

**STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND**

**FINANCIAL AUDIT  
For the Year Ended June 30, 2009**

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND  
FINANCIAL AUDIT  
For the Year Ended June 30, 2009

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STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND  
FINANCIAL AUDIT  
For the Year Ended June 30, 2009

**AGENCY OFFICIALS**

Director	Barry S. Maram
Assistant Director	Sharron Matthews
General Counsel	Kyong Lee (Acting 7/1/08 – 6/1/09)
General Counsel	Jeanette Badrov (6/1/09 – Current)
Inspector General	John C. Allen
State Purchasing Officer	Tom Sestak (Acting)
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  
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND  
FINANCIAL AUDIT  
For the Year Ended June 30, 2009

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

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

Based on their audit, the auditors expressed an unqualified opinion on the Local Government Health Insurance Reserve 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 19-20 of this report as finding 09-1 (Financial statement preparation).

**EXIT CONFERENCE**

The financial audit finding and recommendation appearing in this report was discussed with Department personnel at an exit conference on April 8, 2010.

The response to the recommendation was provided by Jamie Nardulli, External Audit Coordinator, on April 15, 2010.

SPRINGFIELD OFFICE:  
ILES PARK PLAZA  
740 EAST ASH • 62703-3154  
PHONE: 217/782-6046  
FAX: 217/785-8222 • TTY: 888/261-2887



CHICAGO OFFICE:  
MICHAEL A. BILANDIC BLDG. • SUITE 5-900  
160 NORTH LASALLE • 60601-3103  
PHONE: 312/814-4000  
FAX: 312/814-4006

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 Local Government Health Insurance Reserve Fund of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2009, 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 Local Government Health Insurance Reserve Fund of the State of Illinois, Department of Healthcare and Family Services, as of June 30, 2009, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

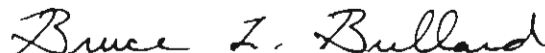
In accordance with *Government Auditing Standards*, we have also issued a report dated April 15, 2010 on our consideration of the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting of the Local Government Health Insurance Reserve Fund and on our 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](mailto:AUDITOR@MAIL.STATE.IL.US)

RECYCLED PAPER • SOYBEAN INKS

The Schedule of Claims for the Ten Years Ended June 30, 2009 on pages 15-16 is not a required part of the financial statements of the Local Government Health Insurance Reserve 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 Local Government Health Insurance Reserve 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

April 15, 2010

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND  
**STATEMENT OF NET ASSETS**  
June 30, 2009  
(Expressed in Thousands)

**ASSETS**

Cash equity with State Treasurer	\$ 7,246
Cash and cash equivalents	512
Due from other government - federal	40
Due from other government - local	168
Other receivables, net	180
<b>Total current assets</b>	<b>8,146</b>
Capital assets being depreciated, net	3
<b>Total assets</b>	<b>8,149</b>

**LIABILITIES**

Accounts payable and accrued liabilities	3,202
Due to other government - federal	2
Due to other Department funds	6
Due to other State funds	29
Deferred revenue - unearned	51
<b>Total current liabilities</b>	<b>3,290</b>
Noncurrent portion of long-term obligations	87
<b>Total liabilities</b>	<b>3,377</b>

**NET ASSETS**

Invested in capital assets, net of related debt	3
Unrestricted	4,769
<b>Total net assets</b>	<b>\$ 4,772</b>

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

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND  
**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS**  
For the Year Ended June 30, 2009  
(Expressed in Thousands)

<b>OPERATING REVENUES</b>	
Charges for sales and services	\$ 54,820
<b>Total operating revenues</b>	54,820
 <b>OPERATING EXPENSES</b>	
Benefit payments and refunds	54,551
Interest	2
Depreciation	3
General and administrative	2,068
<b>Total operating expenses</b>	56,624
<b>Operating income (loss)</b>	(1,804)
 <b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest and investment income	179
Other revenues	168
<b>Income (loss) before contributions and transfers</b>	(1,457)
Transfers-out	(1,000)
<b>Change in net assets</b>	(2,457)
Net assets, July 1, 2008	7,229
<b>NET ASSETS, JUNE 30, 2009</b>	<b>\$ 4,772</b>

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



STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND  
**STATEMENT OF CASH FLOWS**  
For the Year Ended June 30, 2009  
(Expressed in Thousands)

