



**STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL  
MANAGEMENT SERVICES  
TEACHER HEALTH INSURANCE  
SECURITY FUND**

---

FINANCIAL AUDIT

For the Year Ended June 30, 2017

Performed as Special Assistant Auditors for the  
Auditor General, State of Illinois

A background graphic consisting of a complex, overlapping grid of lines and geometric shapes in shades of gray, creating a sense of depth and structure.

[SIKICH.COM](http://SIKICH.COM)

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
TEACHER HEALTH INSURANCE SECURITY FUND  
FINANCIAL AUDIT  
For the Year Ended June 30, 2017

**TABLE OF CONTENTS**

	<u>Page(s)</u>
Agency Officials .....	1
Financial Statement Report	
Summary .....	2
Independent Auditor’s Report.....	3-5
Basic Financial Statements	
Statement of Fiduciary Net Position .....	6
Statement of Changes in Fiduciary Net Position.....	7
Notes to the Financial Statements .....	8-17
Required Supplementary Information	
Schedule of Changes in Net OPEB Liability and Related Ratios .....	18
Schedule of Contributions .....	19
Notes to Schedule of Contributions.....	20
Schedule of Investment Returns.....	21
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	22-23
Schedule of Findings.....	24-25
Prior Year Findings Not Repeated.....	26

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

**AGENCY OFFICIALS**

Director	Michael Hoffman, Acting
Assistant Directors	Markus Veile Amiel Harper (8/1/17 – present) Jimmy Odom, Acting (1/13/17 – 5/8/17) Kimberly McCullough-Starks (through 7/25/16)
Chief Administrative Officer	Vacant
Chief Operating Officer	Jennifer Waldinger (through 6/15/17) Vacant (6/16/17 – present)
Chief Fiscal Officer	Mark Lewis (7/1/17 – present) Karen Pape (through 6/30/17)
General Counsel	Ryan Green, Acting (11/1/16 – present) LaShonda Hunt, Acting (7/1/16 – 10/31/16)
Chief Internal Auditor	Jack Rakers, Acting (1/2/17 – present) Deborah Abbott (through 12/31/16)

Agency main offices are located at:

715 Stratton Office Building  
401 South Spring Street  
Springfield, IL 62706

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
TEACHER HEALTH INSURANCE SECURITY FUND  
FINANCIAL AUDIT  
For the Year Ended June 30, 2017

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying financial statements of the Teacher Health Insurance Security Fund of the State of Illinois, Department of Central Management Services (Department), was performed by Sikich LLP.

Based on their audit, the auditors expressed an unmodified opinion on the Teacher 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 material weaknesses. The material weaknesses are described in the accompanying Schedule of Findings on pages 24-25 of this report as item:

2017-001 Weaknesses in internal control over financial reporting

**EXIT CONFERENCE**

The Department waived an exit conference. The responses to the recommendations were provided by Mr. Michael Hoffman, Acting Director, on January 17, 2018.

3201 W. White Oaks Dr., Suite 102  
Springfield, IL 62704  
217.793.3363

**SIKICH.COM**

## INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

### **Report on the Financial Statements**

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Teacher Health Insurance Security Fund of the State of Illinois, Department of Central Management Services, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Teacher Health Insurance Security Fund of the State of Illinois, Department of Central Management Services' basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teacher Health Insurance Security Fund of the State of Illinois, Department of Central Management Services, as of June 30, 2017, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 2, the financial statements present only the Teacher Health Insurance Security Fund of the State of Illinois, Department of Central Management Service, and do not purport to, and do not, present fairly the financial position of the State of Illinois or the State of Illinois, Department of Central Management Services as of June 30, 2017, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

During the year ended June 30, 2017, the State of Illinois, Department of Central Management Service adopted new accounting guidance, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (OPEB) for the Teacher Health Insurance Security Fund. GASB Statement No. 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. This Statement follows the framework for financial reporting of defined OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. In addition, this Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement 74 also sets forth note disclosure requirements for defined contribution OPEB plans. Our opinion is not modified with respect to this matter.

