



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**UNIVERSITY OF ILLINOIS**

**Financial Audit  
 For the Year Ended June 30, 2021**

**Release Date: May 18, 2022**

<b>FINDINGS THIS AUDIT: 7</b>				<b>AGING SCHEDULE OF REPEATED FINDINGS</b>			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	<b>Repeated Since</b>	<b>Category 1</b>	<b>Category 2</b>	<b>Category 3</b>
<b>Category 1:</b>	<b>3</b>	<b>1</b>	<b>4</b>	2020	<b>21-1</b>		
<b>Category 2:</b>	<b>1</b>	<b>2</b>	<b>3</b>	2009		<b>21-5</b>	
<b>Category 3:</b>	<b>0</b>	<b>0</b>	<b>0</b>	2008		<b>21-7</b>	
<b>TOTAL</b>	<b>4</b>	<b>3</b>	<b>7</b>				
<b>FINDINGS LAST AUDIT: 3</b>							

**INTRODUCTION**

The University’s financial audit report consists of three sets of financial statements as follows – the financial statements of the University, the revenue bond financial statements of the Auxiliary Facilities System and the Health Services Facilities System.

This digest covers the University of Illinois’s Financial Audit as of and for the year ended June 30, 2021. The University’s Compliance Examination and Single Audit will be issued in separate reports at a later date.

**SYNOPSIS**

- **(21-1)** The University did not have adequate internal control over reporting its census data and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits plans was complete and accurate.
- **(21-2)** The University of Illinois Health Services Facilities System’s analysis of required June 30, 2021 Blue Cross managed care settlement liability reserves contained errors resulting in a material overstatement of estimated third party settlement reserves and a material understatement of unrestricted net position at both June 30, 2021 and 2020.

**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.

**UNIVERSITY OF ILLINOIS**  
**FINANCIAL AUDIT**  
**For the Year Ended June 30, 2021**

<b>FINANCIAL OPERATIONS (In Thousands)</b>	<b>2021</b>	<b>2020</b>
<b>Operating Revenues</b>		
Tuition and fees, net.....	\$ 1,232,010	\$ 1,233,646
Federal grants, contracts and appropriations.....	784,542	731,035
State and private gifts, grants and contracts.....	234,677	218,517
Hospital and medical activities.....	1,136,570	1,070,630
Auxiliary enterprises, net.....	291,571	376,036
Educational activities.....	362,824	348,692
Other.....	10,692	13,559
Total Operating Revenues.....	<u>4,052,886</u>	<u>3,992,115</u>
<b>Operating Expenses</b>		
Instruction.....	1,866,922	1,563,588
Research.....	1,003,939	882,048
Public service.....	539,448	445,437
Academic support.....	752,545	573,526
Student services.....	258,943	234,055
Hospital and medical activities.....	1,271,267	1,066,474
Auxiliary enterprises.....	356,263	376,084
Operation and maintenance of plant.....	309,095	343,874
Institutional support.....	338,869	344,614
Depreciation.....	270,124	252,588
Scholarships and fellowships.....	128,851	90,761
Other.....	6,717	9,031
Total Operating Expenses.....	<u>7,102,983</u>	<u>6,182,080</u>
Operating Loss.....	(3,050,097)	(2,189,965)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations.....	602,291	608,629
Capital appropriations, gifts and grants.....	27,590	10,814
Private gifts and endowments.....	241,229	208,920
On behalf/Special funding for fringe benefits.....	1,930,806	1,187,660
Other, net.....	734,974	411,163
<b>INCREASE IN NET POSITION.....</b>	<u>486,793</u>	<u>237,221</u>
Net Position, beginning of year.....	4,028,010	3,790,789
Restatement, Correction of an Error.....	223,020	-
Net Position, beginning of year, as restated.....	<u>4,251,030</u>	<u>3,790,789</u>
Net Position, end of year.....	<u>\$ 4,737,823</u>	<u>\$ 4,028,010</u>

