,733</u> |
| <br>Number of participating employers                              | <br>38        |

The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.10) requires every active contributor of the State Universities Retirement System (SURS), who is a full-time employee of a community college district or an association of community college boards, to make contributions to the plan at the rate of .5% of salary. The same section of statute requires every community college district or association of community college boards, that is an employer under the SURS, to contribute to the plan an amount equal to .5% of the salary paid to its full-time employees who participate in the plan. The State Pension Funds Continuing Appropriation Act (40 ILCS 15/1.4) requires the State to make an annual appropriation to the fund in an amount certified by the SURS Board of Trustees. The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.9) requires the Healthcare and Family Services' Director to determine the rates and premiums for annuitants and dependent beneficiaries and establish the cost-sharing parameters, as well as funding. At the option of the board of trustees, the college districts may pay all or part of the balance of the cost of coverage for retirees from their district. Administrative costs are paid by the CCHISF.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008

For the year ending 2008 member annuitants (including their dependent beneficiaries) contributed \$11.4 million, or approximately 48.51% of total premiums through their required contributions, ranging from \$75.09 to \$90.71 per month per retiree, and from \$300.38 to \$362.85, per month per retiree and spouse (assuming Medicare eligibility). Non-Medicare eligible members' required contributions ranged from \$73.01 to \$354.16 per retiree and from \$292.06 to \$1,241.49 per dependent family members. Active employees contributed \$3.7 million, or approximately 15.74% of total premiums, representing .5% of their salaries, and participating college districts contributed \$3.7 million, or 15.74% of total premiums, representing their required .5% contribution. The State contributed \$4.7 million, or approximately 20.00% of total premiums, representing their required contribution of .5% of active employee salaries. The fund received \$1.7 million in Medicare Part D subsidy payments from the federal government.

**C. Deposits and Investments**

**Deposits**

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these deposits and investments are available within the State of Illinois' Comprehensive Annual Financial Report.

Cash on deposit with the State Treasurer totaled \$7,662 thousand and cash on deposit for funds held outside the State Treasurer totaled \$36 thousand at June 30, 2008.

**Investments**

As of June 30, 2008, the Department had the following investments in the State Treasury Investment Pool (Illinois Funds):

|  | <b>Fair<br/>Value<br/>(Thousands)</b> | <b>Book<br/>Value<br/>(Thousands)</b> | <b>Weighted<br/>Average<br/>Maturity<br/>(Years)</b> |
|--|---------------------------------------|---------------------------------------|--|
| State Treasury Investment Pool<br>(Illinois Funds) | \$ 1,232                              | \$ 1,232                              | 0.068  |
| Total fixed income investments                     | <u>\$ 1,232</u>                       | <u>\$ 1,232</u>                       |  |

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008

Interest Rate Risk: The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: The Department does not have a formal investment policy that limits investment choices. The State Treasury Investment Pool (Illinois Funds) was rated AAAM by Standard & Poor's.

**D. Status and Funding Progress - OPEB Plans**

The funded status of the plan as of the most recent actuarial valuation date available as of June 30, 2008, is as follows (amounts expressed in thousands):

| Actuarial<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)--<br>Projected Unit<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((b-a)/c) |
|-------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 6/30/07           | \$9,562                                | \$1,846,969   | \$1,837,407                        | .52%                     | \$740,214                 | 248.23%   |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time, relative to the actuarial accrued liabilities for benefits.

The accompanying Schedule of Contributions from Employers and Other Contributing Entities presents trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

|                               |   |
|-------------------------------|---|
| Valuation Date                | 6/30/07   |
| Actuarial Cost Methods        | Projected Unit Credit   |
| Amortization Method           | Level Percentage of Pay                                       |
| Remaining Amortization Period | 30 years  |
| Asset Valuation Method        | Market Value  |
| Actuarial Assumptions         |   |
| Inflation Rate                | 3.5%  |
| Amortization Period           | Open  |
| Investment rate of return*    | 4.5%  |
| Healthcare Cost Trend Rate    | 9% Medical/Rx Initial<br>6% Vision/Dental Init<br>5% Ultimate |

\* Determined as a blended rate of the expected long-term investment returns on plan assets based upon the funded level of the plan as of the valuation date.

