



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

FINANCIAL AUDIT

For the Year Ended June 30, 2022

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



SIKICH.COM

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2022

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STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2022

AGENCY OFFICIALS

Director (Acting) (1/21/2023 – Present)	Ms. Raven DeVaughn
Director (Acting) (6/13/2022 – 1/20/2023)	Mr. Anthony Pascente
Director (7/1/2021 – 6/12/2022)	Ms. Janel Forde
Assistant Director (3/28/2022 – Present)	Mr. Mark Mahoney
Assistant Director (Acting) (7/1/2021 – 3/27/2022)	Mr. Mark Mahoney
Assistant Director (1/21/2023 – Present)	Vacant
Assistant Director (Acting) (9/7/2021 – 1/20/2023)	Ms. Raven DeVaughn
Chief of Staff (2/16/2023-Present)	Patrick Nolan
Chief of Staff (6/13/2022 – 2/15/2023)	Vacant
Chief of Staff (7/1/2021 - 6/12/2022)	Mr. Anthony Pascente
Chief Administrative Officer	Ms. Sarah Kerley
Chief Operating Officer (1/21/2023 – Present)	Vacant
Chief Operating Officer (7/1/2021 – 1/20/2023)	Ms. Aysegul Kalaycioglu
Chief Financial Officer	Ms. Karen Pape
General Counsel	Mr. Terrence Glavin
Chief Internal Auditor	Mr. Jack Rakers

Agency main offices are located at:

State of Illinois Building
555 W. Monroe Street
Chicago, Illinois 60661

William G. Stratton Building
401 S. Spring Street
Springfield, Illinois 62706

**STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2022**

FINANCIAL STATEMENT REPORT

SUMMARY

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

Based on their audit, the auditors expressed an unmodified opinion on the Local Government Health Insurance Reserve Fund's financial statements.

SUMMARY OF FINDINGS

Number of	<u>Current Report</u>	<u>Prior Report</u>
Findings	1	0
Repeated Findings	0	0
Prior Recommendations Implemented or Not Repeated	0	1

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Pages</u>	<u>Last/First Report</u>	<u>Description</u>	<u>Finding Type</u>
CURRENT FINDINGS				
2022-001	23-24	New	Inadequate controls over change management	Significant Deficiency

EXIT CONFERENCE

The Department waived an exit conference in a correspondence from Amy Lange, Audit Liaison on February 10, 2023. The response to the recommendation was provided by Amy Lange, Audit Liaison, in a correspondence dated February 23, 2023.

3051 Hollis Drive, 3rd Floor
Springfield, IL 62704
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INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Audit of the Financial Statements

Opinion

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Local Government Health Insurance Reserve Fund (Fund) of the State of Illinois, Department of Central Management Services (Department), as of and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Fund of the Department, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois or the Department, as of June 30, 2022, and the respective changes in its financial position or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Further, as discussed in Note 2 to the financial statements, in Fiscal Year 2022, the Department adopted new accounting guidance from GASB Statement No. 87, *Leases*, which is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this statement resulted in the restatement of the notes to the financial statements but had no impact on the Department's beginning net position as discussed in Note 11. Our opinion was not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgement and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Claims for Active Employees for the Ten Years Ended June 30, 2022 on page 20 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 a management's discussion and analysis for the 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 financial statements of the Fund 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 March 17, 2023, on our consideration of the Department's internal control over financial reporting of the 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 solely 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 effectiveness of the Department's 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 Department's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
March 17, 2023

FINANCIAL STATEMENTS

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
STATEMENT OF NET POSITION
June 30, 2022

(Expressed in Thousands)

ASSETS

Cash Equity with State Treasurer	\$ 5,322
Cash and Cash Equivalents	1,886
Securities Lending Collateral Equity with State Treasurer	801
Due from Other Government - Federal	12
Due from Other Government - Local	515
Other Receivables, net	364
Total Current Assets	8,900
 Capital assets being depreciated, net	 1
Total Assets	8,901

LIABILITIES

Accounts Payable and Accrued Liabilities	2,120
Due to Other State Funds	11
Unearned Revenue	20
Obligations under Securities Lending of State Treasurer	801
Current Portion of Leases Payable	1
Current Portion of Long-term Obligations	4
Total Current Liabilities	2,957
 Noncurrent Portion of Long-term Obligations	 36
Total Liabilities	2,993