<b>SUMMARY - STATEMENT OF NET POSITION (In Thousands)</b>	<b>2021</b>	<b>2020</b>
Current Assets.....	\$ 2,030,818	\$ 2,167,417
Noncurrent Assets and Deferred outflows.....	<u>7,179,669</u>	<u>6,567,721</u>
Total Assets and Deferred outflows.....	9,210,487	8,735,138
Current Liabilities.....	1,230,653	1,218,965
Noncurrent Liabilities and Deferred inflows.....	<u>3,242,011</u>	<u>3,488,163</u>
Total Liabilities.....	4,472,664	4,707,128
Total Net Position.....	<u>\$ 4,737,823</u>	<u>\$ 4,028,010</u>

**PRESIDENT**

During Audit Period and Current: Timothy L. Killeen

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**INADEQUATE INTERNAL CONTROLS OVER  
CENSUS DATA**

**Internal controls over census data  
need improvement**

The University of Illinois (University) did not have adequate internal control over reporting its census data and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

Some of the more significant issues we noted during our testing are as follows:

**An initial complete reconciliation  
had not been performed**

- The University had not performed an initial complete reconciliation of its census data recorded by State Universities Retirement System (SURS) to its internal records to establish a base year of complete and accurate census data.
- We noted errors within the Illinois Department of Central Management Services (CMS) allocation of OPEB-related balances across the State's funds, public universities, and the Illinois State Toll Highway Authority related to a failure by CMS to account for a separately financed specific OPEB liability for certain groups of employees at one component unit of the State. The impact of these errors resulted in the University restating its beginning net position by \$205,462,904 as of July 1, 2020.
- Based on our analysis of transactions reported by the University to SURS during the census data accumulation period throughout Fiscal Year 2019 we noted 19 of 3,839 instructors eligible for SURS were not properly included in the Plan. SURS determined the total potential impact to each employee's total service credit was it could be off by 0.50 to 9.50 years. (Finding 1, Pages 5-8)

**19 individuals were improperly  
excluded from participating in SURS**

We recommended the University implement controls to ensure census data events are timely and accurately reported to SURS. We also recommended the University work with SURS to annually reconcile its active members' census data from its underlying records to a report of census data submitted to SURS' actuary and CMS's actuary. After completing an initial full reconciliation, the University may limit the annual reconciliations to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods. Any errors identified during this process should be promptly corrected by

either the University or SURS, with the impact of these errors communicated to both SURS' actuary and CMS' actuary.

Finally, we recommended the University work with SURS and CMS to identify and address any unremitted or erroneously remitted employee and, if applicable, employer contributions related to these events.

**University agreed with the auditors**

University officials agreed with the finding.

**BLUE CROSS MANAGED CARE SETTLEMENT LIABILITY RESERVES**

**Material errors of estimated third party settlement reserves**

The University of Illinois Health Services Facilities System's (the System) analysis of required June 30, 2021 Blue Cross managed care settlement liability reserves contained errors resulting in a material overstatement of estimated third party settlement reserves and a material understatement of unrestricted net position at both June 30, 2021 and 2020.

**Blue Cross adjudicates the claims and computes the contractual discount**

Blue Cross Blue Shield of Illinois (BCBSI) is the System's largest non-governmental third-party payor, and the System has three managed care contracts with BCBSI. BCBSI uses a Uniform Payment Program (UPP) reimbursement mechanism for most of its managed care contracted providers, including the System. Under the UPP mechanism, BCBSI makes weekly advance payments to the System designed to approximate gross charges for services provided to the System's patients covered by its BCBSI managed care contracts. Once BCBSI adjudicates the claims made by the System, BCBSI will compute the contractual discount associated with the claims processed and recoup this contractual discount through deductions made from future weekly advance payments paid to the System.