As discussed in Note 9 to the financial statements, the Teacher Health Insurance Security Fund has a deficit net position of \$45.029 million as of June 30, 2017. Adverse experience is not covered by the current funding policy. Our opinion is not modified with respect to that matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in Net OPEB Liability and Related Ratios; Schedule Contributions; Notes to Schedule of Contributions; and Schedule of Investment Returns on pages 18-21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the

information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis for the Teacher Health Insurance Security Fund that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated January 25, 2018 on our consideration of the Teacher Health Insurance Security Fund of the State of Illinois, Department of Central Management Services' internal control over financial reporting of the Teacher Health Insurance Security Fund and on our tests of its 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* in considering the State of Illinois, Department of Central Management Services' internal control over financial reporting of the Teacher Health Insurance Security Fund and its compliance.

**SIGNED ORIGINAL ON FILE**

Springfield, Illinois  
January 25, 2018

## BASIC FINANCIAL STATEMENTS



STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
TEACHER HEALTH INSURANCE SECURITY FUND  
**STATEMENT OF FIDUCIARY NET POSITION**  
**June 30, 2017**

(amounts expressed in thousands)

**Assets**

Cash equity with State Treasurer	\$ 40,571
Cash and cash equivalents	10,835
Securities lending collateral of State Treasurer	13,250
Receivables	
Employer	5,134
Employee	6,846
Federal government	1,443
Interest	41
Other receivables	2,489
<b>Total receivables</b>	15,953
Due from other funds	109,703
<b>Total assets</b>	190,312

**Liabilities**

Accounts payable and other	221,726
Intergovernmental payables	302
Obligations under security lending of State Treasurer	13,250
Compensated absences, current	16
<b>Total current liabilities</b>	235,294
Long-term compensated absences	47
<b>Total liabilities</b>	235,341

<b>Unrestricted Net position</b>	\$ (45,029)
----------------------------------	-------------

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

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
TEACHER HEALTH INSURANCE SECURITY FUND  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**For the Year Ended June 30, 2017**

(amounts expressed in thousands)

**Additions**

Contributions	
Employer	\$ 100,763
State	109,703
Active plan member	111,734
Federal government Medicare Part D	2,053
Consolidated Omnibus Budget Reconciliation Act (COBRA)	46
Total contributions	<u>324,299</u>
Interest income	<u>357</u>
<b>Total additions</b>	<u><u>324,656</u></u>

**Deductions**

Benefit payments and refunds	296,480
General and administrative expense	<u>13,790</u>
<b>Total deductions</b>	<u><u>310,270</u></u>

<b>Net increase (decrease) in net position</b>	14,386
--	--------

**Unrestricted Net position**

Net Position, July 1, 2016	<u>(59,415)</u>
<b>Net Position, June 30, 2017</b>	<u><u>\$ (45,029)</u></u>

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

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
TEACHER HEALTH INSURANCE SECURITY FUND  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2017

**1) Plan Description**

*Plan administration*

The Teacher Health Insurance Security Fund (THISF) (also known as The Teacher Retirement Insurance Program, "TRIP") is a non-appropriated trust fund held outside the State Treasury, with the State Treasurer as custodian. Additions deposited into the Trust are for the sole purpose of providing the health benefits to retirees, as established under the plan, and associated administrative costs. TRIP is a cost-sharing multiple-employer defined benefit post-employment healthcare plan that covers retired employees of participating school districts throughout the State of Illinois, excluding the Chicago Public School System. TRIP health coverage includes provisions for medical, prescription, and behavioral health benefits, but does not provide vision, dental, or life insurance benefits. Annuitants may participate in the State administered Preferred Provider Organization plan or choose from several managed care options. As a result of the Governor's Executive Order 12-01, the responsibilities in relation to TRIP were transferred to the Department of Central Management Services (Department) as of July 1, 2013. The Department administers the plan with the cooperation of the Teachers' Retirement System (TRS).