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from sales and services	\$ 54,803
Cash payments to suppliers for goods and services	(57,365)
Cash payments to employees for services	(1,060)
Cash receipts from other operating activities	751
Net cash provided (used) by operating activities	<u>(2,871)</u>
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Operating grants received	162
Transfers-out to other funds	(1,000)
Net cash provided (used) by noncapital financing activities	<u>(838)</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition and construction of capital assets	-
Net cash (used) by capital and related financing activities	<u>-</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest and dividends on investments	192
Net cash provided (used) by investing activities	<u>192</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(3,517)
Cash and cash equivalents, July 1, 2008	11,275
<b>CASH AND CASH EQUIVALENTS, JUNE 30, 2009</b>	<u><u>\$ 7,758</u></u>
 <b>Reconciliation of cash and cash equivalents to the statement of net assets:</b>	
Total cash and cash equivalents per the statement of net assets	\$ 512
Add: cash equity with State Treasurer	7,246
<b>CASH AND CASH EQUIVALENTS, JUNE 30, 2009</b>	<u><u>\$ 7,758</u></u>
 <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
<b>OPERATING INCOME (LOSS)</b>	<u>\$ (1,804)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	3
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	78
(Increase) decrease in intergovernmental receivables	(69)
Increase (decrease) in accounts payable and accrued liabilities	(1,060)
Increase (decrease) in intergovernmental payables	-
Increase (decrease) in due to other funds	(86)
Increase (decrease) in deferred revenues	51
Increase (decrease) in other liabilities	16
Total adjustments	<u>(1,067)</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u><u>\$ (2,871)</u></u>

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

STATE OF ILLINOIS  
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LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2009

**(1) Organization**

The Local Government Health Insurance Reserve Fund (LGHIRF) was established to provide health and dental insurance to participating local governmental entities. The fund is part of the primary government of the State of Illinois. The Department of Healthcare and Family Services (Department) is responsible for the financial reporting of the fund.

As of June 30, 2009, there were 458 local governmental entities participating with approximately 5,282 employees, 3,254 dependents and 346 retirees covered. Each participating local governmental unit is required to enter into a written agreement with the Department of Central Management Services (DCMS). The agreement sets forth the responsibilities of both parties. The Department works in conjunction with DCMS to administer the Local Government Health Plan.

The responsibilities required of the DCMS are:

- Setting and adjusting premium rates
- Billing and collecting monthly premiums from local governmental units
- Enrollment and termination of members and dependents after notification by the local governmental unit
- Establishment of a Local Government Health Plan Advisory Board, consisting of seven advisors from the participating local governmental units

The responsibilities required of the Department of Healthcare and Family Services are:

- Establishment of the Local Government Health Insurance Reserve Fund
- Processing and paying authorized claims

The responsibilities required of the local governmental units are:

- Enrollment of all employees and dependents that meet eligibility guidelines and who elect to participate
- Collection and transmission of monthly member and dependent premiums
- Designation of Health Plan Representative
- Participate in the program for a minimum of two years

**(2) Summary of Significant Accounting Policies**

***(a) Basis of Presentation***

The LGHIRF prepares its financial statements in accordance with Government Accounting Standards Board (GASB) Statement Nos. 10, 29, 30 and 34.

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GASB 10 and 30 provide accounting and reporting standards that apply to public entity risk pools and require public entity risk pools to account for their activities using proprietary fund accounting. Proprietary activities are accounted for using the economic resources measurement focus and the accrual basis of accounting.

GASB 29 allows proprietary entities to apply all Financial Accounting Standards Board statements and interpretations, excluding those limited to not for profit organizations, issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

***(b) Cash and Cash Equivalents***

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at the time of purchase. Cash and cash equivalents include cash on hand and cash in banks for locally held funds.

***(c) Investments***

Investments are reported at fair value.

***(d) Capital Assets***

Capital assets, which includes property, plant, and equipment, are reported at cost or estimated historical cost based on appraisals. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated using the straight-line method.

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Equipment	\$5,000	3-10 years

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**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2009

***(e) Compensated Absences***

The liability for compensated absences reported in the proprietary fund statement of 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).

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.

***(f) 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 disclosure of 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.

***(g) Health Benefits Claims Processing***

The State Employees Group Insurance Act of 1971 (5 ILCS 375) establishes the Department's responsibility for administering the State's health benefit programs. The Department contracts with third-party administrators to process health, dental, and prescription claims submitted by healthcare service providers relating to the applicable self-insured portions of the health benefit programs accounted for in the Local Government Health Insurance Reserve Fund. It is the Department's policy to recognize claims expense and accrue any unpaid liability relating to claims incurred but not reported (IBNR) based on actuarial projections and reports of processed claims provided by the third-party administrators.

