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

FINANCIAL AUDIT
For the Year Ended June 30, 2011

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STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
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For the Year Ended June 30, 2011

AGENCY OFFICIALS

Director	Julie Hamos
Assistant Director	Sharron Matthews
General Counsel	Jeanette Badrov
Inspector General	John C. Allen
Procurement Officer	Tom Sestak (Acting) (07/01/10 – 1/15/11)
Division of Finance, Administrator	Michael Moss (07/01/10 – 05/15/11)
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

FINANCIAL STATEMENT REPORT

SUMMARY

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

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

SUMMARY OF FINDINGS

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on pages 20 and 21 of this report as finding 11-1 (Financial statement preparation).

EXIT CONFERENCE

The Department waived an exit conference in correspondence dated March 27, 2012.

The response to the recommendation was provided by Julie Hamos, Director, in a letter dated April 10, 2012.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

We have audited the accompanying financial statements of the Community College Health Insurance Security Fund of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2011, 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.

As discussed in Note A, the financial statements present only the Community College Health Insurance Security Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois, Department of Healthcare and Family Services as of June 30, 2011, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community College Health Insurance Security Fund of the State of Illinois, Department of Healthcare and Family Services, as of June 30, 2011, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted

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in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 10, 2012 on our consideration of the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting of the Community College Health Insurance Security Fund and on our tests of the State of Illinois, Department of Healthcare and Family Services' compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Schedule of Funding Progress for the year ended June 30, 2011 and the Schedule of Contributions from Employers and Other Contributing Entities for the year ended June 30, 2011 on pages 16-17 are not a required part of the financial statements of the Community College Health Insurance Security Fund but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Bruce L. Bullard

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

April 10, 2012

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
STATEMENT OF PLAN NET ASSETS
June 30, 2011

(amounts expressed in thousands)

Assets	
Cash and Short-term Investments	$ 1,862
Securities Lending Collateral Equity with State Treasurer	745
Receivables	
Employer	205
Employee	205
Federal Government Medicare Part D	558
Interest	1
Other Receivables	818
Total Receivables	1,787
Due from Other Funds	1,000
Total Assets	5,394
Liabilities	
Accounts Payable and Other	24,273
Due to Other Government- Federal	1
Due to Other Funds	26
Obligations under Securities Lending of State Treasurer	745
Total Current Liabilities	25,045
Long-term Compensated Absences	6
Total Liabilities	25,051
Net Assets held in Trust for Other Postemployment Benefits	$ (19,657)

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

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Year Ended June 30, 2011

(amounts expressed in thousands)

Additions		
Contributions		
Employer	$	4,090
State		5,237
Plan Members		
Actives		4,090
Retirees		14,109
Federal Government Medicare Part D		2,219
Total Contributions		29,745
Interest Income		9
Total Additions		29,754
Deductions		
Benefit Payments and Refunds		41,169
General and Administrative Expense		1,554
Total Deductions		42,723
Net Additions / (Deductions)		(12,969)
Net Assets held in Trust for Other Postemployment Benefits		
Beginning of Year		(6,688)
End of Year	$	(19,657)

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

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

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

A. Summary of Significant Accounting Principles

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

2) Fiscal dependence on the primary government.

Based upon the required criteria, the Community College Health Insurance Security Fund has no component units and is not a component unit of any other entity. However, because the Community College Health Insurance Security Fund is not legally separate from the State of Illinois, the financial statements of the Community College Health Insurance Security Fund 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.

Basis of Presentation: The financial statements present only the Community College Health Insurance Security Fund administered by the State of Illinois, Department of Healthcare and Family Services. They are intended to present the financial position and the changes in financial position of only the Community College Health Insurance Security Fund. They do not purport to, and do not, present fairly the financial position of the State of Illinois or the Department of Healthcare and Family Services as of June 30, 2011, and the changes in financial position for the year ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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

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

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

B. Contribution Information

Membership in the plan consisted of the following at June 30, 2011:

Retirees and beneficiaries receiving benefits	6,083
Waived retirees who may elect healthcare coverage in the future	1,354
Terminated plan members entitled to but not yet receiving benefits	4,433
Active plan members	22,603
Total	34,473
Number of participating employers	39