**E. Long-Term Obligations**

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2008, were as follows:

|                      | <b>Balance<br/>July 1,<br/>2007</b> | <b>Additions</b> | <b>Deletions</b> | <b>Balance<br/>June 30,<br/>2008</b> | <b>Amounts<br/>Due Within<br/>One Year</b> |
|----------------------|-------------------------------------|------------------|------------------|--------------------------------------|--|
| Compensated Absences | \$ 6                                | \$ 11            | \$ 12            | \$ 5                                 | \$ 0                                       |
| <b>Total</b>         | <b>\$ 6</b>                         | <b>\$ 11</b>     | <b>\$ 12</b>     | <b>\$ 5</b>                          | <b>\$ 0</b>                                |

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008

**F. Commitments and Contingencies**

The Department is a party to numerous other legal proceedings, many of which normally occur in the course of operations. These proceedings are not, in the opinion of the Department's legal counsel, likely to have a material adverse impact on the Department's financial position. In the event a material action is settled against the Department, such amounts would be paid from future appropriations or by another State agency. Accordingly, no amounts have been provided in the accompanying financial statements related to outstanding litigation.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS**  
(amounts expressed in thousands)

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Liability<br>(AAL)--<br>Projected Unit<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered<br>Payroll<br>((b-a)/c) |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|---|
| 6/30/2007                      | \$ 9,562                               | \$ 1,846,969   | \$ 1,837,407                       | 0.52%                    | \$740,214                 | 248.23%   |

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS**  
**AND OTHER CONTRIBUTING ENTITIES**

(amounts expressed in thousands)

| <u>Year Ended June 30</u> | <u>Annual Required Contribution</u> | <u>State Contributions</u> | <u>State Percentage Contributed</u> | <u>Employers Contributions</u> | <u>Employers Percentage Contributed</u> | <u>Medicare Part D Contributions</u> | <u>Medicare Part D Percentage Contributed</u> |
|---------------------------|-------------------------------------|----------------------------|-------------------------------------|--------------------------------|---|--------------------------------------|---|
| 2007                      | \$ 178,542                          | \$ 3,707                   | 2.08%                               | \$ 3,645                       | 2.04%                                   | \$ 1,343                             | 0.75%   |
| 2008                      | \$ 185,683                          | \$ 4,740                   | 2.55%                               | \$ 3,716                       | 2.00%                                   | \$ 1,737                             | 0.94%   |

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OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland  
Auditor General  
State of Illinois

We have audited the Community College Health Insurance Security Fund of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2008, and have issued our report thereon dated June 26, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting of the Community College Health Insurance Security Fund as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting as item 08-1, 08-2 and 08-3.

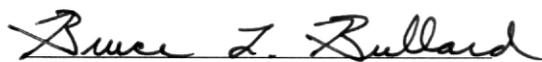
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies, and would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 08-1 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Healthcare and Family Services' Community College Health Insurance Security Fund financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State of Illinois, Department of Healthcare and Family Services' responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the State of Illinois, Department of Healthcare and Family Services' responses and, accordingly, we express no opinion on it.



Bruce L. Bullard, CPA

Director of Financial and Compliance Audits

June 26, 2009

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2008

08-1. **FINDING** (No controls over Community College Health Insurance Security Fund contributions)

The State of Illinois did not have sufficient controls to ensure all contributions required by the State Employees Group Insurance Act of 1971 were paid into the Community College Health Insurance Security Fund (Fund).