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**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2009

**(3) Deposits and Investments**

***(a) 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 is available within the State of Illinois’ Comprehensive Annual Financial Report.

Cash on deposit with the State Treasurer totaled \$7,246 thousand and cash on deposit for funds held outside the State Treasurer totaled \$21 thousand at June 30, 2009.

***(b) Investments***

As of June 30, 2009, the Department had the following investments outside of the State Treasury:

	<b>Fair Value (Thousands)</b>	<b>Book Value (Thousands)</b>	<b>Weighted Average Maturity (Years)</b>
Illinois Public Treasurers’ Investment			
Pool	\$ 491	\$ 491	0.048
Total fixed income investments	<u>\$ 491</u>	<u>\$ 491</u>	

**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 Illinois Public Treasurers’ Investment Pool was rated AAAM by Standard & Poor’s.

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**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2009

**(4) Capital Assets**

Capital Asset Activity (amounts expressed in thousands) for the year ended June 30, 2009 is as follows:

	<b>Balance July 1, 2008</b>	<b>Additions</b>	<b>Deletions</b>	<b>Net Transfers</b>	<b>Balance June 30, 2009</b>
Capital assets being depreciated:					
Equipment	\$ 9	\$ -	\$ -	\$ -	\$ 9
Less accumulated depreciation:					
Equipment	3	3	-	-	6
Total capital assets being depreciated, net	<u>\$ 6</u>	<u>\$ (3)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3</u>

**(5) Long-Term Obligations**

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2009 were as follows:

	<b>Balance July 1, 2008</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2009</b>	<b>Amounts Due Within One Year</b>
Compensated Absences	\$ 71	\$ 60	\$ (44)	\$ 87	\$ -
<b>Total</b>	<u>\$ 71</u>	<u>\$ 60</u>	<u>\$ (44)</u>	<u>\$ 87</u>	<u>\$ -</u>

**(6) Risk Pool Disclosure**

The LGHIRF had previously contracted with third party reinsurers for reinsurance coverage. However, no such coverage was in place for the year ended June 30, 2009.

The basis used in calculating the estimated liability for future claims is based on claims reported but not paid during the fiscal year plus an estimate of claims incurred but not reported (IBNR). The estimate for claims incurred but not reported was calculated using a factor based on historical experience stated as a percentage of claims reported vs. total claims incurred during the policy cycle. The estimated ultimate cost of settling the claims includes the effect of inflation and other societal and economic factors. For the year ended June 30, 2009, all claims are paid on a two-year claim cycle.

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**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2009

Based on the above method, the liability for future claims (amounts expressed in thousands) at June 30, 2009 is as follows:

Claims incurred and reported but not paid as of June 30	\$ 788
Estimated liability for claims incurred but not reported	<u>2,377</u>
Total estimated liability for future claims	<u>\$3,165</u>

A reconciliation of total benefit claim payments and refunds including claims adjustment expense is as follows (amounts expressed in thousands):

Payments made for benefit claims	\$55,600
Less: liability for unpaid claims, beginning of year	<u>4,214</u>
Subtotal	51,386
Add: liability for unpaid claims, end of year	<u>3,165</u>
Total benefit claim payments and refunds	<u>\$54,551</u>

The following reconciliation represents changes in aggregate liabilities (amounts expressed in thousands) for the Fund during the past two years:

	Healthcare Claims	
	2009	2008
Unpaid claims and claim adjustment expense at beginning of year	\$ 4,214	\$ 4,402
Incurred claim and adjustment expenses:		
Provision for insured claims of the current year	56,615	61,044
Decrease in provisions for claims of prior year	(2,064)	(731)
Total incurred claims and claim adjustments	\$54,551	\$60,313
Payments:		
Claims and claim adjustment expense attributable to claims of the current year	\$53,450	\$56,830
Claims and claim adjustment expense attributable to claims of prior year	2,150	3,671
Total Payment	\$55,600	\$60,501
Total unpaid claims and claim adjustments expense at end of year	\$ 3,165	\$ 4,214

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**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2009

**(7) Contingencies**

The Department is a party to numerous 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  
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND  
**SCHEDULE OF CLAIMS FOR ACTIVE EMPLOYEES**  
For the Ten Years Ended June 30, 2009

DEVELOPMENT INFORMATION

The table below illustrates how the Fund's earned required contribution and investment income compared to related costs of loss and other expenses assumed by the Fund as of the following fiscal year ends (expressed in thousands).