*Plan membership*

In order to be eligible, retirees of public schools must have been certified educators or administrators during their time of employment. Eligibility to participate in the plan is currently limited to former full-time employees, or if not a full-time employee, an individual that is in a permanent and continuous basis in a position in which services are expected to be rendered for at least one school term, and their dependents.

Membership of the plan consisted of the following at June 30, 2017:

Inactive plan members currently receiving benefit payments	64,030
Inactive plan members entitled to but not yet receiving benefit payments	39,649
Active Plan Members	<u>154,176</u>
Total	<u>257,855</u>
Number of participating employers	975
Number of nonemployer contributing entities	1

*Benefits provided*

The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.5) establishes the eligibility and benefit provisions for the plan.

**2) Summary of Significant Accounting Policies**

**a) Financial Reporting Entity**

As defined by Generally Accepted Accounting Principles (GAAP), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
TEACHER HEALTH INSURANCE SECURITY FUND  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2017

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

**a) Financial Reporting Entity (continued)**

- 2) Fiscal dependence on the primary government and the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the required criteria, the THISF has no component units and is not a component unit of any other entity. However, because the THISF is not legally separate from the State of Illinois, the financial statements of the THISF are included in the financial statements of the State of Illinois as a pension (and other employee benefit) trust fund. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

**b) Basis of Presentation**

The financial statements present only the THISF administered by the State of Illinois, Department of Central Management Services. They are intended to present the financial position and the changes in financial position of only the THISF. They do not purport to, and do not, present fairly the financial position of the State of Illinois or the Department as of June 30, 2017, and the changes in financial position for the year ended in conformity with accounting principles generally accepted in the United States of America.

**c) Measurement Focus and Basis of Accounting**

THISF's financial statements are prepared using the economic resources measurement focus and 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 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.

**d) 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.

**e) Deposits and Investments**

Investments are reported at fair value.

The Illinois Public Treasurers' Investment Pool, known as The Illinois Funds, operates as a 2a7-like pool and thus reports all investments at amortized cost rather than market value. The fair value of the pool is the same as the value of the pool shares. The Treasurer's investment policies are governed by state statute. In addition, the Treasurer's Office has adopted its own investment practices which supplement the statutory requirement.

**f) Compensated Absences**

The liability for compensated absences reported in the statement of fiduciary net position 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 CENTRAL MANAGEMENT SERVICES  
TEACHER HEALTH INSURANCE SECURITY FUND  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2017

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

**f) Compensated Absences (continued)**

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.

**g) 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.

**3) Contributions**

The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.6) requires that all active contributors of the TRS, who are not employees of a department, make contributions to the plan at a rate of 1.12% of salary and for every employer of a teacher to contribute an amount equal to .84% of each teacher's salary. The Department determines, by rule, the percentage required, which each year shall not exceed 105% of the percentage of salary actually required to be paid in the previous fiscal year. In addition, under the State Pension Funds Continuing Appropriations Act (40 ILCS 15/1.3), there is appropriated, on a continuing annual basis, from the General Revenue Fund, an account of the General Fund, to the State Comptroller for deposit in the THISF, an amount equal to the amount certified by the Board of Trustees of TRS as the estimated total amount of contributions to be paid under 5 ILCS 376/6.6(a) in that fiscal year.

The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.5) requires that the Department's Director determine the rates and premiums of annuitants and dependent beneficiaries and establish the cost-sharing parameters, as well as funding. Member premiums are set by this statute, which provides for a subsidy of either 50% or 75%, depending upon member benefit choices. Dependents are eligible for coverage, at a rate of 100% of the cost of coverage.

