

STATE EMPLOYEE
HEALTH BENEFIT FUND
Columbus, Ohio

Financial Statements, Required Supplementary Information
and Required Reporting Under *Government Auditing Standards*
For the years ended June 30, 2021 and 2020

and Independent Auditor's Report Thereon



Big Thinking. Personal Focus.

www.schneiderdowns.com

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION & ANALYSIS	3
FINANCIAL STATEMENTS	
Statements for the years ended June 30, 2021 and 2020:	
Net Position	7
Revenues, Expenses and Change in Net Position	8
Cash Flows	9
Notes to Financial Statements	10
SUPPLEMENTARY INFORMATION	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	15
Schedule of Findings and Responses	17

INDEPENDENT AUDITOR’S REPORT

Fund Administrator
State Employee Health Benefit Fund
Columbus, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State Employee Health Benefit Fund (the Fund) as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Fund’s 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 audits. We conducted our audits 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 audits 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 Fund’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 Fund’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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State Employee Health Benefit Fund as of June 30, 2021 and 2020 and the respective changes in net position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on Pages 3 through 6 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, which 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2022, on our consideration of the Fund's internal control over financial reporting 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 Fund'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 Fund's internal control over financial reporting and compliance.

Schneider Downs & Co., Inc.

Columbus, Ohio
February 28, 2022

STATE EMPLOYEE
HEALTH BENEFIT FUND

MANAGEMENT'S DISCUSSION & ANALYSIS

This section of the State Employee Health Benefit Fund's (Fund) Financial Report presents management's discussion and analysis of the State Employee Health Benefit Fund's financial performance during the fiscal years ended June 30, 2021 and 2020.

The Management Discussion and Analysis of the Fund's financial performance provides an overall review of the financial activities for the fiscal years ended June 30, 2021 and 2020. The intent of this discussion and analysis is to look at the Fund as a whole. Readers are expected to review the independent auditor's report, financial statements, and the notes to the financial statements to enhance their understanding of the Fund's financial performance.

The Fund was created pursuant to Section 124.87 of the Ohio Revised Code. The Fund is administered by the Human Resources Division of the Department of Administrative Services, which is statutorily responsible for the Fund. The medical, prescription drug, behavioral health, population health, dental and vision plans are funded to provide benefits to current employees and dependents, including board and commission members and COBRA participants.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Annual Report consists of two parts - Management Discussion and Analysis (this section) and the Basic Financial Statements, including notes to the financial statements. The basic financial statements provide both long-term and short-term information about the Fund's overall financial status. Since the Fund uses only one fund for its operations, the entity-wide and the Fund presentation information is the same.

FINANCIAL HIGHLIGHTS

Year Ended 2021:

- The Fund's net position increased by 35.82% or \$71,843,326
- Total assets increased by 28.15% or \$84,524,014
- Total liabilities increased by 12.72% or \$12,680,688
- The estimated liability for pending and unreported claims increased by 13.8%
- Revenues increased by .39% or \$3,719,480
- Expenses increased by 4.76% or \$39,716,904

The Fund's cash balance as of June 30, 2021 was \$341.3 million. Revenues increased 0.39%, while a 0.07% increase was actuarially projected. The 0.32% difference in actual to projected revenue was due to a slight increase in premium rates. Expenses increased by 4.76%, while a 2.0% increase was actuarially projected. The 2.76% difference in projected to actual cost was primarily due to a slight increase in medical claims experienced versus prior trend. As a result, the Fund experienced an operating gain of \$71.8 million for the year ended June 30, 2021.

STATE EMPLOYEE
HEALTH BENEFIT FUND

MANAGEMENT'S DISCUSSION & ANALYSIS

COMPONENTS OF THE STATE OF OHIO EMPLOYEE HEALTH BENEFIT FUND'S ANNUAL FINANCIAL REPORT YEAR ENDED 2021

The required components of the Fund's annual report are the Management's Discussion and Analysis and the basic financial statements, which include notes to the financial statements.