The following information for the ten fiscal years ended June 30, 2009 is being gathered prospectively, as data becomes available because the revenues and expenses were first allocated between earned and ceded for the fiscal year ended June 30, 2000.

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Net earned required contribution and investment revenue:										
Earned	\$ 54,999	\$ 60,924	\$ 64,261	\$ 67,074	\$ 67,876	\$ 72,400	\$ 81,854	\$ 88,640	\$ 87,366	\$ 71,645
Ceded	-	-	-	-	-	-	-	-	(1,234)	(1,210)
Net earned revenue	<u>54,999</u>	<u>60,924</u>	<u>64,261</u>	<u>67,074</u>	<u>67,876</u>	<u>72,400</u>	<u>81,854</u>	<u>88,640</u>	<u>86,132</u>	<u>70,435</u>
Unallocated expenses	<u>3,073</u>	<u>901</u>	<u>1,869</u>	<u>835</u>	<u>2,799</u>	<u>2,796</u>	<u>785</u>	<u>827</u>	<u>751</u>	<u>1,390</u>
Estimated incurred claims and expenses, end of the policy year:										
Incurred	56,615	61,044	61,423	68,778	75,003	74,749	69,914	97,965	97,859	82,694
Ceded	-	-	-	-	-	-	-	-	(80)	924
Net incurred claims	<u>56,615</u>	<u>61,044</u>	<u>61,423</u>	<u>68,778</u>	<u>75,003</u>	<u>74,749</u>	<u>69,914</u>	<u>97,965</u>	<u>97,779</u>	<u>83,618</u>
Paid (cumulative) as of:										
End of policy year	<u>53,450</u>	<u>56,830</u>	<u>57,021</u>	<u>63,274</u>	<u>67,053</u>	<u>64,416</u>	<u>58,355</u>	<u>82,262</u>	<u>76,091</u>	<u>63,807</u>
One year later		<u>58,980</u>	<u>60,692</u>	<u>67,002</u>	<u>70,891</u>	<u>67,833</u>	<u>63,399</u>	<u>99,967</u>	<u>87,785</u>	<u>74,517</u>
Two years later			<u>60,692</u>	<u>67,002</u>	<u>70,891</u>	<u>67,833</u>	<u>63,399</u>	<u>99,967</u>	<u>87,785</u>	<u>74,517</u>
Three years later				<u>67,002</u>	<u>70,891</u>	<u>67,833</u>	<u>63,399</u>	<u>99,967</u>	<u>87,785</u>	<u>74,517</u>
Four years later					<u>70,891</u>	<u>67,833</u>	<u>63,399</u>	<u>99,967</u>	<u>87,785</u>	<u>74,517</u>
Five years later						<u>67,833</u>	<u>63,399</u>	<u>99,967</u>	<u>87,785</u>	<u>74,517</u>
Six years later							<u>63,399</u>	<u>99,967</u>	<u>87,785</u>	<u>74,517</u>
Seven years later								<u>99,967</u>	<u>87,785</u>	<u>74,517</u>
Eight years later									<u>87,785</u>	<u>74,517</u>
Nine years later										<u>74,517</u>

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
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**SCHEDULE OF CLAIMS FOR ACTIVE EMPLOYEES**  
For the Ten Years Ended June 30, 2009

Reestimated ceded losses and expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,980</u>	<u>1,522</u>
Reestimated incurred claims and expenses:										
End of policy year	<u>56,615</u>	<u>61,044</u>	<u>61,423</u>	<u>68,778</u>	<u>75,003</u>	<u>74,749</u>	<u>69,914</u>	<u>97,965</u>	<u>97,779</u>	<u>83,618</u>
One year later		<u>58,980</u>	<u>60,692</u>	<u>67,002</u>	<u>70,891</u>	<u>67,833</u>	<u>63,399</u>	<u>99,967</u>	<u>87,785</u>	<u>74,517</u>
Two years later			<u>60,692</u>	<u>67,002</u>	<u>70,891</u>	<u>67,833</u>	<u>63,399</u>	<u>99,967</u>	<u>87,785</u>	<u>74,517</u>
Three years later				<u>67,002</u>	<u>70,891</u>	<u>67,833</u>	<u>63,399</u>	<u>99,967</u>	<u>87,785</u>	<u>74,517</u>
Four years later					<u>70,891</u>	<u>67,833</u>	<u>63,399</u>	<u>99,967</u>	<u>87,785</u>	<u>74,517</u>
Five years later						<u>67,833</u>	<u>63,399</u>	<u>99,967</u>	<u>87,785</u>	<u>74,517</u>
Six years later							<u>63,399</u>	<u>99,967</u>	<u>87,785</u>	<u>74,517</u>
Seven years later								<u>99,967</u>	<u>87,785</u>	<u>74,517</u>
Eight years later									<u>87,785</u>	<u>74,517</u>
Nine years later										<u>74,517</u>
Increase (decrease) in estimated incurred claims and expensees from end of policy year	<u>\$ -</u>	<u>\$ (2,064)</u>	<u>\$ (731)</u>	<u>\$ (1,776)</u>	<u>\$ (4,112)</u>	<u>\$ (6,916)</u>	<u>\$ (6,515)</u>	<u>\$ 2,002</u>	<u>\$ (9,994)</u>	<u>\$ (9,101)</u>