NET POSITION

Unrestricted	5,908
Total Net Position	\$ 5,908

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

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
For the Year Ended June 30, 2022

(Expressed in Thousands)

OPERATING REVENUES

Charges for Sales and Services	\$ 32,829
Total Operating Revenues	32,829

OPERATING EXPENSES

Benefit Payments and Refunds	32,167
Depreciation	2
General and Administrative	1,508
Total Operating Expenses	33,677

Operating Income (Loss)	(848)
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NONOPERATING REVENUES (EXPENSES)

Interest and Investment Income	25
Interest Expense	(34)
Other Revenues	6
	6

Change in Net position	(851)
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Net Position, July 1, 2021	6,759
NET POSITION, JUNE 30, 2022	\$ 5,908

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

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022

(Expressed in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from sales and services	\$ 32,532
Cash payments to suppliers for goods and services	(34,026)
Cash payments to internal service funds	(217)
Cash payments to employees for services	(745)
Cash receipts from other operating activities	<u>1,520</u>
Net Cash Provided (used) by Operating Activities	<u>(936)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Interest paid on other borrowings	-
Operating grants received	<u>-</u>
Net Cash Provided (used) by Noncapital Financing Activities	<u>-</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Principal paid on capital debt	<u>(2)</u>
Net cash (used) by capital and related financing activities	<u>(2)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest and dividends on investments	<u>22</u>
Net Cash Provided (used) by Investing Activities	<u>22</u>

Net Increase (Decrease) in Cash and Cash Equivalents (916)

Cash and Cash Equivalents, July 1, 2021 8,124

CASH AND CASH EQUIVALENTS, JUNE 30, 2022 \$ 7,208

Reconciliation of cash and cash equivalents to the Statement of Net Assets:

Total cash and cash equivalents per the Statement of Net Position	\$ 1,886
Add: cash equity with State Treasurer	<u>5,322</u>

CASH AND CASH EQUIVALENTS, JUNE 30, 2022 \$ 7,208

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

OPERATING INCOME (LOSS) \$ (848)

Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Changes in assets and liabilities:	
Depreciation	2
(Increase) decrease in accounts receivable	63
(Increase) decrease in intergovernmental receivables	(268)
(Increase) decrease in prepaid expenses	1,488
Increase (decrease) in accounts payable and accrued liabilities	(1,304)
Increase (decrease) in intergovernmental payables	(1)
Increase (decrease) in due to other funds	(48)
Increase (decrease) in unearned revenues	(32)
Increase (decrease) in other liabilities	<u>12</u>
Total adjustments	<u>(88)</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES \$ (936)

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

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

1) Organization

The Local Government Health Insurance Reserve Fund (LGHIRF) was established to provide health and dental insurance to participating local governmental entities. The fund is part of the primary government of the State of Illinois. As a result of the Governor's Executive Order 12-01, the responsibilities in relation to LGHIRF were transferred to the Department of Central Management Services (Department) as of July 1, 2013. The Department is responsible for the financial reporting of the fund.

As of June 30, 2022, there were 204 local governmental entities participating with approximately 1,687 employees, 1,136 dependents and 94 retirees covered. Each participating local governmental unit is required to enter into a written agreement with the Department. The agreement sets forth the responsibilities of both parties. The Department administers the Local Government Health Insurance Plan.

The responsibilities required of the Department are:

- Setting and adjusting premium rates
- Billing and collecting monthly premiums from local governmental units
- Enrollment and termination of members and dependents after notification by the local governmental unit
- Establishment of a Local Government Health Plan Advisory Board, consisting of seven advisors from the participating local governmental units
- Establishment of the Local Government Health Insurance Reserve Fund
- Processing and paying authorized claims

The responsibilities required of the local governmental units are:

- Enrollment of all employees and dependents that meet eligibility guidelines and who elect to participate
- Collection and transmission of monthly member and dependent premiums
- Designation of Health Plan Representative
- Participation in the program for a minimum of two years

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.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

2) Summary of Significant Accounting Policies (Continued)

a) Financial Reporting Entity (Continued)

Based upon the required criteria, the LGHIRF has no component units and is not a component unit of any other entity. However, because the LGHIRF is not legally separate from the State of Illinois, the financial statements of the LGHIRF are included in the financial statements of the State of Illinois as a non-major enterprise fund. The State of Illinois' Annual Comprehensive 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 LGHIRF administered by the State of Illinois, Department of Central Management Services. They are intended to present the financial position, the changes in financial position, and the cash flows of only the LGHIRF. They do not purport to, and do not, present fairly, the financial position of the State of Illinois or the Department as of June 30, 2022 and the changes in financial position and cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

c) Measurement Focus and Basis of Accounting

The LGHIRF prepares its financial statements in accordance with Government Accounting Standards Board (GASB) Statement Nos. 10, 29, 30 and 34.

