

**State of Illinois
DEPARTMENT OF
CENTRAL MANAGEMENT SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE
SECURITY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2016**

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

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2016

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STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND

AGENCY OFFICIALS

Director	Michael Hoffman, Acting (1/16/16 – present) Tom Tyrrell (4/30/15 – 1/15/16)
Assistant Directors	Markus Veile (1/20/15 – present) Kimberly McCullough-Starks (3/23/15 – 7/25/16)
Chief Administrative Officer	Vacant
Chief Operating Officer	Jennifer Waldinger (6/30/15 – present)
Chief Fiscal Officer	Karen Pape (3/3/15 – present)
General Counsel	Ryan Green, Acting (11/1/16 – present) LaShonda Hunt, Acting (7/1/16 – 10/31/16) Mike Basil (2/9/15 – 7/1/16)
Chief Internal Auditor	Jack Rakers, Acting (1/2/17 – present) Deborah Abbott (3/1/13 – 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
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2016

FINANCIAL STATEMENT REPORT

SUMMARY

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

Based on their audit, the auditors expressed an unmodified 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 material weakness. The material weakness is described in the accompanying Schedule of Findings on pages 20-21 of this report as item:

2016-001 Weaknesses in internal control over financial reporting

EXIT CONFERENCE

The Department waived an exit conference. The response to the recommendation was provided by Mr. Michael Hoffman, Acting Director, on January 31, 2017.

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 Community College Health Insurance Security Fund of the State of Illinois, Department of Central Management Services, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Community College 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 Community College Health Insurance Security Fund of the State of Illinois, Department of Central Management Services, as of June 30, 2016, 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 Community College Health Insurance Security Fund of the State of Illinois, Department of Central Management Services 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, 2016, 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.

As discussed in Note 9 to the financial statements, the Community College Health Insurance Security Fund experienced a net shortfall of approximately \$2.639 million for the year ended June 30, 2016 and has a deficit position of \$29.413 million as of June 30, 2016. The factors contributing to the deficit are 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 Funding Progress and Schedule of Contributions from Employers and Other Contributing Entities on pages 16-17 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 Community College 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 our report dated February 7, 2017 on our consideration of the Community College Health Insurance Security Fund of the State of Illinois, Department of Central Management Services' internal control over financial reporting of the Community College 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 Community College Health Insurance Security Fund and its compliance.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
February 7, 2017

BASIC FINANCIAL STATEMENTS

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
STATEMENT OF PLAN NET POSITION
June 30, 2016

(amounts expressed in thousands)

Assets	
Cash and Short-term Investments	\$ 3,888
Securities Lending Collateral Equity with State Treasurer	549
Receivables:	
Employer	185
Employee	185
Federal Government Medicare Part D	16
Interest	1
Other Receivables	216
Total Receivables	603
 Total Assets	 5,040
 Liabilities	
Accounts Payable and Other	33,815
Due to Other Government - Federal	58
Due to Other Funds	28
Obligations under Securities Lending of State Treasurer	549
Total Current Liabilities	34,450
 Long-term Compensated Absences	 3
Total Liabilities	34,453
 Net Position held in Trust for Other Postemployment Benefits	 \$ (29,413)

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

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
STATEMENT OF CHANGES IN PLAN NET POSITION

For the Year Ended June 30, 2016

(amounts expressed in thousands)

Additions

Contributions		
Employer	\$	4,417
State		4,625
Plan Members		
Actives		4,417
Retirees		12,284
Federal Government Medicare Part D		157
Total Contributions		<u>25,900</u>
Interest Income		<u>9</u>
Total Additions		<u>25,909</u>

Deductions

Benefit Payments and Refunds		26,608
General and Administrative Expense		1,940
Total Deductions		<u>28,548</u>

Net Additions / (Deductions) (2,639)

**Net Position held in Trust for Other
Postemployment Benefits**

-

Net Position, July 1, 2015		(26,774)
Net Position, June 30, 2016	\$	<u>(29,413)</u>

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

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

1) Organization

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. Additions 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, dental 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. As a result of the Governor's Executive Order 12-01, the responsibilities in relation to CCHISF 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 State Universities Retirement System and the boards of trustees of the various community college districts.