The Fund's Basic Financial Statements include the following information:

- Scope - State Employee Health Benefit Fund.
- Required financial statements - Statements of net position, statements of revenues, expenses and change in net position and statements of cash flows.
- Accounting basis and measurement focus - Accrual accounting and economic resources focus.
- Type of asset/liability information - All assets and liabilities, both financial and capital, and long-term and short-term.
- Type of inflow and outflow information - All revenue and expenses during the fiscal year, regardless of when cash is received or paid.

The Fund's basic financial statements are considered government-wide financial statements. They report about the Fund as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Fund's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of revenues, expenses and change in net position, regardless of when cash is received or paid. The statement of cash flows reconciles the accrual basis change in net position to the cash provided by or used by the Fund.

The two financial statements report the Fund's net assets and how they have changed. Net position, which is the difference between the Fund's assets and liabilities, is a one way to measure the Fund's financial health or position.

- Over time, the increases or decreases in the Fund's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- Assessing the overall health of the Fund requires consideration of financial factors such as market costs, industry healthcare trend, the plan's actual experience and agreements between management and labor.

FINANCIAL ANALYSIS OF THE FUND

Statement of Net Position

The Fund's net position increased by \$71.8 million in fiscal year 2021. Total assets increased by \$84.5 million, and total liabilities increased by \$12.7 million in the same period.

STATE EMPLOYEE
HEALTH BENEFIT FUND

MANAGEMENT'S DISCUSSION & ANALYSIS

FINANCIAL ANALYSIS OF THE FUND (Continued)

	<u>2021</u>	<u>2020</u>
Total assets	\$ 384,800,051	\$ 300,276,037
Total liabilities	112,399,083	99,718,395
Net position	272,400,968	200,557,642

Statement of Revenues, Expenses and Changes in Net Position

The Fund's program revenue increased by .39% or \$3.7 million; revenues are derived primarily from healthcare contributions, collected from employer/employees, agencies, and COBRA participants. Other sources of revenue include pharmacy rebates, performance guarantee payments and interest income. The total expenses of the Fund increased by 4.76% or \$39.7 million; the Fund's expenses include benefit claims payments, administrative fee payments, wellness incentive payments, consulting costs, actuarial studies, reinsurance fees and audits of the Fund.

	<u>2021</u>	<u>2020</u>
Total revenues	\$ 945,739,895	\$ 942,020,415
Total expenses	873,896,569	834,179,665
Change in net position	71,843,326	107,840,750
Ending net position	272,400,968	200,557,642

Operational Analysis

About 42,875 state employees were enrolled in the health plans related to the Fund for Fiscal Year 2021. Fiscal Year 2021 change in net position totaled \$71.8 million. Fund assets of \$384.8 million at the end of Fiscal Year 2021 was sufficient to cover estimated liabilities for reported, pending and unreported claims of \$88.7 million.

FINANCIAL HIGHLIGHTS

Year Ended 2020:

- The Fund's net position increased by 116.3% or \$107,840,750
- Total assets increased by 72.2% or \$125,913,081
- Total liabilities increased by 22.1% or \$18,072,331
- The estimated liability for pending and unreported claims increased by 13% or \$9,020,000
- Revenues increased by 6.4% or \$56,698,927
- Expenses increased by 3.3% or \$27,151,572

The Fund's cash balance as of June 30, 2020 was \$279.1 million. Revenues increased 6.4%, while a 5.3% increase was actuarially projected. The 1.1% difference in projected to actual revenue was due to an increase in prescription drug rebates, as rates remained flat. Plan costs increased by 3.3%, while a 2.4% increase was actuarially projected. The .9% difference in projected to actual cost was primarily due to a slight increase in medical claims experienced versus prior trend. As a result, the Fund experienced an operating gain of \$107.8 million for the year ended June 30, 2020.

STATE EMPLOYEE
HEALTH BENEFIT FUND

MANAGEMENT'S DISCUSSION & ANALYSIS

COMPONENTS OF THE STATE OF OHIO EMPLOYEE HEALTH BENEFIT FUND'S ANNUAL FINANCIAL REPORT YEAR ENDED 2020

FINANCIAL ANALYSIS OF THE FUND

Statement of Net Position

The Fund's net position increased by \$107.8 million in fiscal year 2020. Total assets increased by \$125.9 million, and total liabilities increased by approximately \$18.1 million in the same period.

