



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND

Financial Audit
For the Year Ended: June 30, 2013

Release Date: April 22, 2014

Summary of Findings:

Total this audit:	1
Total last audit:	0
Repeated from last audit:	0

INTRODUCTION

This report covers our financial audit of the Community College Health Insurance Security Fund for the year ended June 30, 2013. At June 30, 2013 the Net Position Held in Trust for Other Postemployment Benefits reflected a deficit of \$13,238,000. Further, the Schedule of Funding Progress reflects an Unfunded Actuarial Accrued Liability of \$2,395,434,000.

SYNOPSIS

- The Department's determination of unpaid claims liabilities was inadequate and the preparation of financial statements was not timely.

{Financial data and Supplementary Information is summarized on the reverse page.}

**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
COMMUNITY COLLEGE HEALTH INSURANCE SECURITY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2013**

STATEMENT OF CHANGES IN PLAN NET POSITION (expressed in thousands)	Fiscal Year 2013	Fiscal Year 2012
Additions		
Contributions		
Employer.....	\$ 4,148	\$ 4,269
State.....	40,176 *	4,396
Plan Member		
Actives.....	4,148	4,269
Retirees.....	15,833	14,953
Federal government Medicare Part D.....	2,322	2,424
Total contributions.....	<u>66,627</u>	<u>30,311</u>
Interest income.....	26	10
Total additions.....	<u>66,653</u>	<u>30,321</u>
Deductions		
Benefit payments and refunds.....	36,258	45,861
General and administrative.....	5,647	2,789
Total deductions.....	<u>41,905</u>	<u>48,650</u>
Net additions (deductions).....	24,748	(18,329)
Net position held in trust for other postemployment benefits		
Beginning of year.....	(37,986)	(19,657)
End of Year.....	<u>\$ (13,238)</u>	<u>\$ (37,986)</u>

* 2013 State Contributions increased due to a one-time \$36 million contribution

SCHEDULE OF FUNDING PROGRESS (expressed in thousands)	June 30, 2013	June 30, 2011	June 30, 2009
Actuarial Value of Assets.....	\$ (13,238)	\$ (19,657)	\$ 1,446
Actuarial Accrued Liability - Projected Unit.....	\$ 2,382,196	\$ 2,053,133	\$ 1,894,272
Unfunded Actuarial Accrued Liability.....	\$ 2,395,434	\$ 2,072,790	\$ 1,892,826
Funded Ratio.....	-0.56%	-0.96%	0.08%

SUPPLEMENTARY INFORMATION	Fiscal Year 2013	Fiscal Year 2012
Number of retirees and beneficiaries receiving benefits.....	6,555	6,539
Number of waived retirees who may elect healthcare coverage in the future.....	1,499	1,315
Number of terminated plan members entitled to but not yet receiving benefits.....	4,240	4,466
Number of active plan members.....	22,425	22,203
Total.....	<u>34,719</u>	<u>34,523</u>
Number of participating employers.....	39	39

AGENCY DIRECTOR

During Examination Period: Mr. Malcolm Weems (7/1/11 through 10/4/13)

Currently: Ms. Simone McNeil - Acting

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**WEAKNESSES IN INTERNAL CONTROL OVER
FINANCIAL REPORTING**

The Department of Central Management Services' (Department) internal controls over the determination of unpaid claims liabilities were inadequate and preparation of financial statements was not timely.

**Variance between financial and
actuary reports**

During our audit of the June 30, 2013 financial statements we noted the Department conducted an inadequate review of the independent actuarial valuation report for unpaid claims liabilities to evaluate the overall reasonableness of the Department's calculation of unpaid claims liabilities at June 30, 2013. A variance of \$255 thousand was noted between the unpaid claims liabilities calculation for claims reported in the fund as prepared by the Department and the independent actuary. In addition, individual plan variances ranged from the Department calculation exceeding the actuary calculation by \$335 thousand to the actuary calculation exceeding the Department calculation by \$560 thousand. The variances were not adequately evaluated to determine if the Department's calculations were reasonable or if the potential for factors which may cause divergent results were present. Such factors could include, but are not limited to, inaccurate data provided to the actuary or invalid assumptions used in the valuation methodology. In addition, the lack of an adequate evaluation conducted by the Department led to delays in obtaining a timely resolution as to whether the Department's calculation of unpaid claims liabilities for health insurance claims appeared reasonably stated as of June 30, 2013.

**Inadequate evaluation by the
Department**

**Comptroller's office contacted
Department concerning failure to
provide timely information**

Due to delays in the preparation of financial information, Department personnel in the Office of Finance and Management received a memorandum from the Comptroller dated November 4, 2013 noting the following financial information relating to the Community College Health Insurance Security Fund was requested and not received as of the October 31, 2013 due date:

- Community College Insurance Plan of the State of Illinois – GASB No. 45 Actuarial Valuation Report as of June 30, 2013.
- Footnote disclosure and/or supplementary information relating to actuarially calculated amounts for the above listed health insurance plan.

Auditors received financial statements 1 ½ months late

As a result of these deficiencies, auditors did not receive a complete draft of the financial statements and footnotes from the Department until December 20, 2013. (Finding 1, pages 21 – 23)

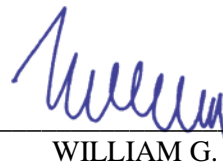
We recommended the Department implement procedures to ensure GAAP Reporting Packages prepared and submitted to the Office of the State Comptroller for financial reporting purposes are complete and accurate and financial statements are completed in a timely manner.

Department agrees with auditors

The Department concurred with the recommendation and stated they will continue to work with the actuary to complete a review of the actuarial evaluation for unpaid claims and with applicable retirement systems that, in addition to CMS, are primarily responsible for providing essential data to the independent actuary for accurate valuation.

AUDITORS' OPINION

Our auditors state the financial statements of the Community College Health Insurance Security Fund as of June 30, 2013, are fairly presented in all material respects.



WILLIAM G. HOLLAND
.. Auditor General

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SPECIAL ASSISTANCE AUDITORS

Sikich LLP were our special assistant auditors.