



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**  
**LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND**

**Financial Audit**  
**For the Year Ended June 30, 2020**

**Release Date: June 2, 2021**

| FINDINGS THIS AUDIT: 1   | AGING SCHEDULE OF REPEATED FINDINGS |            |            |            |                    |          |          |          |                    |          |          |          |                    |          |          |          |              |          |          |          |                           |  |  |  |
|--|-------------------------------------|------------|------------|------------|--------------------|----------|----------|----------|--------------------|----------|----------|----------|--------------------|----------|----------|----------|--------------|----------|----------|----------|---------------------------|--|--|--|
|  | Repeated Since                      | Category 1 | Category 2 | Category 3 |                    |          |          |          |                    |          |          |          |                    |          |          |          |              |          |          |          |                           |  |  |  |
| <table border="1"> <thead> <tr> <th></th> <th>New</th> <th>Repeat</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td><b>Category 1:</b></td> <td><b>0</b></td> <td><b>0</b></td> <td><b>0</b></td> </tr> <tr> <td><b>Category 2:</b></td> <td><b>1</b></td> <td><b>0</b></td> <td><b>1</b></td> </tr> <tr> <td><b>Category 3:</b></td> <td><b>0</b></td> <td><b>0</b></td> <td><b>0</b></td> </tr> <tr> <td><b>TOTAL</b></td> <td><b>1</b></td> <td><b>0</b></td> <td><b>1</b></td> </tr> </tbody> </table> |                                     | New        | Repeat     | Total      | <b>Category 1:</b> | <b>0</b> | <b>0</b> | <b>0</b> | <b>Category 2:</b> | <b>1</b> | <b>0</b> | <b>1</b> | <b>Category 3:</b> | <b>0</b> | <b>0</b> | <b>0</b> | <b>TOTAL</b> | <b>1</b> | <b>0</b> | <b>1</b> | <b>No Repeat Findings</b> |  |  |  |
|  | New                                 | Repeat     | Total      |            |                    |          |          |          |                    |          |          |          |                    |          |          |          |              |          |          |          |                           |  |  |  |
| <b>Category 1:</b>   | <b>0</b>                            | <b>0</b>   | <b>0</b>   |            |                    |          |          |          |                    |          |          |          |                    |          |          |          |              |          |          |          |                           |  |  |  |
| <b>Category 2:</b>   | <b>1</b>                            | <b>0</b>   | <b>1</b>   |            |                    |          |          |          |                    |          |          |          |                    |          |          |          |              |          |          |          |                           |  |  |  |
| <b>Category 3:</b>   | <b>0</b>                            | <b>0</b>   | <b>0</b>   |            |                    |          |          |          |                    |          |          |          |                    |          |          |          |              |          |          |          |                           |  |  |  |
| <b>TOTAL</b>   | <b>1</b>                            | <b>0</b>   | <b>1</b>   |            |                    |          |          |          |                    |          |          |          |                    |          |          |          |              |          |          |          |                           |  |  |  |
| FINDINGS LAST AUDIT: 0   |                                     |            |            |            |                    |          |          |          |                    |          |          |          |                    |          |          |          |              |          |          |          |                           |  |  |  |

**SYNOPSIS**

- (20-01) The Department did not conduct adequate independent internal control reviews over its external service providers' System and Organization Control (SOC) reports utilized by the Local Government Health Insurance Plan (Plan).