	<u>2020</u>	<u>2019</u>
Total assets	\$ 300,276,037	\$ 174,362,956
Total liabilities	99,718,395	81,646,064
Net position	200,557,642	92,716,892

Statement of Revenues, Expenses and Changes in Net Position

The Fund's program revenue increased by 6.4% or \$56.7 million; revenues are derived primarily from healthcare contributions, collected from employees, agencies, and COBRA participants. Other sources of revenue include pharmacy rebates, performance guarantee payments and interest income. The total expenses of the Fund increased by 3.4% or \$27.2 million; the Fund's expenses include benefit claims payments, administrative fees, wellness incentives, consulting costs, actuarial studies, ACA reinsurance fees and audits of the Fund.

	<u>2020</u>	<u>2019</u>
Total revenues	\$ 942,020,415	\$ 885,321,488
Total expenses	834,179,665	807,028,093
Change in net position	107,840,750	78,293,395
Ending net position	200,557,642	92,716,892

Operational Analysis

About 44,352 state employees were enrolled in the health plans related to the Fund for Fiscal Year 2020. Fiscal Year 2020 change in net position totaled \$107.8 million. Fund assets of \$300.2 million at the end of Fiscal Year 2020 were sufficient to cover estimated liabilities for reported, pending and unreported claims of \$78 million.

STATE EMPLOYEE
HEALTH BENEFIT FUND

STATEMENTS OF NET POSITION
JUNE 30, 2021 AND 2020

	2021	2020
ASSETS		
CASH AND CASH EQUIVALENTS		
Third-party administrators:		
EyeMed	\$ 52,379	\$ 24,751
OptumRx	1,341,580	-
Investment in STAR Ohio	339,945,190	279,108,466
REBATE RECEIVABLES	43,460,902	21,142,820
Total Assets	384,800,051	300,276,037
LIABILITIES		
Due to third-party administrators:		
Anthem	14,552,462	5,895,755
Medical Mutual of Ohio	8,475,314	8,665,194
Aetna	250,446	250,446
Optum Behavioral Health	244,783	413,271
Delta Dental	15,242	140,715
OptumRX	-	5,958,694
Accounts payable	95,836	396,320
Estimated liability for pending and unreported claims	88,765,000	77,998,000
Total Liabilities	112,399,083	99,718,395
Net Position	\$ 272,400,968	\$ 200,557,642

See notes to financial statements.

STATE EMPLOYEE
HEALTH BENEFIT FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
REVENUES		
Payroll and state contributions:		
Health funds	\$ 850,249,303	\$ 870,114,196
Dental funds	12,571,773	12,578,796
Vision funds	3,517,941	3,518,799
COBRA funds	1,127,168	1,308,012
Total Contributions	<u>867,466,185</u>	<u>887,519,803</u>
Rebates	76,139,704	50,298,106
Interest income	2,134,006	4,202,506
Total Revenues	<u>945,739,895</u>	<u>942,020,415</u>
EXPENSES		
Claims paid:		
Health benefits	614,733,477	583,669,631
Pharmacy prescriptions	191,291,027	180,814,951
Mental health/substance abuse care benefits	18,541,995	18,023,143
Dental benefits	10,428,024	9,395,917
Vision benefits	2,625,081	2,320,879
Total Claims	<u>837,619,604</u>	<u>794,224,521</u>
Change in estimated pending and unreported claims	10,767,000	9,020,000
Third-party administrative fees	16,852,798	18,988,557
Wellness incentives	4,560,325	7,104,260
Wellness vendor services	2,215,436	3,298,652
Consulting	825,136	1,213,029
Other expenses	1,056,270	330,646
Total Expenses	<u>873,896,569</u>	<u>834,179,665</u>
Change In Net Position	71,843,326	107,840,750
NET POSITION		
Beginning of year	<u>200,557,642</u>	<u>92,716,892</u>
End of year	<u>\$ 272,400,968</u>	<u>\$ 200,557,642</u>

See notes to financial statements.