Revenues deposited into the Fund are for the sole purpose of providing health benefits to Community College retirees and their dependents and associated administrative costs. The Fund is administered jointly by the Department of Central Management Services (DCMS) and the Department of Healthcare and Family Services (HFS). According to the State Employees Group Insurance Act of 1971, the State Universities Retirement Systems (SURS) is required to collect the contributions from community colleges as a service agent to DCMS and promptly deposit such collections into the Fund. HFS has accepted responsibility for preparing the Fund's financial statements.

During our testing, we determined no State agency is ensuring that the amounts collected from active community college employees and the matching contributions from community colleges are the amounts required to be contributed per the State Employees Group Insurance Act of 1971.

The State Employees Group Insurance Act of 1971 (Act) (5 ILCS 375/6.10) essentially requires every active contributor of SURS who is a full-time employee of a community college district or an association of community college boards, to make contributions to the plan at the rate of .5% of salary. The Act also requires every community college district or association of community college boards, that is an employer under SURS, to contribute to the plan an amount equal to .5% of the salary paid to its full-time employees who participate in the plan.

The State Pension Funds Continuing Appropriation Act of 1971 (40 ILCS 15/1.4) requires the State to make an annual appropriation to the fund in an amount certified by the SURS Board of Trustees.

The State relied on community college districts and boards to collect and remit required amounts based on payroll records maintained by these entities.

Inadequate controls to determine required revenue amounts are collected could cause the Fund to not be maintained in accordance with Statutory provisions. Inadequate controls could also cause revenues to be misstated in the financial statements. During fiscal year 2008, active employees contributed \$3,818,000, or approximately 20% of total contributions and participating community colleges districts contributed \$3,818,000, or 20% of total contributions.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2008

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over the State's resources. (Finding Code No. 08-1)

**RECOMMENDATION**

We recommend the Department of Healthcare and Family Services ensure adequate controls are designed, implemented and operating effectively to ensure contributions required by the State Employees Group Insurance Act of 1971 are collected and properly accounted for in the Community College Health Insurance Security Fund's financial statements.

**DEPARTMENT RESPONSE**

The Department respectfully disagrees with the finding. The Department reports on activity associated with the Community College Health Insurance Security Fund, to include deposits of receipts made by the Department of Central Management Services (CMS) and the State University Retirement System (SURS). As part of the Department's reporting responsibility, Management Representation Letters were obtained from CMS and SURS so that assurances were provided for reporting purposes. The Comptroller's Office delegated the reporting responsibility to the Department in lieu of reflecting this fund as shared. These letters were also provided to the Auditor General's Office (OAG).

The Department also performed due diligence once the OAG brought this concern to its attention by sampling eight community college payrolls and calculating the .5% required contribution amount. The results of this standard audit confirmation test found that all eight colleges were in compliance with 5 ILCS 375/6.10 and noted no further concerns with the amounts being reported in the Department's financial statements.

The responsibilities associated with the Group Insurance program that were transferred from CMS to the Department in accordance with Executive Order 2005-3 did not include the depositing of receipts and 5 ILCS 375/6.10 specifically requires SURS to act as a service agent for depositing all community college active employee contributions. The purpose of this split was to transfer "vendor facing" responsibilities to the Department while CMS would retain "member facing" responsibilities. Information on active contributors of SURS and community college boards would be defined as member facing information and would not fall under the purview of the Department's administrative function. As such, the Department has neither the authority, nor the access to information needed to validate contributions and receipts. HFS has no oversight authority for contributions associated with the Group Insurance program to ensure compliance with State statute, as recommended by the OAG.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2008

If the requirement for verifying fund activity lies with the entity responsible for the financial reporting, then the Department will work with the Comptroller's Office in establishing this fund as "shared," whereas each agency will be responsible for reporting on their respective activity.