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

For the year ending 2011, member annuitants (including their dependent beneficiaries) contributed $14.1 million, or approximately 51.25% of total premiums through their required contributions, ranging from $94.63 to $99.69 per month per retiree, and from $378.53 to $398.76, per month per dependent beneficiary (assuming Medicare eligibility). Non-Medicare eligible members' required contributions ranged from $90.89 to $419.86 per retiree and from $363.54 to $1,477.91 per dependent family members. Active employees contributed $4.09 million, or approximately 14.86% of total premiums, representing .5% of their salaries, and participating college districts contributed $4.09 million, or 14.86% of total premiums, representing their required .5% contribution. The State contributed $5.24 million, or approximately 19.03% of total premiums, representing their required contribution of .5% of estimated active employee salaries. The fund received $2.22 million in Medicare Part D subsidy payments from the federal government.

C. Deposits and Investments

Deposits

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

Cash on deposit with the State Treasurer totaled $1,129 thousand and cash on deposit for funds held outside the State Treasurer totaled $53 thousand at June 30, 2011.

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, 2011, the Department had the following investments in the State Treasury Investment Pool (Illinois Funds):

	Fair Value (Thousands)	**Weighted Average Maturity (Years)**
State Treasury Investment Pool (Illinois Funds)	$680	0.117
Total fixed income investments	$680	

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

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

D. Status and Funding Progress – OPEB Plans

The funded status of the plan as of the most recent actuarial valuation date available as of June 30, 2011, is as follows (amounts expressed in thousands):

Actuarial Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-- Projected Unit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
6/30/11	$(19,657)	$2,053,133	$2,072,790	-0.96%	$922,823	224.61%

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

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

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

Valuation Date	6/30/11
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage of Pay
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value
Actuarial Assumptions	
Inflation Rate	3.0%
Amortization Period	Open
Investment Rate of Return*	4.5%
Healthcare Cost Trend Rate	9.0% grading down .5% per year over 7 years to 5.5% and in the 8th year increasing to 5.6% - Medical/Rx Initial 8.0% grading down .5% per year over 6 years to 5.0% - Dental Initial 6.0% grading down 3.0% for 1 year to 3.0% - Vision Initial 5.0% Ultimate

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

E. Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2011, were as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Amounts Due Within One Year
Compensated Absences	$7	$11	$12	$6	$0
Total	$7	$11	$12	$6	$0

F. Pension Plan

The vested full-time employees paid from the Community College Health Insurance Security Fund 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 2011 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2011. 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.

The Department pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2011, the employer contribution rate was 27.988%. 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.

G. 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 of Healthcare and Family Services along with the Department of Central Management Services. 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 Employee's 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 Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

H. Fund Deficits

For the fiscal year ending June 30, 2011, total benefits and expenses were $42.72 million which were partially financed by $5.24 million in State contributions, $4.09 million in employer contributions, $2.22 million in the federal government Medicare Part D subsidy, $4.09 million in active member contributions, and $14.11 million in retired member contributions, resulting in a net shortfall of approximately $12.97 million or approximately 30.36% of total benefits and expenses.

Because contributions made by the State, employers, and employees are defined as a fixed percentage of payroll, and retired member contributions are subject to a 5.0% per year increase, the funding policy does not provide a provision for adverse experience. The following factors contributed to the fund deficit: total payroll increasing at a rate lower than expected, premium rates increasing by more than 5.0%, overall claim costs increasing at a rate higher than expected, or more retirements occurring than expected. Also, 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.

I. Commitments and Contingencies

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

J. Securities Lending Transactions

Under the authority of the Treasurer's published investment policy that was developed in accordance with the State statute, 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 Group to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2011 and 2010, Deutsche Bank Group lent U.S. agency 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 market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

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

During the fiscal year, 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 Group 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 invested in repurchase agreements and the value of securities on loan for the State Treasurer as of June 30, 2011 were $3,456,373,500 and $3,446,138,880, respectively. The total collateral held and the value of securities on loan for the State Treasurer as of June 30, 2010 were $3,107,545,325 and $3,095,533,634, respectively. Securities on loan are reported at market value with the exception of US Treasury Bills and US Agency Discount notes which are reported at amortized cost.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2011 arising from securities lending agreements to the various funds of the State. The total allocated to the Community College Health Insurance Security Fund at June 30, 2011 was $745 thousand.