**Monthly reconciliation statements summarize the cumulative year to date contractual allowance owed by the System**

A rolling, calendar year-to-date settlement amount is computed as of the end of each month for each of the three managed care contracts and reported to the System on monthly reconciliation statements that accompany monthly experience reports provided to the System by BCBSI. The monthly reconciliation statements summarize cumulative year to date contractual discounts (allowances) owed by the System to BCBSI based on claims processed to date. This cumulative allowance amount is compared to amounts deducted, or recouped by BCBSI, on a cumulative year-to-date basis from the weekly advance payments made by BCBSI to the System. Additionally, for the System's Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) contracts with BCBSI, BCBSI incorporates an "accrual" into the monthly settlement calculation designed to accelerate recoupment of cumulative amounts advanced to the provider in excess of cumulative allowances calculated.

In estimating the required settlement reserve as of June 30, it is necessary to compare allowance amounts reported on the July 31 reconciliation statement (since such statement reflects claims processed through June 30) with the deduction amounts reported on the June 30 reconciliation statement (since such statement reflects deductions taken through June 30). In this way, cumulative calendar year-to-date calculated allowances are compared to cumulative calendar year-to-date deductions taken as of the same date. This methodology results in a settlement reserve representing the allowances computed by BCBSI for claims processed by BCBSI during the two months leading up to the reporting date. For example, the reserve at June 30 would reflect allowances on claims processed in May (deducted from July advance payment checks) and on claims processed in June (deducted from August advance payment checks).

We noted two deficiencies in management’s longstanding historical methodology for estimating the required reserve.

**Reserves were overstated by \$13.6 million and \$1.2 million respectively for HMO and PPO**

- The historical calculation included accrual amounts (approximately \$13.6M for HMO and \$1.2M for PPO at June 30, 2021) reported in the BCBSI reconciliation statements. These accrual amounts do not represent liabilities of the System, resulting in an overstatement of the required reserve.
- The historical calculation relied in part on a rolling average of three months of deductions recouped by BCBSI. Because of the variability from month to month in claims processed by BCBSI, the historical calculation included an additional reserve for variability (approximately \$8.3M at June 30, 2021). The historical calculation did not consider a month-end UPP statement provided by BCBSI to the System that was available to the System at the time the June 30, 2021 pre-audit financial statements were prepared, that would have enabled management to make a significantly more precise estimate and would have resulted in little additional reserve for variability (approximately \$1.2M at June 30, 2021 compared to the approximately \$8.3M recorded).

**The most up to date information was not used in the historical calculation**

The total overstatement of the June 30, 2021 liability reserve was approximately \$24.3M:

**The reserve was overstated by \$24.3 million in total**

Recorded reserve	\$52.1M
Required reserve	<u>27.8M</u>
Excess	<u>\$24.3M</u>

The excess reserve results from:

HMOI accrual per BCBSI	\$13.6M
PPO accrual per BCBSI	1.2M

Variability reserve	7.6M
Other	<u>1.9M</u>
Total	<u>\$24.3M</u>

**Opening net position at July 1, 2020  
was corrected by \$17.6 million**

Because the same methodology had been used for many years, the overstatement had accumulated incrementally over several years. A comparable overstatement (\$17.6M) of the required reserve existed at June 30, 2020. An adjustment to correct for this error was made by the System to opening net position at July 1, 2020.

In making an accounting estimate such as the Blue Cross managed care settlement reserve, System management should have had a full understanding of the UPP reimbursement mechanism and should have made use of all available information that was available at the time the estimate was made. (Finding 2, Pages 9-11)

We recommended management adjust its reserve methodology to address the errors identified and validate the reasonableness of the resulting estimates no less frequently than on a quarterly basis.

**The System agreed with the auditors**

System officials agreed with the recommendation and stated they have changed their longstanding methodology beginning in FY2022.

**OTHER FINDINGS**

The remaining findings are reportedly being given attention by the University. We will review the University’s progress towards implementation of our recommendations in our next engagement.

**AUDITOR’S OPINION**

Our auditors stated the financial statements of the University, the Auxiliary Facilities System and the Health Services Facilities System as of June 30, 2021, and for the year then ended, are fairly stated in all material respects.

This financial audit was conducted by RSM US LLP.

**SIGNED ORIGINAL ON FILE**

JANE CLARK  
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

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