GASB 10 and 30 provide accounting and reporting standards that apply to public entity risk pools and require public entity risk pools to account for their activities using proprietary fund accounting. Proprietary activities are accounted for using the economic resources measurement focus and the accrual basis of accounting.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

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 equity with State Treasurer and cash in banks for locally held funds.

e) 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.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

2) Summary of Significant Accounting Policies (Continued)

f) Capital Assets

Capital assets, which includes property, plant, and equipment, are reported at cost or estimated historical cost based on appraisals. Contributed assets are reported at acquisition value at the time received. Capital assets are depreciated using the straight-line method.

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life (in years)
Equipment	\$5,000	3-10 years

g) Leases

The LGHIRF is a lessee for non-cancellable leases of equipment. The Department recognizes a lease liability and an intangible right to use lease asset in the financial statements. The Department recognizes lease liabilities with an initial, individual value of \$25,000 or more. At the commencement of a lease, the Department initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the asset useful life or the lease term.

h) Compensated Absences

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

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.

i) Net Position

In the LGHIRF, equity is displayed as unrestricted. This consists of net position that does not meet the definition of "restricted" or the "net investment in capital assets."

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

2) Summary of Significant Accounting Policies (Continued)

j) Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of 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.

k) Health Benefits Claims Processing

The State Employees Group Insurance Act of 1971 (5 ILCS 375) establishes the Department's responsibility for administering the State's health benefit programs. The Department contracts with third-party administrators to process health, dental, and prescription claims submitted by healthcare service providers relating to the applicable self-insured portions of the health benefit programs accounted for in the Local Government Health Insurance Reserve Fund. It is the Department's policy to recognize claims expense and accrue any unpaid liability relating to claims incurred but not reported (IBNR) based on actuarial projections and reports of processed claims provided by the third-party administrators.

3) 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, is available within the State of Illinois' Annual Comprehensive Financial Report.

Cash on deposit with the State Treasurer totaled \$5.322 million at June 30, 2022.

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.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

3) Deposits and Investments (Continued)

b) Investments (Continued)

As of June 30, 2022, the Department had the following investments outside of the State Treasury:

	Fair Value (Thousands)	Weighted Average Maturity (Years)
Illinois Public Treasurers' Investment Pool	<u>\$1,886</u>	0.166
Total fixed income investments	<u>\$1,886</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 AAmmf by Fitch Ratings.

Custodial Credit Risk: The Department does not have a formal investment policy which restricts investments to address custodial credit risk. Custodial credit risk is the risk that, in the event of failure of the counterparty to a transaction, the Department would not be able to recover the value of investments or collateral securities in the possession of an outside party.

The Illinois Public Treasurers' Investment Pool, known as The Illinois Funds, operates as a qualified external investment pool in accordance with the criteria established in GASB Statement No. 79, Certain External Investment Pools and Pool Participants, and thus, reports all investments at amortized cost rather than market value. The investment in The Illinois Funds by participants is also reported at amortized cost. The Illinois Funds does not have any limitations or restrictions on participant withdrawals. The Illinois Treasurer's Office issues a separate financial report for The Illinois Funds which may be obtained by contacting the Administrative Office at 1 East Old State Capitol Plaza, Springfield, IL 62701.

c) Reconciliation to Statement of Net Position

	Deposits (Thousands)	Investments (Thousands)
Amounts per Note 3(a)(b)	\$5,322	\$1,886
Cash Equivalents	<u>1,886</u>	<u>(1,886)</u>
Total per Statement of Net Position	<u>\$7,208</u>	<u>\$ -</u>

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

3) Deposits and Investments (Continued)

d) Securities Lending Transactions

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

During fiscal year 2022, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during fiscal year 2022 on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during fiscal year 2022 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2022, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2022 were \$4,061,655,934 and \$3,998,567,638, respectively.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2022 arising from securities lending agreements to the various funds of the State. The total allocated to the LGHIRF at June 30, 2022 was \$801 thousand.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

4) Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2022 were as follows:

	Balance July 1, 2021, as restated	Additions	Deletions	Balance June 30, 2022	Amounts Due Within One Year
Lease obligations	\$ 3	\$ -	\$ (2)	\$ 1	\$ 1
Compensated Absences	28	57	(45)	40	4
Total	<u>\$ 31</u>	<u>\$ 57</u>	<u>\$ (47)</u>	<u>\$ 41</u>	<u>\$ 5</u>

5) Risk Pool Disclosure

The LGHIRF had previously contracted with third party reinsurers for reinsurance coverage. However, no such coverage was in place for the year ended June 30, 2022.

The basis used in calculating the estimated liability for future claims is based on claims reported but not paid during the fiscal year plus an estimate of claims incurred but not reported (IBNR). The estimate for claims incurred but not reported was calculated using a factor based on historical experience stated as a percentage of claims reported vs. total claims incurred during the policy cycle. The estimated ultimate cost of settling the claims includes the effect of inflation and other societal and economic factors. For the year ended June 30, 2022, all claims are paid on a two-year claim cycle.

Based on the above method, the liability for future claims (amounts expressed in thousands) at June 30, 2022 is as follows:

Claims incurred and reported but not paid as of June 30	\$ 868
Estimated liability for claims incurred but not reported	<u>1,243</u>
Total estimated liability for future claims	<u>\$ 2,111</u>

A reconciliation of total benefit claim payments and refunds including claims adjustment expense is as follows (amounts expressed in thousands):

Payments made for benefit claims	\$ 33,368
Less: liability for unpaid claims, beginning of year	<u>(3,312)</u>
Subtotal	30,056
Add: liability for unpaid claims, end of year	<u>2,111</u>
Total benefit claim payments and refunds	<u>\$ 32,167</u>

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

5) Risk Pool Disclosure (Continued)

Changes in aggregate liabilities for healthcare claims (amounts expressed in thousands) for the Fund for the year ended June 30, 2022 and 2021 were as follows:

	Healthcare Claims	
	2022	2021
Unpaid claims and claim adjustment expense at beginning of year	\$ 3,312	\$ 3,619
Incurred claim and adjustment expenses:		
Provision for insured claims of the current year	34,096	35,368
Decrease in provisions for claims of prior year	(1,929)	(2,147)
Total incurred claims and claim adjustments	32,167	33,221
Payments:		
Claims and claim adjustment expense attributable to claims of the current year	31,985	32,056
Claims and claim adjustment expense attributable to claims of prior year	1,383	1,472
Total Payment	33,368	33,528
Total unpaid claims and claim adjustments expense at end of year	\$ 2,111	\$ 3,312

6) Pension Plan

The vested full-time employees paid from the LGHIRF 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 2022 are included in the State of Illinois' Annual Comprehensive Financial Report for the year ended June 30, 2022. The SERS issues a separate Annual Comprehensive Financial Report 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' Annual Comprehensive Financial Report. 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 2022, the employer contribution rate was 56.169%. 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.

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7) 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 Annual Comprehensive 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. 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.

8) Contingencies

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

9) Leases

The Department has entered into a lease under LGHIRF for office equipment with remaining lease term less than one year. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered noncancelable leases for financial reporting purposes. The renewal and termination options are not included in the right-to-use asset or lease liability balance until they are reasonably certain of exercise.

The Department's lease contains only fixed lease payments. The equipment lease does not contain variable lease payments.

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LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
NOTES TO THE FINANCIAL STATEMENTS
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9) Leases (Continued)

At June 30, 2022, right-to-use assets under leases (amounts expressed in thousands) are as follows:

Equipment	\$	3
Less: Accumulated Amortization		2
	\$	1

Future minimum commitments (amounts expressed in thousands) for non-cancelable leases as of June 30, 2022, are as follows:

Year Ending June 30	Principal	Interest
2023		
	\$ 1	\$ -
Total Minimum Lease Payments	\$ 1	\$ -

10) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2022, are as follows:

	Balance June 30, 2021, as restated	Additions	Deletions	Net Transfers	Balance June 30, 2022
Capital assets being depreciated:					
Right-to-use leases equipment	\$ 3	\$ -	\$ -	\$ -	\$ 3
Less accumulated amortization:					
Right-to-use leased equipment	-	(2)	-	-	(2)
Total capital assets being depreciated, net	\$ 3	\$ (2)	\$ -	\$ -	\$ 1