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

(amounts expressed in thousands)
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-- Projected Unit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
6/30/2007	$ 9,562	$ 1,846,969	$ 1,837,407	0.52%	$ 740,214	248.23%
6/30/2009	$ 1,446	$ 1,894,272	$ 1,892,826	0.08%	$ 903,257	209.56%
6/30/2011	$ (19,657)	$ 2,053,133	$ 2,072,790	-0.96%	$ 922,823	224.61%

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS
AND OTHER CONTRIBUTING ENTITIES
(amounts expressed in thousands)
(Unaudited)

Year Ended June 30	Annual Required Contribution	State Contributions	State Percentage Contributed	Employer's Contributions	Employer's Percentage Contributed	Medicare Part D Contributions	Medicare Part D Percentage Contributed
2007	$ 178,542	$ 3,707	2.08%	$ 3,645	2.04%	$ 1,343	0.75%
2008	$ 185,683	$ 4,740	2.55%	$ 3,716	2.00%	$ 1,737	0.94%
2009	$ 188,466	$ 3,916	2.08%	$ 3,646	1.93%	$ 2,013	1.07%
2010	$ 196,947	$ 4,059	2.06%	$ 3,966	2.01%	$ 2,267	1.15%
2011	$ 182,236	$ 5,237	2.87%	$ 4,090	2.24%	$ 2,219	1.22%

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

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

Honorable William G. Holland
Auditor General
State of Illinois

We have audited the Community College Health Insurance Security Fund of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2011, and have issued our report thereon dated April 10, 2012. 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

Management of the State of Illinois, Department of Healthcare and Family Services is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting of the Community College Health Insurance Security Fund as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but 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 11-1 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' Community College Health Insurance Security Fund financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State of Illinois, Department of Healthcare and Family Services' 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' responses and, accordingly, we express no opinion on them.

Bruce L. Bullard

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

April 10, 2012

11-1. **FINDING** (Financial statement preparation)

The Illinois Department of Healthcare and Family Services' (Department) did not complete the Community College Health Insurance Security Fund's (Fund) financial statements in a timely manner.

During our audit of the June 30, 2011 Fund financial statements, we noted a complete set of the Fund's financial statements were not provided to the auditors until January 17, 2012, six and a half months after the year end.

In addition, to complete the Fund's financial statements, the Department was required to obtain and include in the Fund's financial statements actuarial valuations for purposes of complying with the requirements of Statement No. 43 of the Governmental Accounting Standards Board. The draft actuarial valuation was not available to the auditors until January 27, 2012 and the final actuarial valuation was not provided until February 27, 2012, eight 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 also sets due dates for the financial information to be submitted in order for the Statewide and the Fund's financial statements to be prepared and audited within a specified timeline to provide the financial statements to users in a timely manner.

Department management stated the completed financial statements were not timely due to the inclusion of the GASB 43 valuation disclosures. The GASB 43 valuation was not completed until January 27, 2012 due to the conjunctive efforts needed by the Department, the State Universities Retirement System and the actuary. The data required for the completion of the valuations was not available from all of the pension systems until after November 17, 2011. Once this data was submitted to the actuarial firm, the first drafts of the valuations were completed within 8 weeks. Upon completion, the valuations were reviewed, variances were calculated and explained, and random sampling was completed to attain a level of reasonableness at the data level.

The Fund's actuarial valuation is not completed independently of other State actuarial valuations due to reciprocal service for the participants between the three pension systems. This results in an extensive review of the appropriate presentation of each participant and requires all valuations to be approved prior to the release of any one valuation.

Failure to implement appropriate internal controls and provide timely financial information could lead to future misstatements of the State-wide and the Fund's financial statements. (Finding Code No. 11-1)

RECOMMENDATION

We recommend the Department implement additional internal control procedures to ensure Fund financial statements are prepared in a timely manner.

DEPARTMENT RESPONSE

The Department accepts the recommendation. The Department is continually assessing the financial reporting process and implementing procedures to improve upon timeliness.