SPRINGFIELD OFFICE:  
ILES PARK PLAZA  
740 EAST ASH • 62703-3154  
PHONE: 217/782-6046  
FAX: 217/785-8222 • TTY: 888/261-2887



CHICAGO OFFICE:  
MICHAEL A. BILANDIC BLDG. • SUITE S-900  
160 NORTH LASALLE • 60601-3103  
PHONE: 312/814-4000  
FAX: 312/814-4006

OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

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 Local Government Health Insurance Reserve Fund of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2009, and have issued our report thereon dated April 15, 2010. 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 Local Government Health Insurance Reserve 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.

*A deficiency in internal control* 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in finding 09-1 in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Healthcare and Family Services' Local Government Health Insurance Reserve 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*.

We also noted certain matters which we have reported to management of the State of Illinois, Department of Healthcare and Family Services in a separate letter dated April 15, 2010.

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



Bruce L. Bullard, CPA  
Director of Financial and Compliance Audits

April 15, 2010

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2009

09-1. **FINDING** (Financial statement preparation)

The Illinois Department of Healthcare and Family Services' (Department) year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Illinois Office of the Comptroller (Comptroller) was not completed timely for the Local Government Health Insurance Reserve Fund (Fund).

During our audit of the June 30, 2009 Fund's GAAP Reporting Package, we noted the GAAP Reporting Package was not submitted to the Comptroller in a timely manner. The GAAP Reporting Package was submitted to the Comptroller 12 days late. In addition, the Comptroller submitted to the Department review comments for the GAAP Reporting Package on September 28, 2009; however, the Department did not provide a response to those review comments until October 23, 2009. Further, the Fund's financial statements **were not** provided to the auditors **until** December 8, 2009, five months **after** the year end.

The Comptroller requires State agencies to prepare GAAP Reporting Packages to assist in the annual preparation of the Statewide financial statements and the Fund's financial statements. The Comptroller sets due dates for the financial information to be submitted in order for the Statewide financial statements to be prepared and audited within a specified timeline to provide the financial statements to users in a timely manner.

In addition, Concepts Statement of Governmental Accounting Standards Board (GASBCS 1, paragraph 66) states "if financial reports are to be useful, they must be issued soon enough after the reported events to affect decisions. Timeliness alone does not make information useful, but the passage of time usually diminishes the usefulness that the information otherwise would have had."

The Department stated that revisions related to fund receipts, reported by another responsible agency two days prior to the due date of the GAAP Reporting Package, negatively impacted the Department's timeliness in submitting the package. In addition, there were agreed upon changes to financial statement supporting schedules that were incorporated during this reporting period, which also impacted the timeliness in submitting the financial statements.

The late submission of the Fund's GAAP Reporting Package causes delays in the audit process and impacts the Fund and Statewide reporting. (Finding Code No. 09-1)

**RECOMMENDATION**

We recommend the Department implement additional internal control procedures to ensure GAAP Reporting Packages are prepared in a timely manner.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND  
**SCHEDULE OF FINDINGS**  
For the Year Ended June 30, 2009

**DEPARTMENT RESPONSE**

The Department agrees with this finding. The Department is continually assessing the financial reporting process and implementing procedures to improve upon timeliness and accuracy. As an ongoing effort the Department continues to strive to meet the mandated deadlines, which resulted in the GAAP Reporting Package being submitted in a more timely manner than in prior years.

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES  
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND  
**PRIOR FINDINGS NOT REPEATED**  
For the Year Ended June 30, 2009

A. **FINDING** (Third party internal control reviews not obtained)

During the prior audit, the Department did not obtain an independent internal control review of its third parties involved with the processing of health insurance claims for two of the five service providers contracted by the Department.

During the current audit, the Department obtained all five third party independent internal control reviews. (Finding Code No. 08-1)