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

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

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

**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND  
FINANCIAL AUDIT  
For the Year Ended June 30, 2020**

| <b>STATEMENT OF REVENUES, EXPENSES AND CHANGES<br/>IN FUND NET POSITION</b>                   | <b>Fiscal Year<br/>2020</b> | <b>Fiscal Year<br/>2019</b> |
|---|-----------------------------|-----------------------------|
| <b>OPERATING REVENUES</b>   |                             |                             |
| Charges for Sales and Services.....   | \$ 40,174                   | \$ 44,602                   |
| <b>OPERATING EXPENSES</b>   |                             |                             |
| Benefit payments and refunds.....   | 34,088                      | 42,445                      |
| General and administrative.....   | 1,472                       | 1,758                       |
| Total operating expenses  | 35,560                      | 44,203                      |
| Operating income (loss)   | 4,614                       | 399                         |
| <b>NONOPERATING REVENUES (EXPENSES)</b>   |                             |                             |
| Interest and investment income.....   | 59                          | 57                          |
| Interest expense.....   | (4)                         | (16)                        |
| Other revenues.....   | 31                          | 46                          |
| Changes in net position.....  | 4,700                       | 486                         |
| Net Position, July 1, .....   | 540                         | 54                          |
| <b>NET POSITION, JUNE 30.....</b>   | 5,240                       | 540                         |
| <b>PARTICIPANT INFORMATION</b>  | <b>Fiscal Year<br/>2020</b> | <b>Fiscal Year<br/>2019</b> |
| Number of local government entities participating.....  | 241                         | 256                         |
| Approximate number of employees covered.....  | 1,979                       | 4,179                       |
| Approximate number of dependents covered.....   | 1,546                       | 1,794                       |
| Approximate number of retirees covered.....   | 135                         | 153                         |
| <b>AGENCY DIRECTOR</b>  |                             |                             |
| During Audit Period: Janel Forde (effective 2/18/20); Janel Forde (Acting) (7/1/19 - 2/17/20) |                             |                             |
| Currently: Janel Forde  |                             |                             |

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**INADEQUATE REVIEW OF EXTERNAL SERVICE PROVIDERS**

The Department of Central Management Services (Department) did not conduct adequate independent internal control reviews over its external service providers' System and Organization Control (SOC) reports utilized by the Local Government Health Insurance Plan (Plan).

**11 external service providers used by the Department**

The Department currently receives copies of the SOC reports from 11 different external service providers and performs an independent internal control review of each SOC report to determine whether any areas of concern are noted for the Plan. In total the Department received 14 SOC reports during the audit period for the Plan.

These service providers provide:

- Medical plan coverage and payments
- Claims processing
- Benefits solutions
- Plan administration
- IT hosting

During testing of the 14 SOC reports, we noted:

**Assessment not performed to determine implementation of CUECs**

- Fourteen of 14 (100%) SOC reports identified Complementary User Entity Controls (CUEC) necessary for the Service Organization's system which relies on the Department to implement the CUECs in order to achieve the Service Organization's control objectives. The Department did not perform an assessment to determine if it had implemented the CUECs for each.

**Additional assessments not performed for subservice organizations carved out of SOC report**

- Ten of 14 (71%) SOC external service provider reports identified additional subservice organizations used by the service organization that were carved out of the SOC report. These subservice organizations required additional CUECs and the service provider relied on the subservice organizations to implement the CUECs in order to achieve the Service Organization's control objectives. The Department did not perform additional assessments on the subservice organizations to determine if the CUECs had been implemented.

**Assessment not performed to determine reliance on SOC reports with qualified opinions**

- Eight of 14 (57%) SOC reports had qualified opinions due to deficiencies noted by the SOC auditors. The Department did not perform an analysis on whether they could rely on the external service providers' controls due to the deficiencies noted in the SOC reports with qualified opinions. Through our assessment of the types

of deficiencies noted by the SOC auditors, and the substantive testing we performed in other areas of our audit, we were able to rely on the testing and assurance provided by the SOC reports. (Finding 1, pages 21-24)

We recommended the Department:

- Monitor and document the operation of the CUECs relevant to the Department's operations.
- Either obtain and review SOC reports for subservice organizations, if applicable to the Department's internal control environment, or perform alternative procedures to satisfy itself the usage of the subservice organizations would not impact the Department's internal control environment. Such review and procedures should be documented.
- Document its review of the SOC reports and review all significant issues with third-party service providers and subservice organizations to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the Department, and any compensating controls.

**Department accepted recommendation**

The Department accepted our recommendation and stated it has worked with the Department of Innovation and Technology and its external service providers to update its SOC Review Process.

**AUDITOR'S OPINION**

The auditors stated the financial statements of the Department of Central Management Services, Local Government Health Insurance Reserve Fund as of and for the year ended June 30, 2020, are fairly stated in all material respects.

This financial audit was conducted by Sikich LLP.

**SIGNED ORIGINAL ON FILE**

JANE CLARK  
Division Director

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

**SIGNED ORIGINAL ON FILE**

FRANK J. MAUTINO  
Auditor General

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