For the year ended June 30, 2017, member required contributions ranged from \$92.87 to \$220.21, per month per retiree, and from \$414.60 to \$660.63, per month per retiree and spouse (assuming Medicare eligibility). For non-Medicare eligible members, required contributions ranged from \$75.65 to \$833.43, per month per retiree, and from \$378.37 to \$2,500.29, per month per retiree plus dependents. The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.6) requires active teachers contribute 1.12% of salaries; they contributed \$111.734 million, or approximately 34.68% of total premiums. The State Employees Group Insurance Act of 1971 (5 ILCS 375/6.6) also requires participating school districts contribute .84% of salaries; they contributed \$100.763 million, or approximately 31.27% of total premiums. In addition, the State Employees Group Insurance Act of 1971 (5 ILCS 375/6.6) requires the State contribute 1.12% of salaries; they contributed \$109.7 million, or approximately 34.05% of total premiums. The fund received \$2.053 million in Medicare Part D subsidy payments from the federal government. Retiree contributions are netted with the related liability.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
TEACHER HEALTH INSURANCE SECURITY FUND  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2017

**4) 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 are available within the State of Illinois' Comprehensive Annual Financial Report.

Cash on deposit with the State Treasurer totaled \$40.571 million at June 30, 2017.

**b) Investments**

Section 2 of the Public Funds Investment Act limits the State's investments outside the State Treasury to securities of the U.S. government or its agencies, short-term obligations of domestic corporations exceeding \$500 million in assets that are rated in the three highest categories by at least two nationally recognized statistical ratings organizations not to exceed ten percent of the domestic corporations outstanding obligations, money market mutual funds invested in the U.S. government and/or its agencies, and repurchase agreements securities of the U.S. government or its agencies or money market mutual funds invested in the U.S. government or its agencies. Investments of public funds in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act are also permitted.

As of June 30, 2017, the Department had the following investments in the State Treasury Investment Pool (Illinois Funds):

	<b>Fair Value (Thousands)</b>	<b>Weighted Average Maturity (Years)</b>
Illinois Public Treasurers' Investment Pool	<u>\$10,835</u>	.136
Total fixed income investments	<u>\$10,835</u>	

**Interest Rate Risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department does not have a formal investment policy that limits investment choices. Investments in the Illinois Public Treasurers' Investment Pool were rated AAAM by Standard & Poor's.

**Rate of Return.** For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 0.678%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
TEACHER HEALTH INSURANCE SECURITY FUND  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2017

**4) Deposits and Investments (continued)**

**b.) Investments (continued)**

The Illinois Public Treasurers' Investment Pool, known as The Illinois Funds, operates as a qualified external investment pool in accordance with the criteria established in GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and thus, reports all investments at amortized cost rather than market value. The investment in The Illinois Funds by participants is also reported at amortized cost. The Illinois Funds does not have any limitations or restrictions on participant withdrawals. The Illinois Treasurer's Office issues a separate financial report for The Illinois Funds which may be obtained by contacting the Administrative Office at Illinois Business Center, 400 West Monroe Street, Suite 401, Springfield, Illinois 62704.

**c) Reconciliation to Statement of Fiduciary Net Position**

	<b>Deposits (Thousands)</b>	<b>Investments (Thousands)</b>
Amounts per Note 4(a)(b)	\$40,571	\$10,835
Cash Equivalents	<u>10,835</u>	<u>(10,835)</u>
Total per Statement of Fiduciary Net Position	<u>\$51,406</u>	<u>\$ 0</u>

**d) Securities Lending Transactions**

The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2017, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during fiscal year 2017 on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during fiscal year 2017 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2017, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2017 were \$3,522,922,500 and \$3,475,790,990, respectively.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
TEACHER HEALTH INSURANCE SECURITY FUND  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2017

**5) Net OPEB Liability**

The components of the net OPEB liability of TRIP at June 30, 2017, were as follows:

Total OPEB liability	\$25,904,539,385
Plan fiduciary net position	(45,029,000)
Net OPEB liability	\$25,949,568,385
 Plan fiduciary net position as a percentage of the total OPEB liability	 -0.17%

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement date, unless otherwise specified:

Inflation	2.75%
Salary increases	Depends on service and ranges from 9.25% at 1 year of service to 3.25% at 20 or more years of service. Salary increase includes a 3.25% wage inflation assumption.
Investment rate of return	0%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.00% and 9.00% for non-Medicare costs and post-Medicare costs, respectively, and gradually decreases to an ultimate trend of 4.50%. Additional trend rate of 0.59% is added to non-Medicare costs on and after 2020 to account for the Excise Tax.

