



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

William G. Holland, Auditor General

**SUMMARY REPORT DIGEST**

**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**  
**TEACHER HEALTH INSURANCE SECURITY FUND**

**Financial Audit**  
**For the Year Ended: June 30, 2013**

**Release Date: April 22, 2014**

**Summary of Findings:**

<b>Total this audit:</b>	<b>1</b>
<b>Total last audit:</b>	<b>1</b>
<b>Repeated from last audit:</b>	<b>0</b>

**INTRODUCTION**

This report covers our financial audit of the Teacher 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 \$80,139,000. Further, the Schedule of Funding Progress reflects an Unfunded Actuarial Accrued Liability of \$19,539,746,000.

**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  
TEACHER HEALTH INSURANCE SECURITY FUND  
FINANCIAL AUDIT  
For the Year Ended June 30, 2013**

<b>STATEMENT OF CHANGES IN PLAN NET POSITION (expressed in thousands)</b>	<b>Fiscal Year 2013</b>	<b>Fiscal Year 2012</b>
<b>Additions</b>		
Contributions		
Employer.....	\$ 74,023	\$ 71,376
State.....	86,683	87,622
Plan Member		
Actives.....	98,918	95,271
Retirees.....	175,153	165,651
Federal government Medicare Part D.....	23,958	24,911
Consolidated Omnibus Budget Reconciliation Act.....	137	119
Total contributions.....	<u>458,872</u>	<u>444,950</u>
Interest income.....	119	127
Total additions.....	<u>458,991</u>	<u>445,077</u>
<b>Deductions</b>		
Benefit payments and refunds.....	488,281	480,452
General and administrative.....	19,653	2,946
Total deductions.....	<u>507,934</u>	<u>483,398</u>
<b>Net additions (deductions).....</b>	<b>(48,943)</b>	<b>(38,321)</b>
<b>Net position held in trust for other postemployment benefits</b>		
Beginning of year.....	(31,196)	7,125
<b>End of Year.....</b>	<b><u>\$ (80,139)</u></b>	<b><u>\$ (31,196)</u></b>

<b>SCHEDULE OF FUNDING PROGRESS (expressed in thousands)</b>	<b>June 30, 2013</b>	<b>June 30, 2011</b>	<b>June 30, 2009</b>
Actuarial Value of Assets.....	\$ (80,139)	\$ 7,125	\$ 54,603
Actuarial Accrued Liability - Projected Unit.....	\$ 19,459,607	\$ 18,860,375	\$ 14,931,396
Unfunded Actuarial Accrued Liability.....	\$ 19,539,746	\$ 18,853,250	\$ 14,876,793
Funded Ratio.....	-0.41%	0.04%	0.37%

<b>SUPPLEMENTARY INFORMATION</b>	<b>Fiscal Year 2013</b>	<b>Fiscal Year 2012</b>
Number of retirees and beneficiaries receiving benefits.....	72,652	72,324
Number of waived retirees who may elect healthcare coverage in the future.....	17,983	18,300
Number of terminated plan members entitled to but not yet receiving benefits.....	15,195	14,416
Number of active plan members.....	156,040	162,259
Total.....	<u>261,870</u>	<u>267,299</u>
Number of participating employers.....	999	1,002

<b>AGENCY DIRECTOR</b>
During Examination Period: Mr. Malcolm Weems (7/1/11 through 10/4/13)
Currently: Ms. Simone McNeil - Acting

## **FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

### **FINANCIAL STATEMENT PREPARATION**

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 \$14.6 million 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 \$10.9 million to the actuary calculation exceeding the Department calculation by \$69 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 Teacher Health Insurance Security Fund was requested and not received as of the October 31, 2013 due date:

- Teachers' Retirement 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.

In response to the letter, the Department submitted a report and action plan on November 15, 2013 to the Comptroller, Governor, Speaker of the House, House Minority Leader, Senate President, Senate Minority Leader and the Auditor General. The action plan included fifteen steps which did not

provide a pre-determined timeline for receipt of final copies of the actuarial reports necessary to prepare the appropriate footnote disclosure and/or supplementary information cited above. Department personnel stated the “other post employment benefit” (OPEB) valuations are performed by a third party actuary under contract with the retirement system. While some of the data required to complete these valuation comes from the Department, the majority of the data comes from the retirement system. Not all of the retirement system data was submitted to the actuary in a timely fashion, hampering the timeline for completion of the OPEB valuations.

**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 20 – 22)

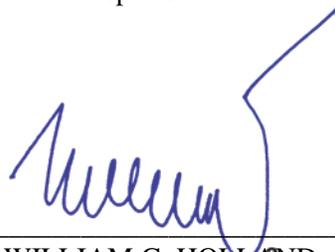
We recommended the Department implement procedures to ensure GAAP Reporting Packages prepared and submitted to the Office of the State Comptroller for financial reporting purposes are complete and accurate and financial statements are completed in a timely manner.

**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 Teacher Health Insurance Security Fund as of June 30, 2013, are fairly presented in all material respects.



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WILLIAM G. HOLLAND  
Auditor General

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SPECIAL ASSISTANCE AUDITORS

Sikich LLP were our special assistant auditors