STATE EMPLOYEE
HEALTH BENEFIT FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from payroll and state contributions	\$ 867,466,185	\$ 887,519,803
Cash received from rebates	53,821,622	48,796,875
Cash received from other	2,134,006	4,202,506
Cash paid for claims	(826,852,604)	(785,204,521)
Cash paid for other expenses	<u>(34,363,277)</u>	<u>(30,902,813)</u>
Net Cash Provided By Operating Activities	<u>62,205,932</u>	<u>124,411,850</u>
Net Increase In Cash And Cash Equivalents	62,205,932	124,411,850
 CASH AND CASH EQUIVALENTS		
Beginning of year	<u>279,133,217</u>	<u>154,721,367</u>
End of year	<u>\$ 341,339,149</u>	<u>\$ 279,133,217</u>
 Reconciliation of the change in net position to net cash provided by operating activities:		
Change in net position	\$ 71,843,326	\$ 107,840,750
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Changes in assets and liabilities:		
Rebate receivables	(22,318,082)	(1,501,231)
Accounts payable and third-party payables	1,913,688	9,052,331
Estimated pending and unreported claims	<u>10,767,000</u>	<u>9,020,000</u>
Net Cash Provided By Operating Activities	<u>\$ 62,205,932</u>	<u>\$ 124,411,850</u>

See notes to financial statements.

STATE EMPLOYEE
HEALTH BENEFIT FUND

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 1 - DESCRIPTION OF FUND

The following description of the State Employee Health Benefit Fund (the Fund) provides only general information. Participants should consult their plan document for a more complete description of the Fund. The Fund was created in 1981 pursuant to Section 124.87 of the Ohio Revised Code (ORC). It was established in the State of Ohio (State) treasury to provide State employees with health and other benefits. The Department of Administrative Services (DAS) of the State of Ohio is statutorily responsible for the Fund. The administrator of the Fund is the Human Resources Division (HRD) of DAS.

Eligibility - Permanent full-time and permanent part-time exempt and union employees are eligible for medical benefits on the first day of the month following their date of hire. Part-time temporary employees are eligible for medical coverage only if they average at least 30 service hours per week over a 12-month period. Permanent full-time and permanent part-time exempt employees are eligible for dental and vision benefits on the first day of the month following one full year of continuous State service. Dental and vision benefits for union employees are administered outside of the Fund, through the Union Benefits Trust.

Contributions and Funding - The Fund pays the full cost of certain benefits. State employees are required to make contributions for the full cost or a portion of the cost for other benefits of the Fund, as determined by the Fund administrator.

Benefits - The Fund provides various benefit programs, including medical with prescription drug, behavioral health, and wellness; and vision, dental, and COBRA coverage to its eligible employees and their dependents.

Contributions and Benefit Payments - The amount of contributions and benefit payments depends on the coverages elected by the employee. Some coverages have co-pays, deductibles, coinsurance and out-of-pocket expenses that are payable by the participant. The Fund is self-insured with respect to medical, vision and dental coverage. To the extent that claims paid by the service contractor exceed the Fund assets available, DAS would exercise its authority under uncodified law in Section 271.20 of Am. Sub H. B. No. 49 of the 132nd G. A. or the then-current state operating budget bill to increase appropriation authority in the Fund and to seek legislative or State Controlling Board action to transfer cash into the Fund.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies applied consistently by the Fund in preparation of the accompanying financial statements follows:

Basis of Accounting - The accompanying financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The Fund is accounted for using an economic resources measurement focus. Revenues and expenses are recognized in the period earned or incurred.

STATE EMPLOYEE
HEALTH BENEFIT FUND

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates - The preparation of the financial statements in conformity with U.S. GAAP requires the Fund administrator to make estimates and assumptions that affect the reported amounts of assets, liabilities, benefit obligations and changes therein, unreported claims, claims payable and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents consist of investments held with State Treasury Asset Reserve of Ohio (STAR Ohio) and fixed minimum interest cash balances with various third-party administrators to cover claims. STAR investments are treated as cash and cash equivalents due to their Standard & Poor's AAA money market rating and because investments are generally short-term in nature. Cash deposits in certain financial institutions may exceed federally insured amounts at times.