Mortality rates for retirement and beneficiary annuitants were based on the RP-2014 White Collar Annuitant Mortality Table, adjusted for TRS experience. For disabled annuitants mortality rates were based on the RP-Disabled Annuitant table. Mortality rates for pre-retirement were based on the RP-2014 White Collar Table, All tables reflect future mortality improvements using Projection Scale MP-2014.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2014.

Projected benefit payments were discounted to their actuarial present value using a Single Discount Rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bond with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met). Since TRIP is financed on a pay-as-you-go basis, a discount rate consistent with the 20-year general obligation bond index has been selected. The discount rates are 2.85% as of June 30, 2016, and 3.56% as of June 30, 2017. The increase in the single discount rate from 2.85% to 3.56% caused the total OPEB liability to decrease by approximately \$3.564 billion from 2016 to 2017.



STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
TEACHER HEALTH INSURANCE SECURITY FUND  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2017

**5) Net OPEB Liability (continued)**

The actuarial valuation was based on the Entry Age Normal cost method. Under this method, the normal cost and actuarial accrued liability are directly proportional to the employee's salary. The normal cost rate equals the present value of future benefits at entry age divided by the present value of future salary at entry age. The normal cost at the member's attained age equals the normal cost rate at entry age multiplied by the salary at attained age. The actuarial accrued liability equals the present value of benefits at attained age less present value of future salaries at attained age multiplied by normal cost rate at entry age.

During plan year ending June 30, 2017, the trust earned \$357,000 in interest, and due to a significant benefit payable, the market value of assets at June 30, 2017, was a negative \$43 million. Given the significant benefit payable, negative asset value and pay-as-you-go funding policy, the long-term expected rate of return assumption was set to zero.

**Sensitivity of Net OPEB Liability to Changes in the Single Discount Rate**

The following presents the plan's net OPEB liability, calculated using a Single Discount Rate of 3.56%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.56%) or lower (2.56%) than the current rate:

<b>Sensitivity of Net OPEB Liability as of June 30, 2017, to the Single Discount Rate Assumption</b>			
	<b>1% Decrease (2.56%)</b>	<b>Current Single Discount Rate Assumption (3.56%)</b>	<b>1% Increase (4.56%)</b>
Net OPEB liability	31,139,345,900	\$25,949,568,385	\$21,796,923,765

**Sensitivity of Net OPEB Liability to Changes in the Healthcare Cost Trend Rate**

The following presents the plan's net OPEB liability, calculated using the healthcare cost trend rates as well as what the plan's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates. The key trend rates are 8.00% in 2018 decreasing to an ultimate trend rate of 5.09% in 2025, for non-Medicare coverage, and 9.00% decreasing to an ultimate trend rate of 4.50% in 2027 for Medicare coverage.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
TEACHER HEALTH INSURANCE SECURITY FUND  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2017

**5) Net OPEB Liability (continued)**

<b>Sensitivity of Net OPEB Liability as of June 30, 2017, to the Healthcare Cost Trend Rate Assumption</b>			
	<b>1% Decrease (a)</b>	<b>Healthcare Cost Trend Rates Assumption</b>	<b>1% Increase (b)</b>
Net OPEB liability	\$20,943,959,662	\$25,949,568,385	\$33,134,273,268
<p>(a) One percentage point decrease in healthcare trend rates are 7.00% in 2018 decreasing to an ultimate trend rate of 4.09% in 2025, for non-Medicare coverage, and 8.00% in 2018 decreasing to an ultimate trend rate of 3.50% in 2027 for Medicare coverage.</p> <p>(b) One percentage point increase in healthcare trend rates are 9.00% in 2018 decreasing to an ultimate trend rate of 6.09% in 2025, for non-Medicare coverage, and 10.00% in 2018 decreasing to an ultimate trend rate of 5.50% in 2027 for Medicare coverage.</p>			