**AUDITOR'S COMMENT**

The auditors reported that no State Agency has implemented controls to ensure revenues are collected in accordance with State statute for this State administered insurance program. Consequently, the auditors were unable to test whether revenues were fairly stated for the Fund. Once the auditors brought this issue to the attention of the Department, the Department performed the minimum amount of work in order for the auditors to report on the financial statements for the Fund. The Department's response to the audit concern did not eliminate the issue reported in the finding. The auditor's recommendation is directed to the Department, since the Department has assumed the responsibility for preparing financial statements for the Fund.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2008

08-2. **FINDING** (Third party internal control reviews not obtained)

The Department of Healthcare and Family Services (Department) did not obtain an independent internal control review of its third parties involved with the processing of health insurance claims for the College Insurance Program. Without a review, the Department did not have assurance that information system controls to prevent errors or irregularities were established.

The Department contracts with five different third-party health insurance service providers to process health insurance claims. Each of the health insurance service provider uses their own computer system to process these health insurance claims. During our review of third party health insurance service providers, we noted that the Department did not obtain an independent internal control review for two of the service providers during fiscal year 2008.

Of the health insurance payments made to the five third-party health insurance service providers totaling \$24,261,110 in fiscal year 2008, \$2,470,366 (10%) of the health insurance payments were processed under a third-party health insurance service provider that the Department did not obtain an independent internal control review.

Statement on Auditing Standards (AU 324.02) states that a service auditor's report on a service organization's description of its controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements, on whether such controls were suitably designed to achieve specified control objectives, on whether they had been placed in operation as of a specific date, and on whether the controls that were tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the related control objectives were achieved during the period specified. Statement on Auditing Standards (AU 324.06) also states when a user organization uses a service organization, transactions that affect the user organization's financial statements are subjected to controls that are, at least in part, physically and operationally separate from the user organization.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over the State's resources.

Good internal controls require that third party service providers arrange to have a periodic independent review of internal controls placed in operation and issue a report on the results of this review commonly known as a SAS 70 report. The SAS 70 report should be obtained from the service organizations that process critical data for the Department.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2008

The Department stated that they negotiate long term contracts with the parties involved in processing insurance claims for the health care plans. Typical healthcare contracts have five year initial periods and up to five one-year renewal periods. The two contracts cited were initially negotiated with a five-year contract in 2001, for fiscal year 2002 implementation, without a SAS 70 requirement. The two contracts are currently in one-year renewal periods without a SAS 70 requirement. The Department previously submitted the relevant portions of the Sarbanes Oxley audit pertaining to internal controls as they relate to the audited financial statements for one of the two contracts. In addition, a 2008 Annual Report with SEC form 10-K and a Financial Statement audit were previously submitted for the remaining contract. The Annual Report with SEC form 10-K identified above includes the "Report of Independent Registered Public Accounting Firm." The vendor of the original contract was acquired October 1, 2007. Prior to this the vendor was a privately held corporation.

Due to the significance of the reliance placed by the Department on the procedures performed by the third party, it is critical that the Department obtains independent internal control reviews. In addition, it is essential to obtain and review an independent review of the third party service provider's information systems environment. An independent review provides a method of evaluating the systems in place at the service provider and helps the Department develop internal control processes that would complement those at the service provider. Based on the review, the Department would have additional assurance that the internal controls are appropriate to ensure the information received from the service provider is accurate and reliable. (Finding Code No. 08-2)

**RECOMMENDATION**

We recommend the Department require that each third-party health insurance service provider engage independent auditors to perform an annual independent internal control review on the controls placed in operation and the tests of their operating effectiveness.

**DEPARTMENT RESPONSE**

The Department respectfully disagrees with this finding. The majority of these contracts were originally executed prior to industry acceptance of SAS 70.

The Fiscal Year 2010 contracts and renewals for the two vendor's not submitting SAS 70 audits have already been negotiated and have been signed by the vendors. In order to implement this requirement for those, the Department would have to renegotiate their contracts. Renegotiating those contracts at this date would jeopardize contracts beginning July 1, 2009. Negotiating an additional audit into these renewals would also increase the cost of the contract.