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11) Restatement

The certain tables in LGHIRF notes to the financial statements have been restated as of June 30, 2021. Note 4, Long-Term Obligations and Note 10, Capital Assets were restated a result of the following:

(a) Implementation of GASB Statement No. 87, Leases

The LGHIRF notes to the financial statements have been restated as of June 30, 2021 as a result of implementation of GASB Statement No. 87, *Leases*, which requires recognition certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources and or outflows of resources based on the payment provisions of the contract. Implementation of Statement No. 87 had no impact on the LGHIRF beginning net position. Recognition of beginning leased assets and obligations were recognized in the notes to the financial statements as follows:

	<u>Note 4</u>	<u>Note 10</u>
	<u>Long-Term</u>	<u>Capital Assets</u>
	<u>Obligations</u>	<u>Capital Assets</u>
June 30, 2021, as previously reported	\$ 28	\$ -
Implementation of GASB 87 (a)		
Right-to-use leased equipment	-	3
Lease obligations	<u>3</u>	<u>-</u>
June 30, 2021, as restated	<u>\$ 31</u>	<u>\$ 3</u>

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
SCHEDULE OF CLAIMS FOR ACTIVE EMPLOYEES
For the Ten Years Ended June 30, 2022

DEVELOPMENT INFORMATION

The table below illustrates how the Fund's earned required contribution and investment income compared to related costs of loss and other expenses assumed by the Fund as of the following fiscal year ends (expressed in thousands).

The following information for the ten fiscal years ended June 30, 2022

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Net earned required contribution and investment revenue:										
Earned	32,854	36,085	40,233	44,659	45,324	44,104	41,019	37,362	35,340	38,870
Ceded	-	-	-	-	-	-	-	-	-	-
Net earned revenue	<u>32,854</u>	<u>36,085</u>	<u>40,233</u>	<u>44,659</u>	<u>45,324</u>	<u>44,104</u>	<u>41,019</u>	<u>37,362</u>	<u>35,340</u>	<u>38,870</u>
Unallocated expenses	<u>1,510</u>	<u>1,383</u>	<u>1,472</u>	<u>1,758</u>	<u>921</u>	<u>1,299</u>	<u>1,018</u>	<u>1,005</u>	<u>1,286</u>	<u>2,083</u>
Estimated incurred claims and expenses, end of the policy year:										
Incurred	34,096	35,368	36,938	49,274	52,944	47,705	44,219	39,520	35,935	40,742
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred claims	<u>34,096</u>	<u>35,368</u>	<u>36,938</u>	<u>49,274</u>	<u>52,944</u>	<u>47,705</u>	<u>44,219</u>	<u>39,520</u>	<u>35,935</u>	<u>40,742</u>
Paid (cumulative) as of:										
End of policy year	<u>31,985</u>	<u>32,056</u>	<u>33,319</u>	<u>44,666</u>	<u>45,194</u>	<u>39,381</u>	<u>38,101</u>	<u>35,028</u>	<u>32,019</u>	<u>35,135</u>
One year later		<u>33,439</u>	<u>34,791</u>	<u>46,424</u>	<u>46,115</u>	<u>40,680</u>	<u>39,119</u>	<u>36,033</u>	<u>33,305</u>	<u>37,218</u>
Two years later			<u>34,791</u>	<u>46,424</u>	<u>46,115</u>	<u>40,680</u>	<u>39,119</u>	<u>36,033</u>	<u>33,305</u>	<u>37,218</u>
Three years later				<u>46,424</u>	<u>46,115</u>	<u>40,680</u>	<u>39,119</u>	<u>36,033</u>	<u>33,305</u>	<u>37,218</u>
Four years later					<u>46,115</u>	<u>40,680</u>	<u>39,119</u>	<u>36,033</u>	<u>33,305</u>	<u>37,218</u>
Five years later						<u>40,680</u>	<u>39,119</u>	<u>36,033</u>	<u>33,305</u>	<u>37,218</u>
Six years later							<u>39,119</u>	<u>36,033</u>	<u>33,305</u>	<u>37,218</u>
Seven years later								<u>36,033</u>	<u>33,305</u>	<u>37,218</u>
Eight years later									<u>33,305</u>	<u>37,218</u>
Nine years later										<u>37,218</u>
Reestimated ceded losses and expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reestimated incurred claims and expenses:										
End of policy year	<u>34,096</u>	<u>35,368</u>	<u>36,938</u>	<u>49,274</u>	<u>52,944</u>	<u>47,705</u>	<u>44,219</u>	<u>39,520</u>	<u>35,935</u>	<u>40,742</u>
One year later		<u>33,439</u>	<u>34,791</u>	<u>46,424</u>	<u>46,115</u>	<u>40,680</u>	<u>39,119</u>	<u>36,033</u>	<u>33,305</u>	<u>37,218</u>
Two years later			<u>34,791</u>	<u>46,424</u>	<u>46,115</u>	<u>40,680</u>	<u>39,119</u>	<u>36,033</u>	<u>33,305</u>	<u>37,218</u>
Three years later				<u>46,424</u>	<u>46,115</u>	<u>40,680</u>	<u>39,119</u>	<u>36,033</u>	<u>33,305</u>	<u>37,218</u>
Four years later					<u>46,115</u>	<u>40,680</u>	<u>39,119</u>	<u>36,033</u>	<u>33,305</u>	<u>37,218</u>
Five years later						<u>40,680</u>	<u>39,119</u>	<u>36,033</u>	<u>33,305</u>	<u>37,218</u>
Six years later							<u>39,119</u>	<u>36,033</u>	<u>33,305</u>	<u>37,218</u>
Seven years later								<u>36,033</u>	<u>33,305</u>	<u>37,218</u>
Eight years later									<u>33,305</u>	<u>37,218</u>
Nine years later										<u>37,218</u>
Increase (decrease) in estimated incurred claims and expenses from end of policy year	<u>-</u>	<u>\$ (1,929)</u>	<u>\$ (2,147)</u>	<u>\$ (2,850)</u>	<u>\$ (6,829)</u>	<u>\$ (7,025)</u>	<u>\$ (5,100)</u>	<u>\$ (3,487)</u>	<u>\$ (2,630)</u>	<u>\$ (3,524)</u>