**6) Long-Term Obligations**

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2017, were as follows:

	<b>Balance July 1, 2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2017</b>	<b>Amounts Due Within One Year</b>
Compensated Absences	\$63	\$77	\$77	\$63	\$16
<b>Total</b>	<b>\$63</b>	<b>\$77</b>	<b>\$77</b>	<b>\$63</b>	<b>\$16</b>

**7) Pension Plan**

The vested full-time employees paid from the THISF may participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2017 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2017. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
TEACHER HEALTH INSURANCE SECURITY FUND  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2017

**7) Pension Plan (continued)**

The Department pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2017, the employer contribution rate was 44.568%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Department) with employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

**8) Post-employment Benefits**

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employees Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expense by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department may be obtained by writing to the Department of Central Management Services, 401 South Spring, Springfield, Illinois, 62706.

**9) Fund Deficit**

For the fiscal year ending June 30, 2017, total benefits and expenses were \$310.270 million which were partially financed by \$109.703 million in State contributions, \$100.763 million in employer contributions, \$2.053 million in the federal government Medicare Part D subsidy, and \$111.734 million in active member contributions resulting in total net additions of approximately \$14.386 million, or 4.64% of total benefits and expenses.

Because contributions made by the State, employers, and employees are defined as a fixed percentage of payroll, the funding policy does not provide a provision for adverse experience. The following factor contributed to the fund deficit: the current financing policy does not provide a specific provision for claims incurred during the fiscal year that are expected to be paid in the following fiscal year. At June 30, the fund deficit was \$45.029 million.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
TEACHER HEALTH INSURANCE SECURITY FUND  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2017

**10) Commitments and 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.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
TEACHER HEALTH INSURANCE SECURITY FUND  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS**  
(Unaudited)

Fiscal Year Ending June 30,	<u>2017</u>
<b>Total OPEB Liability</b>	
Service Cost	\$ 1,684,864,123
Interest on the Total OPEB Liability	820,960,601
Changes of Benefit Terms	-
Difference between Expected and Actual Experience	(16,955,687)
Changes of Assumptions	(3,564,237,510)
Benefit Payments	(296,480,000)
<b>Net Change in Total OPEB Liability</b>	<u>(1,371,848,473)</u>
<b>Total OPEB Liability - Beginning</b>	<u>27,276,387,858</u>
<b>Total OPEB Liability - Ending (a)</b>	<u><u>\$ 25,904,539,385</u></u>
<b>Plan Fiduciary Net Position</b>	
Employer Contributions	\$ 210,466,000
Active Member Contributions	111,734,000
Net Investment Income	357,000
Benefit Payments	(296,480,000)
Operating Expenses	(13,790,000)
Other	2,099,000
<b>Net Change in Pan Fiduciary Net Position</b>	<u>14,386,000</u>
<b>Plan Fiduciary Net Position - Beginning</b>	<u>(59,415,000)</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>(45,029,000)</u>
<b>Net OPEB Liability - Ending (a) - (b)</b>	<u><u>\$ 25,949,568,385</u></u>
<b>Plan Fiduciary Net Position as a Percentage</b>	
<b>of Total OPEB Liability</b>	-0.17%
<b>Covered-Employee Payroll</b>	9,444,442,000
<b>Net OPEB Liability as a Percentage</b>	
<b>of Covered-Employee Payroll</b>	274.76%

Note: Information is not available prior to 2017. Additional years will be added to future reports as schedules are intended to show 10 years of historical data.

\*The increase in the single discount rate from 2.85% to 3.56% caused the total OPEB liability to decrease by approximately \$3.564 billion from 2016 to 2017.

