



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND

Financial Audit
For the Year Ended June 30, 2015

Release Date: April 21, 2016

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	0	1	No Repeat Findings			
Category 2:	0	0	0				
Category 3:	0	0	0				
TOTAL	1	0	1				
FINDINGS LAST AUDIT: 0							

INTRODUCTION

This digest covers our financial audit of the Local Government Health Insurance Reserve Fund for the year ended June 30, 2015.

SYNOPSIS

- **(15-1)** The Department failed to establish a reasonable estimation methodology for certain rebate receivables resulting in a \$59 thousand understatement of receivables at June 30, 2015.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Expenditures and Activity Measures are summarized on next page.}

**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2015**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION (expressed in thousands)	Fiscal Year 2015	Fiscal Year 2014
OPERATING REVENUES		
Charges for sales and services.....	\$ 37,341	\$ 35,324
OPERATING EXPENSES		
Benefit payments and refunds.....	36,890	32,411
Depreciation.....	-	3
General and administrative.....	993	1,268
Total operating expenses.....	<u>37,883</u>	<u>33,682</u>
Operating income (loss).....	(542)	1,642
NONOPERATING REVENUES (EXPENSES)		
Interest and investment income.....	21	16
Interest expense.....	(12)	(15)
Other revenues.....	58	51
Other expenses.....	-	(9)
Changes in net position.....	(475)	1,685
Net Position, July 1,.....	<u>2,492</u>	<u>807</u>
NET POSITION, JUNE 30.....	<u><u>\$ 2,017</u></u>	<u><u>\$ 2,492</u></u>

SUPPLEMENTARY INFORMATION	Fiscal Year 2015	Fiscal Year 2014
Number of local governmental entities participating.....	260	318
Approximate number of employees covered.....	2,798	2,688
Approximate number of dependents covered.....	1,847	1,736
Approximate number of retirees covered.....	204	129

AGENCY DIRECTOR
During Examination Period: Simone McNeil - Acting (10/5/13 through 1/12/15) Ngozi Okorafor - Acting (1/13/15 through 1/25/15) Tom Tyrrell - Acting (1/25/16 through 4/29/15); Tom Tyrrell (4/30/15 through 1/15/16) Currently: Michael Hoffman - Acting

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**FAILURE TO ESTABLISH REASONABLE
ESTIMATION METHODOLOGY**

**Receivables understated by \$59
thousand**

The Department failed to establish a reasonable estimation methodology for certain rebate receivables resulting in a \$59 thousand understatement of receivables at June 30, 2015.

**Department failed to consider
changes in relevant factors between
years**

The Department receives formulary rebates from its pharmacy benefit vendor. Under the terms of the contract, the Department is guaranteed a minimum rebate amount per claim processed and paid. Following the end of each contract year, the vendor calculates the actual rebates earned by the State for utilization by its members and determines the amount due to the State. The vendor has 180 days after contract year-end to pay the amount due to the State. Due to proprietary and confidential contractual agreements entered into by the vendor, the Department does not have the ability to independently calculate the formulary rebate due at each year-end. It has been the Department's practice to record current year receivables at the amount of the formulary rebate payment received for the prior year. Specifically, the rebate receivables of \$312 thousand at June 30, 2015 were the amount of the formulary rebate payment related to fiscal year 2014 activity received in fiscal year 2015. The Department failed to consider any changes in relevant factors between fiscal years 2014 and 2015 in estimating the rebates to be received for fiscal year 2015. Such factors might include the number of claims processed and paid, the average cost per claim, the average number of plan members, or other historical trends such as rebates received as a percentage of total claims expense. Rebate reports received from the vendor on December 30, 2015 showed the actual rebate payment to be \$371 thousand. The Department deemed this error to be immaterial and did not revise the financial statements. (Finding 1, pages 20-21).

We recommended the Department establish a process for preparing reasonable accounting estimates. Such processes normally consist of identifying relevant factors that may affect the accounting estimate; accumulating relevant, sufficient, and reliable data on which to base the accounting estimate; developing assumptions that represent management's judgment of the most likely circumstances and events with respect to the relevant factors; and determining the estimated amount based on the assumptions and relevant factors. In the event amounts are not reasonably estimable, the Department should consider the need to disclose the significance and uncertainty of those estimates.

Department agrees with auditors

Department management agreed with our recommendation and stated it has remedied the situation through a new contract

requirement for the vendor to provide the necessary information within 60 days.

AUDITOR'S OPINION

Our auditors stated the financial statements of the Local Government Health Insurance Reserve Fund as of June 30, 2015, and for the year then ended, are fairly stated in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:SKM

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this audit were Sikich, LLP.