Payroll Withholdings and State Contributions - Contributions to the self-insured programs are made by employees via payroll deductions and by employer/state agencies via additional contributions and are deemed earned when collected.

Claims Paid - Benefit payments recorded in the accompanying financial statements represent payments made by third-party administrators on behalf of eligible State employees and paid as part of the State's health benefit program.

Claim payments are recorded when paid by the third-party administrator. Amounts due to claims processors that have yet to be reimbursed by the Fund are recorded as payable to the third-party administrator in the accompanying statements of net position. These payments are recorded as claims paid in the accompanying statements of revenues, expenses and change in net position.

Rebates - Rebates due from the Fund's third-party administrators are recorded when earned. Rebates due as of the financial statement date have been reported as rebates receivable and rebates. Management has determined that amounts are fully collectible and no allowance for doubtful accounts has been recorded as of June 30, 2021 and 2020. This estimate could change in future periods.

Pending and Unreported Claims - The Fund accrues for the estimated amounts of claims pending, but unreported. These reserves are established by Fund management based upon the recommendations of actuarial consultants. The actuarial consultants develop this reserve based on the analysis of the historical claim payment pattern to estimate the ultimate paid claims for relatively recent incurral periods that are incomplete or for which the claims payer has not paid all eventual claims. Projected income includes expected employee and employer payroll contributions based on current enrollment. Projected expenses are estimated based on recent experience and expected inflation. These methods rely on the basic assumption that historical payment patterns are consistent and can be used to estimate future claims. Due to the nature of the Fund's operations, the estimated reserve is considered a short-term liability. Actual claim settlements might differ materially from these estimated reserve amounts. As of June 30, 2021 and 2020, the Fund has accrued \$88,765,000 and \$77,998,000, respectively.

STATE EMPLOYEE
HEALTH BENEFIT FUND

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events - Subsequent events are defined as events or transactions that occur after the statement of net position date, but before the financial statements are issued or are available to be issued. Management has evaluated subsequent events through February 28, 2022, the date on which the financial statements were available to be issued.

NOTE 3 - CASH AND CASH EQUIVALENTS

All funds held by the Treasurer of the State of Ohio (Treasurer) and third-party administrators are considered cash and cash equivalents. Investments of the Fund are managed by the Treasurer and are held in the STAR Ohio account. STAR Ohio is structured similarly to a money market account with no restrictions on the number of transfers and no minimum balance required.

Each share has a value of \$1, which is invested in various short-term investments. All investments are held at Huntington National Bank (Bank) in Columbus, Ohio. The Treasurer is the custodian for the Fund's cash balance. The deposits are covered by collateral pledged to the Treasurer and held by third-party trustees pursuant to Section 135.18 of the ORC. The Treasurer requires that depositories pledge collateral with a market value of 100% of deposits and qualifying investments.

GASB Statement No. 3 as amended by GASB Statement No. 40 requires government organizations to disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: credit risk, interest rate and investment maturity, interest rate sensitivity, and foreign exchange exposure.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the State's deposits might not be returned to the State. The Fund does not have a deposit policy for custodial credit risk. As of June 30, 2021 and 2020, the Fund had \$1,393,959 and \$24,751, respectively, in deposits that were held by third-party administrators that are exposed to custodial credit risk.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the State and are held by either a counterparty or the counterparty's trust department or agent, but not in the State's name. As of June 30, 2021 and 2020, the Fund did not have any investments subject to custodial credit risk.

Concentration of Credit Risk - The Fund does not, and is not permitted to, place any investments outside of its STAR Ohio investments.

Credit Risk - Standard & Poor's rating service has assigned STAR Ohio an AAA money market rating as of June 30, 2021.