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
TEACHER HEALTH INSURANCE SECURITY FUND  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CONTRIBUTIONS**  
(Unaudited)

<b>Year Ended June 30</b>	<b>Actuarially Determined Contribution*</b>	<b>Statutorily Required Contributions**</b>	<b>Contribution (Excess) Deficiency</b>	<b>Covered Payroll</b>	<b>Actual Contribution as a % of Covered Payroll</b>
2017	N/A	\$ 210,466,000	N/A	\$ 9,444,442,000	2.23%
2016	N/A	\$ 194,405,000	N/A	\$ 9,147,159,000	2.13%
2015	N/A	N/A	N/A	N/A	N/A
2014	\$ 1,445,469,000	\$ 167,720,000	\$ 1,277,749,000	\$ 9,340,200,000	1.80%
2013	\$ 1,513,939,000	\$ 160,706,000	\$ 1,353,233,000	\$ 9,110,415,000	1.76%
2012	N/A	N/A	N/A	N/A	N/A
2011	\$ 1,540,322,000	\$ 156,523,000	\$ 1,383,799,000	\$ 8,791,038,000	1.78%
2010	N/A	N/A	N/A	N/A	N/A
2009	\$ 1,145,505,000	\$ 141,786,000	\$ 1,003,719,000	\$ 8,428,359,000	1.68%
2008	N/A	N/A	N/A	N/A	N/A

See accompanying notes to schedule

\* Prior to 2016, amounts disclosed as "Actuarially Determined Contribution" are the actuarially determined "Annual Required Contribution" which was calculated biennially under GASB Statement No. 43. For years listed as N/A information to complete the schedule was not available.

\*\* Statutorily required contributions = actual contributions

For 2016 and 2017, contributions for TRIP are defined by State statute and Actuarially Determined Contributions are not developed. Benefits are financed on a pay-as-you-go basis, based on contribution rates defined by statute. For fiscal year end June 30, 2017, contributions rates are 1.12% of pay of active members, 0.84% of pay for school districts, and 1.12% of pay of the State. Retired members contribute a percentage of premium rates. The goal of the policy is to finance current year cost plus a margin for incurred but not paid plan costs.

## Notes to Schedule of Contributions

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Sponsor's Fiscal Year End	June 30, 2018

### Methods and assumptions used to determine contribution rates:

Actuarial Cost Method                      Entry Age Normal, used to measure the Total OPEB Liability

Contribution Policy                              Benefits are financed on a pay-as-you go basis. Contribution rates are defined by statute. For fiscal year end June 30, 2017, contribution rates are 1.12% of pay for active members, 0.84% of pay for school districts and 1.12% of pay for the State. Retired members contribute a percentage of premium rates. The goal of the policy is to finance current year costs plus a margin for incurred but not paid plan costs.

Asset Valuation Method                      Market value

Investment Rate of Return                      0%, net of OPEB plan investment expense, including inflation

Inflation    2.75%

Salary Increases                                  Depends on service and ranges from 9.25% at 1 year of service to 3.25% at 20 or more years of service. Salary increase includes a 3.25% wage inflation assumption.

Retirement Age                                  Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the June 30, 2016, actuarial valuation.

Mortality    Retirement and Beneficiary Annuity: RP-2014 White Collar Annuity Mortality Table, adjusted for TRS experience. Disabled Annuity: RP-2014 Disabled Annuity Table. Pre-Retirement: RP-2014 White Collar Table. All tables reflect future mortality improvements using Projection Scale MP-2014.

Healthcare Cost Trend Rates                      Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.00% and 9.00% for non-Medicare costs and post-Medicare costs, respectively, and gradually decreases to an ultimate trend of 4.50%. Additional trend rate of 0.59% is added to non-Medicare cost on and after 2020 to account for the Excise tax.

Aging Factors                                      Based on the 2013 SOA Study "Health Care Costs – From Birth to Death"

Expenses    Health administrative expenses are included in the development of the per capita claims costs. Operating expenses are included as a component of the Annual OPEB Expense.



STATE OF ILLINOIS  
 DEPARTMENT OF CENTRAL MANAGEMENT SERVICES  
 TEACHER HEALTH INSURANCE SECURITY FUND  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF INVESTMENT RETURNS**  
 (Unaudited)

	2017	2016
Annual money-weighted rate of return, net of OPEB plan investment expense, including inflation	0.678%	0.382%

Note: Information is not available prior to 2016. Additional years will be added to future reports as schedules are intended to show 10 years of historical data.