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
- 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, CCHISF has no component units and is not a component unit of any other entity. However, because CCHISF is not legally separate from the State of Illinois, the financial statements of the CCHISF 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 CCHISF 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 CCHISF. They do not purport to, and do not, present fairly the financial position of the Department as of June 30, 2016, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

c) Measurement Focus and Basis of Accounting

CCHISF'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 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.

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

Compensated absences reported in the statement of plan net position consist 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.

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 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.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

3) Contribution Information

Membership in the plan consisted of the following at June 30, 2015:

Retirees and beneficiaries receiving benefits	6,675
Waived retirees who may elect healthcare coverage in the future	1,698
Terminated plan members entitled to but not yet receiving benefits	3,871
Active plan members	<u>22,059</u>
Total	<u>34,303</u>
 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 0.5% 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 0.5% 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 Director of the Department 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 June 30, 2016, member annuitants (including their dependent beneficiaries) contributed \$12.284 million, or approximately 47.72% of total premiums through their required contributions, ranging from \$108 to \$110 per month per retiree, and from \$432 to \$442, per month per dependent beneficiary (assuming Medicare eligibility). Non-Medicare eligible members' required contributions ranged from \$104 to \$431 per retiree and from \$415 to \$1,724 per dependent family members. Active employees contributed \$4.417 million, or approximately 17.16% of total premiums, representing 0.5% of their salaries, and participating college districts contributed \$4.417 million, or 17.16% of total premiums, representing their required 0.5% contribution. The State contributed \$4.625 million, or approximately 17.97% of total premiums, representing their required contribution of 0.5% of estimated active employee salaries. The fund received \$157 thousand in Medicare Part D subsidy payments from the federal government.

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 \$2.942 million at June 30, 2016.

STATE OF ILLINOIS
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COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

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, 2016, the Department had the following investments in the Illinois Public Treasurers' Investment Pool:

	<u>Fair Value (Thousands)</u>	<u>Weighted Average Maturity (Years)</u>
Illinois Public Treasurers' Investment Pool	\$ 946	0.122
Total fixed income investments	<u>\$ 946</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.

c) Reconciliation to Statement of Net Position

	<u>Deposits (Thousands)</u>	<u>Investments (Thousands)</u>
Amounts per Note 4(a):		
Cash Equity with State Treasurer	\$ 2,942	\$ -
Amounts per Note 4(b):		
Cash Equivalents – Illinois Funds	-	946
Reconciling Items	<u>946</u>	<u>(946)</u>
Total per Statement of Net Position	<u>\$ 3,888</u>	<u>\$ -</u>

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
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NOTES TO THE FINANCIAL STATEMENTS
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d) Securities Lending Transactions

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 2016 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 on loan amounts of available and eligible securities during fiscal year 2016. 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. Moreover, there were no losses during fiscal year 2016 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2016, 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 invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2016 were \$2,603,015,000 and \$2,587,869,617, respectively.

5) 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, 2014, 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)
6/30/14	\$(18,613)	1,662,148	1,680,761	-1.12%	969,727	173.32%

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.

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

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	6/30/14
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	8.5% grading down .5% per year for one year and .09% for one year .05% over 6 years - Pre-Medicare Medical/Rx Initial 8.5% grading down .5% per year over 8 years to 4.5% - Post-Medicare Medical/Rx Initial 7.5% grading down .5% per year over 5 years to 5.0% - Dental Initial 3.0% - Vision Initial 5.0% for 8 years grading down to 4.5% in the 9 th year - Ultimate

*The participating employers are not expected to make additional contributions to advance-fund the benefit obligation. The interest rate used to calculate the present value and cost should be consistent with assets supporting liabilities, which for this case is the long-range expected return on short-term fixed income instruments. The plan sponsor has selected an interest discount rate of 4.5 percent for this purpose.

6) Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2016, were as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Amounts Due Within One Year
Compensated Absences	\$4	\$9	\$10	\$3	\$0
Total	\$4	\$9	\$10	\$3	\$0

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

7) Pension Plan

The vested full-time employees paid from CCHISF 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 2016 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2016. 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 2016, the employer contribution rate was 45.598%. 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 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 Central

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

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 Street, Springfield, Illinois, 62706-4100.

9) Fund Deficit

For the fiscal year ending June 30, 2016, total benefits and expenses were \$28.548 million which were financed by \$4.625 million in State contributions, \$4.417 million in employer contributions, \$157 thousand in the federal government Medicare Part D subsidy, \$4.417 million in active member contributions, and \$12.284 million in retired member contributions, resulting in a net shortfall of \$2.639 million. Net position as of June 30, 2016 was a deficit of \$29.413 million.

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 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.

10) Contingencies

The Department is a party to numerous legal proceedings, many of which occur normally 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
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
(amounts expressed in thousands)
(unaudited)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)-- Projected Unit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
6/30/2011	\$ (19,657)	\$ 2,053,133	\$ 2,072,790	-0.96%	\$ 922,823	224.61%
6/30/2013	\$ (13,238)	\$ 2,382,196	\$ 2,395,434	-0.56%	\$ 983,286	243.62%
6/30/2014	\$ (18,613)	\$ 1,662,148	\$ 1,680,761	-1.12%	\$ 969,727	173.32%

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

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>State Contributions</u>	<u>State Percentage Contributed</u>	<u>Employer's Contributions</u>	<u>Employer's Percentage Contributed</u>	<u>Medicare Part D Contributions</u>	<u>Medicare Part D Percentage Contributed</u>
2014	\$ 171,062	\$ 4,399	2.57%	\$ 4,396	2.57%	\$ 1,611	0.94%
2015	\$ 133,843	\$ 4,479	3.35%	\$ 4,295	3.21%	\$ 271	0.20%
2016	\$ 141,966	\$ 4,625	3.26%	\$ 4,417	3.11%	\$ 157	0.11%

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 Community College Health Insurance Security Fund of the State of Illinois, Department of Central Management Services, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Community College Health Insurance Security Fund of the State of Illinois, Department of Central Management Services' financial statements, and have issued our report thereon dated February 7, 2017.

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 2016-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Community College 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 provision 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' responses to the finding identified in our audit are described in the accompanying schedule of findings. The Department of Central Management Services' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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
February 7, 2017

SCHEDULE OF FINDINGS

CURRENT FINDINGS – Government Auditing Standards

2016-001 **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 (IOC) contained a material error in the determination of certain year-end account balances for the Community College Health Insurance Security Fund.

The Department understated receivables and contributions by \$370 thousand due to the failure to record employer and member State University Retirement System (SURS) contributions receivable. The Department revised the applicable financial statements for this error.

The 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 the omission was due to oversight.

As a result of this error, the Department's GAAP reporting package for the Community College Health Insurance Security Fund was inaccurate and required corrections which delayed completion and testing of the financial statements. (Finding Code No. 2016-001)

RECOMMENDATION

We recommend the Department implement procedures and cross-training measures to ensure required financial information is prepared 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, supervisory review of supporting spreadsheets for data accumulation, and the preparation of management estimates.

DEPARTMENT RESPONSE

The Department agrees with the finding and recommendation. The Department will continue to update its financial reporting procedures to help ensure accurate and reliable financial information is prepared and submitted to the Office of the Comptroller.

PRIOR FINDINGS NOT REPEATED

A. **FINDING** (Failure to establish reasonable estimation methodology)

During the prior audit, auditors found the Department failed to establish a reasonable estimation methodology for certain rebate receivables resulting in a \$581 thousand overstatement of receivables at June 30, 2015. The overstatement was the result of the Department's practice of recording current year receivables at the amount of the formulary rebate payment received for the prior year without consideration of changes in relevant factors affecting the amounts to be received at each fiscal year end.

For the current audit period, the Department contracted with a new prescription benefits manager which makes rebate payments more timely allowing the Department to record a receivable for the amount received subsequent to year-end but before the financial statements are issued.

(Finding Code No. 2015-001)