STATE EMPLOYEE
HEALTH BENEFIT FUND

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

As of June 30, 2021, the Fund had the following investments and maturities:

<u>Investment Fund</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Average Days to Maturity</u>
STAR Ohio	\$ <u>339,945,190</u>	\$ <u>339,945,190</u>	<u>1</u>

As of June 30, 2020, the Fund had the following investments and maturities:

<u>Investment Fund</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Average Days to Maturity</u>
STAR Ohio	\$ <u>279,108,466</u>	\$ <u>279,108,466</u>	<u>1</u>

Interest Rate Sensitivity - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Fund currently limits its investments to funds within STAR Ohio.

[This Page Intentionally Left Blank]

SUPPLEMENTARY INFORMATION

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*

Fund Administrator
State Employee Health Benefit Fund
Columbus, Ohio

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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State Employee Health Benefit Fund (the Fund) as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise the Fund’s basic financial statements, and have issued our report thereon dated February 28, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund’s 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 Fund’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund’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 Fund’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 have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as finding 2021-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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 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 Fund's Response to the Finding

The Fund's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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 Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Schneider Downs & Co., Inc.

Columbus, Ohio
February 28, 2022

STATE EMPLOYEE
HEALTH BENEFIT FUND

SCHEDULE OF FINDINGS AND RESPONSES

Finding No. 2021-001, Financial Reporting

Criteria: The Fund's financial records should contain all necessary account balances and transactions in order to properly state the Fund's net position and change in net position in accordance with accounting principles generally accepted in the United States of America.

Condition: In prior-year audits, we noted that the financial records provided by the Fund did not contain all account balances and needed various adjustments in order to properly balance the statements and report all necessary balances and activities. While we did not experience this issue in the current year, the process to create the financial records used to prepare the financials did not change, and there is the opportunity that the issue could arise in future audits, as sufficient controls to review and approve have not been implemented.

Cause: This condition is caused by the creation of the financial records, which is a very manual process. In addition, there is a lack of adequate review prior to the financial records being submitted for the annual audit.

Effect: There is potential for the Fund's accrual basis financial statements to be misstated.

Identification of a Repeat Finding: This is a repeat finding since 2015.

Recommendation: We recommend that the Fund evaluate implementing accounting software or another format that would, at a minimum, provide some automation of the financial records preparation. In addition, the financial records should be reviewed and approved by management, including, but not limited to, the Deputy Director of DAS-HRD.

Management's Response: Management acknowledges the repeat finding assessed by Schneider Downs & Co., Inc., Finding No. 2021-001, citing a 2015 misstatement risk for accrual basis financial statements that was manually prepared, as well as a recommendation for additional management reviews. Beginning in 2017, DAS implemented additional controls that have greatly reduced the risk of error from the process. In addition, DAS is pleased to report that by implementing additional process changes, no accrual misstatements have been identified in a Health Benefits Fund audit since the reporting period ending June 30, 2017, Finding No. 2017-001. While the process remains partially manual, the addition of checklists and increased internal controls have largely mitigated the risk of misstatement.

After review of the finding, to further strengthen internal controls, DAS HRD Pay Fiscal implemented two new process improvements. The first is the addition of a checklist to provide guidance to DAS PAY Fiscal staff on how to research and resolve any out-of-balance accounts. This enabled the team to ensure all entries have been accurately processed, as well as account for revenues and disbursements-

The second improvement is that Third-Party Administrator (TPA) invoices are reviewed by the Benefits Administration team prior to being processed for payment by the DAS PAY Fiscal unit. Pay Fiscal Management also reviews and approves all payments. In addition, the DAS Pay Fiscal unit shares the reconciled TPA Monthly Financial Reports with the DAS Office of Finance. The DAS Office of Finance performs a second review for accuracy and completeness. Any errors are identified are returned to the DAS PAY Fiscal unit for correction.

STATE EMPLOYEE
HEALTH BENEFIT FUND

SCHEDULE OF FINDINGS AND RESPONSES

Finding No. 2020-001, Financial Reporting (Continued)

The DAS PAY Fiscal unit will work with the DAS Office of Finance to further automate the reporting current fiscal year transactions that are currently added to the financial statements manually and will use the State's business intelligence (BI) tool to build an annual Net Position Report. The financial data will reconcile to the automated cash reports from the State's enterprise accounting system (OAKS). At that time, the State will reassess the risk.