3201 W. White Oaks Dr., Suite 102  
Springfield, IL 62704  
217.793.3363

**SIKICH.COM**

INDEPENDENT AUDITOR’S 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 Frank J. Mautino  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, 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, the financial statements of the Teacher Health Insurance Security Fund of the State of Illinois, Department of Central Management Services, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Teacher Health Insurance Security Fund of the State of Illinois, Department of Central Management Services’ financial statements, and have issued our report thereon dated January 25, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the State of Illinois, Department of Central Management Services’ internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Department of Central Management Services’ internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Central Management Services’ internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2017-001, to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Teacher Health Insurance Security Fund of the State of Illinois, Department of Central Management Services' financial statements are free from 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*.

### **Department of Central Management Services' Response to Findings**

The Department of Central Management Services' response to the finding identified in our audit are described in the accompanying schedule of findings. The Department of Central Management Services' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Department of Central Management Services' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Department of Central Management Services' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**SIGNED ORIGINAL ON FILE**

Springfield, Illinois  
January 25, 2018

## **SCHEDULE OF FINDINGS**

### **CURRENT FINDINGS – Government Auditing Standards**

**2017-001 FINDING** (Weaknesses in internal control over financial reporting)

The Department of Central Management Services' (the Department's) year-end financial reporting in accordance with Generally Accepted Accounting Principles (GAAP) to the Illinois Office of the State Comptroller contained significant errors in the determination of certain year-end account balances for the Teacher Health Insurance Security Fund.

During the audit of the June 30, 2017 financial statements, we noted the following errors:

- The Department understated accrued liabilities in the Teacher Health Insurance Security Fund (0203) by \$2.032 million due to the exclusion of certain prescription drug benefit liabilities. The Department revised the applicable financial statements for this error.
- The Department overstated accounts receivable in Fund 0203 by 1.898 million due to including a deposit in transit in accounts receivable and cash. It should not have been included in accounts receivable. The Department revised the applicable financial statements for this error.

The Illinois Office of the State Comptroller (IOC) requires State agencies to prepare year-end financial reports (GAAP Reporting Packages) for each of their funds to assist in the annual preparation of the Statewide financial statements and the Department's financial statements. GAAP Reporting Package instructions are specified in the Statewide Accounting Management System (SAMS) Manual, Chapter 27.

In accordance with the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001), management is responsible for establishing and maintaining a system, or systems, of internal fiscal and administrative controls, to provide assurance that, among other things, 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 and statistical reports and to maintain accountability over the State's resources. Management is also responsible for establishing a process for preparing reasonable accounting estimates.

The Department stated human error combined with staffing resources limiting independent review of financial transactions resulted in the deficiencies noted.

As a result of this error, the Department's GAAP reporting package Fund 0203 was inaccurate and required corrections. (Finding Code No. 2017-001)

### **RECOMMENDATION**

We recommend the Department implement procedures and cross-training measures throughout the Department to ensure required financial information is submitted to those responsible for financial reporting in a timely, accurate and complete manner. This should include allocating sufficient staff resources and the implementation of formal procedures to ensure accurate and reliable financial information is prepared and submitted to the Office of the State Comptroller.

These procedures should address all elements of the Department's financial reporting process including, but not limited to, accruals for liabilities and receivables and supervisory review of supporting spreadsheets for data accumulation.

**DEPARTMENT RESPONSE**

The Department agrees with the finding and recommendation. The Department will strive to implement cross-training measures and financial reporting procedures to ensure the timeliness, accuracy, reliability and reasonableness of data utilized to perform financial reporting. Additionally, the Department will continue to work diligently to fill key positions to ensure an independent, internal analytical review of calculations is documented and completed timely.

**PRIOR YEAR FINDINGS NOT REPEATED**

None.