



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND

Financial Audit
For the Year Ended June 30, 2015

Release Date: April 21, 2016

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

INTRODUCTION

This digest covers our financial audit of the Teacher Health Insurance Security Fund for the year ended June 30, 2015. At June 30, 2015 the Net Position Held in Trust for Other Postemployment Benefits reflected a deficit of \$66,272,000. Further, the Schedule of Funding Progress reflects an Unfunded Actuarial Accrued Liability of \$18,847,331,000.

SYNOPSIS

- **(15-1)** The Department had weaknesses in internal control over financial reporting.

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

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

**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2015**

STATEMENT OF CHANGES IN PLAN NET POSITION (expressed in thousands)	Fiscal Year 2015	Fiscal Year 2014
Additions		
Contributions		
Employer.....	\$ 81,415	\$ 77,290
State.....	100,983	90,430
Plan Members		
Actives.....	109,413	104,400
Retirees.....	124,140	157,234
Federal government Medicare Part D.....	2,760	16,360
Consolidated Omnibus Budget Reconciliation Act.....	108	133
Total contributions.....	<u>418,819</u>	<u>445,847</u>
Interest income.....	161	152
Total additions.....	<u>418,980</u>	<u>445,999</u>
Deductions		
Benefit payments and refunds.....	389,280	434,088
General and administrative.....	8,417	19,327
Total deductions.....	<u>397,697</u>	<u>453,415</u>
Net additions (deductions).....	21,283	(7,416)
Net position held in trust for other postemployment benefits		
Beginning of year.....	(87,555)	(80,139)
End of Year.....	<u>\$ (66,272)</u>	<u>\$ (87,555)</u>

SCHEDULE OF FUNDING PROGRESS (expressed in thousands)	June 30, 2014	June 30, 2013	June 30, 2011
Actuarial Value of Assets.....	\$ (87,555)	\$ (80,139)	\$ 7,125
Actuarial Accrued Liability - Projected Unit.....	\$ 18,759,776	\$ 19,459,607	\$ 18,860,375
Unfunded Actuarial Accrued Liability.....	\$ 18,847,331	\$ 19,539,746	\$ 18,853,250
Funded Ratio.....	-0.47%	-0.41%	0.04%

SUPPLEMENTARY INFORMATION	Fiscal Year 2015	Fiscal Year 2014
Number of retirees and beneficiaries receiving benefits.....	75,428	72,991
Number of waived retirees who may elect healthcare coverage in the future.....	19,416	17,689
Number of terminated plan members entitled to but not yet receiving benefits.....	15,935	15,512
Number of active plan members.....	<u>154,387</u>	<u>155,168</u>
Total.....	<u>265,166</u>	<u>261,360</u>
Number of participating employers.....	989	995

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

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**WEAKNESSES IN INTERNAL CONTROL OVER
FINANCIAL REPORTING**

The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Illinois Office of the State Comptroller contained a material error in the determination of certain year-end account balances.

During the audit of the June 30, 2015 financial statements, we noted material weaknesses resulting from the Department's failure to establish adequate internal control over the accumulation of information necessary for the proper reporting of financial information as follows:

- The Department failed to record a liability for health insurance claims which were incurred but not adjudicated at June 30, 2015 in the Teachers' Health Insurance Security Fund (Fund 0203). Incurred but not adjudicated claims include both unreported claims and claims which have been reported but for which a determination of the amount to be paid by the Department has not been made. This error resulted in the understatement of liabilities and expenses by \$15.641 million. The Department revised the applicable financial statements for this error.
- The Department failed to establish a reasonable estimation methodology for certain rebate receivables resulting in a \$4.788 million overstatement of receivables at June 30, 2015. The Department receives formulary rebates from its pharmacy benefit vendor. Under the terms of the contract, the Department is guaranteed a minimum rebate amount per claim processed and paid. Following the end of each contract year, the vendor calculates the actual rebates earned by the State for utilization by its members and determines the amount due to the State. The vendor has 180 days after contract year-end to pay the amount due to the State. Due to proprietary and confidential contractual agreements entered into by the vendor, the Department does not have the ability to independently calculate the formulary rebate due at each year-end. It has been the Department's practice to record current year receivables at the amount of the formulary rebate payment received for the prior year. Specifically, the rebate receivables of \$8.382 million at June 30, 2015 were the amount of the formulary rebate payment related to fiscal year 2014 activity received in fiscal year 2015. The Department failed to consider any changes in relevant factors between fiscal years 2014 and 2015 in estimating the rebates to be received for fiscal year 2015. Such factors might include the number of claims processed and paid, the average cost per claim, the average number of plan members, or other historical trends such as rebates

**Liabilities and expenses understated
by over \$15 million**

**Receivables overstated by over \$4
million**

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

received as a percentage of total claims expense. Rebate reports received from the vendor on December 30, 2015 showed the actual rebate payment to be \$3.594 million. The Department revised the applicable financial statements for this error. (Finding 1, pages 21-23)

We recommended the Department implement procedures and cross-training measures to ensure required financial information is prepared in a timely, accurate and complete manner. This should include allocating sufficient staff resources and the implementation of formal procedures to ensure accurate and reliable financial information is prepared and submitted to the Office of the State Comptroller. These procedures should address all elements of the Department's financial reporting process including, but not limited to, accruals for liabilities, supervisory review of supporting spreadsheets for data accumulation, and the preparation of management estimates. Finally, we recommended the Department establish and document its process for preparing accounting estimates significant to its financial statements.

Department agrees with auditors

Department management agreed with our recommendation and stated it has now filled two vacant positions responsible for financial reporting. Additionally, the Department stated they will work toward more comprehensive cross-training and communication among financial reporting staff at the Department and Shared Services. In regards to the overstatement of the rebate receivable, the Department stated they have remedied the situation through a new contract requirement for the vendor to provide the necessary information within 60 days. Finally, the Department stated it has begun an overhaul of its financial reporting procedures to ensure accurate and reliable financial information is prepared and submitted to the Office of the Comptroller.

AUDITOR'S OPINION

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

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:SKM

SPECIAL ASSISTANT AUDITORS

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