The Department will include a SAS 70 requirement to all future contracts bid with third parties involved with the processing of health insurance claims.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2008

**AUDITOR'S COMMENT**

The auditors requested all third party internal control reviews from the Department and, for the two contracts noted above, the Department indicated that they relied on "equivalent" reviews for one of the contracts and they did not have a third party internal control review or equivalent review for the other contract.

With regard to one of the contracts, the Department did provide the auditors with what they called a Sox Report. The documentation that the Department provided was an excel spreadsheet that documented computer controls. This spreadsheet was not accompanied by any type of cover letter or auditor's report. After the auditors questioned the Sox Report, the Department contacted the vendor and the Department was informed that the Sox Report is actually part of the vendor's SAS 70 Report.

For the other contract, the Department indicated that they provided the auditors with a 2008 Annual Report with SEC Form 10-K. The Department did not have this Annual Report until the auditors asked for the SAS 70 Reports. The Department could not provide any "equivalent" reviews prior to the 2008 Annual Report.

The Department cannot state to the auditors that they are relying on these "equivalent" reports if they do not obtain them unless requested by the auditors. There is clearly no internal controls to obtain and review these reports.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2008

08-3. **FINDING** (Incorrect health insurance premium rates charged)

The Department of Healthcare and Family Services did not charge the correct health insurance premium rates for the College Insurance Program.

We noted a 2008 premium rate of the College Insurance Program health insurance was not in compliance with parameters established in State statute. The monthly health insurance premium rate charged for a Community College benefit recipient for ages twenty three and under selecting a managed care program was \$73.01; however, the health insurance premium rate should have been at least \$181.84. The benefit recipients were undercharged a total of \$7,946 during fiscal year 2008.

The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.9(e)(1)) requires that the Community College Health Insurance Security Fund pay up to 75% of the total insurance rate. This means that the health insurance premium rate charged to a recipient should be 25% of the insurance rates. The insurance rate determined by the Department for this category was \$727.34.

Executive Order 2005-3, *Executive Order to Reorganize Agencies by the Transfer of Certain Healthcare Procurement and Administrative Functions Primarily of the Department of Central Management Services to the Department of Healthcare and Family Services* issued by the Governor on April 1, 2005 transferred the respective powers, duties, rights and responsibilities related to State Healthcare Purchasing from various departments, including CMS, to the Department of Healthcare and Family Services. The Executive Order states the statutory powers, duties, rights and responsibilities of the various agencies, including CMS, derive from various statutes including 5 ILCS 375 et seq. The functions associated with State Healthcare Purchasing intended to be transferred included rate development.

Department management stated that in previous years, a determination was made with the assistance of contractual actuaries that the population under age 23 choosing a managed care plan was of such a size as to not represent a statistically and actuarially large enough group to make the underlying calculation of the group's cost a reliable figure. Adjustments had been made to the premium amounts based upon a study of the same population in the Teacher's Retirement Insurance Program, which was considered large enough upon which the Department could rely. (Finding Code No. 08-3)

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2008

**RECOMMENDATION**

We recommend the Department ensure health insurance premium rates are set for the College Insurance Program as required by the State Employees Group Insurance Act of 1971.

**DEPARTMENT RESPONSE**

The Department agrees with this finding. The Department will review the calculation of the costs of this group and the premiums charged to this group to ensure that the Department is in compliance with the Statute.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND  
**PRIOR FINDINGS NOT REPEATED**  
For the Year Ended June 30, 2008

A. **FINDING** (Financial statements not timely)

During the prior examination, the Illinois Department of Healthcare and Family Services did not provide the auditors with timely financial statements for the Community College Health Insurance Security Fund.

During the current examination, the Department has taken the necessary steps to ensure that the financial statements for the Community College Health Insurance Security Fund were completed and provided to the auditors on a timely basis. (Finding Code No. 07-1)