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**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 the 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 Local Government Health Insurance Reserve Fund (Fund) of the State of Illinois, Department of Central Management Services (Department), as of and for the year ended June 30, 2022, and the related notes to the financial statements, and we have issued our report thereon dated March 17, 2023.

Report on Internal Control Over Financial Reporting

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting of the Fund (internal control).

In planning and performing our audit of the financial statements, we considered the Department’s internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings as item 2022-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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's Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Department's response to the finding identified in our audit and described in the accompanying Schedule of Findings. The Department's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

SIGNED ORIGINAL ON FILE

Springfield, Illinois
March 17, 2023

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2022

SCHEDULE OF FINDINGS

2022-001. FINDING (Inadequate controls over change management)

The Department of Central Management Services (Department) did not have sufficient controls over their change management procedures.

Change control is the systematic approach to managing changes to an IT environment, applications, or data. The purpose is to prevent unnecessary and/or unauthorized changes, ensure all changes are documented, and minimize any disruptions due to system changes. The Department was unable to provide a complete and accurate population of changes for applications maintained by the Department; therefore, we were unable to perform any testing of the internal controls over changes to the applications and data.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that 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.

The Framework for Improving Critical Infrastructure and the Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology, Configuration Management section, requires entities to document their controls over changes to applications and data to ensure changes are authorized and reviewed.

The State Records Act (5 ILCS 160/8) requires the head of the Department to make and preserve records containing adequate and proper documentation of the functions, decisions, and essential transactions of the Department to protect the legal and financial rights of the State and of persons directly affected by the Department's activities.

Department management indicated the issues noted were due to turnover in the Chief Information Officer position and conflicting priorities.

Failure to implement controls over changes to applications and data could result in unauthorized changes being made. (Finding Code No. 2022-001)

RECOMMENDATION

We recommend the Department implement controls in order to track the changes made to their applications and data.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2022

2022-001. FINDING (Inadequate controls over change management) – Continued

DEPARTMENT RESPONSE

The Department agrees with the finding. The Department will work with the Department of Innovation and Technology to obtain the information needed to implement the controls necessary for tracking changes made to its applications.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
LOCAL GOVERNMENT HEALTH INSURANCE RESERVE FUND
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PRIOR YEAR FINDINGS NOT REPEATED

None