



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
STATE EMPLOYEES GROUP INSURANCE PROGRAM

**Compliance Examination – Schedule of Allocation
 For the Year Ended June 30, 2021**

Release Date: June 29, 2022

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since 2020	Category 1	Category 2	Category 3
Category 1:	0	1	1		21-1		
Category 2:	0	0	0				
Category 3:	0	0	0				
TOTAL	0	1	1				
FINDINGS LAST AUDIT: 2							

INTRODUCTION

This digest covers the Compliance Examination of the Toll Highway Specific Liability Percentage Calculation, the Schedule of Employer Allocations by Fund, the Schedule of University Special Funding Situations, the Schedule of Other Post Employment Benefit (OPEB) Amounts by Fund, and the Schedule of Deferred Amounts by Measurement Year of the State Employee Group Insurance Program (SEGIP) as of and for the year ended June 30, 2021, and the related notes to the Schedules.

The Department of Central Management Services (Department), with the assistance of the public retirement systems sponsored by the State, is the administrator of this single-employer defined benefit OPEB plan not administered through a trust. The plan was established to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Certain agencies and funds of the State of Illinois present financial statements in accordance with generally accepted accounting principles (GAAP) and those agencies and fund employers must recognize their proportionate share of the collective OPEB amounts for OPEB provided to members through the SEGIP plan in order to present their financial statements in accordance with GAAP. The Governmental Accounting Standards Board (GASB) Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions requires the participating entities that prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP) to recognize their proportionate share of certain collective OPEB amounts in their financial statements, which includes the net OPEB liability.

Prior to the implementation of GASB Statement 75, the portion of the Plan’s liability not covered by assets was not allocated among the agencies and funds for financial reporting purposes. GASB Statement 75 changed previously followed financial reporting requirements and as a result agencies and funds are required to report their portion of the collective OPEB amounts in their GAAP basis financial statements.

Due to the agencies and funds needing to report their proportionate share of the collective OPEB amounts in their financial statements prepared in accordance with GAAP, the Department has prepared the Toll Highway Specific Liability Percentage Calculation, Schedule of Employer Allocations by Fund, the Schedule of University Special Funding Situations, the Schedule of OPEB Amounts by Fund, and the Schedule of Deferred Amounts by

Measurement Year which provide the necessary financial information for each entity to report their proportionate share of the collective OPEB amounts in their financial statements. By having these schedules examined it also provides the entities and the State's auditors an Independent Accountant's Opinion on the allocations and collective OPEB amounts reported in the Schedules.

The SEGIP net OPEB liability at July 1, 2020 was \$42.4 billion. At June 30, 2021, the SEGIP net OPEB liability was \$34.9 billion.

SYNOPSIS

- **(21-01)** The Department did not ensure the repayment by the Illinois State Toll Highway Authority (Tollway) of the pro rata share of certain retiree costs incurred by the State Employees Group Insurance Program (SEGIP) was complete and accurate.

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.

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**NONCOMPLIANCE WITH THE STATE EMPLOYEES
GROUP INSURANCE ACT OF 1971**

The Department of Central Management Services (Department) did not ensure the repayment by the Illinois State Toll Highway Authority (Tollway) of the pro rata share of certain retiree costs incurred by the State Employees Group Insurance Program (SEGIP) was complete and accurate.

**Tollway's employee related costs
consist of four groups**

During testing, we noted employee-related costs incurred by the Tollway include both Tollway employees and staff of the Illinois State Police (ISP) consisting of four groups, as defined and further described below:

- 1) **“True Tollway Employees”** work for the Tollway, including its administrative, engineering, traffic, construction, and maintenance staff. These employees are paid on Tollway payroll vouchers and participate in the Tollway's own group insurance program. Upon retirement, they transition to SEGIP for their OPEB. SEGIP does not receive a “retiree-load” charge (a charge added to contributions for current employees to obtain cash to pay benefit costs for retirees on a pay-as-you-go basis) for these employees' current benefits provided by the Tollway's own group insurance plan.
- 2) **“ISP District 15 State Troopers”** consist of two groups providing personal services within ISP District 15, which patrols the highways and facilities which encompass the Tollway's operations.
 - a) The majority of these employees participate in the SEGIP for both their current employee benefits and OPEB during retirement.
 - b) Master sergeants, however, can opt-out of SEGIP for healthcare benefits and participate in the Teamsters Local No. 727 Health and Welfare Benefits Fund for health insurance along with SEGIP for vision, dental, and life insurance benefits as an employee and then transition to SEGIP for all of their OPEB at retirement.

All troopers are paid on ISP's payroll vouchers which are charged against the Tollway's agency number and accounts. These vouchers include contributions to SEGIP for all troopers' SEGIP-provided benefits. In addition, the Department prepares supplemental billings charged to the Tollway's accounts for SEGIP to recover the healthcare costs paid to the Teamsters Local No. 727 Health and Welfare

Benefits Fund along with the associated “retiree-load” for SEGIP.

- 3) **“ISP District 15 Support Staff”** are Tollway employees supporting the troopers assigned to ISP District 15. These employees are paid on Tollway payroll vouchers and participate in the Tollway’s own group insurance program until they transition to SEGIP for their OPEB at retirement. SEGIP does not receive a “retiree-load” charge calculated on these employees’ current benefits from the Tollway’s own group insurance plan.

“retiree load” charge not collected by the Department

Tollway reimburses SEGIP for pro rata share

The “True Tollway Employees” and “ISP District 15 Support Staff” groups are paid on Tollway payroll vouchers and participate in the Tollway’s group insurance program until they transition to SEGIP for their OPEB at retirement. As these groups participate in the Tollway’s group insurance program until retirement, the Department has not collected the “retiree-load” charge (a charge added to contributions for current employees to obtain cash to pay benefit costs for both employees and retirees on a pay-as-you-go basis) built into active-employee SEGIP contributions to fund costs associated with retirees participating in SEGIP. Rather, the State Employee Group Insurance Act (Act) (5 ILCS 375/11) requires the Tollway reimburse SEGIP for the pro rata share of the cost of providing retiree benefits to those retirees who had service in “True Tollway Employees” and “ISP District 15 Support Staff” positions compared to their total service to the State.

Monthly invoice generated for one contribution to SEGIP in February 2021

To enable the Tollway and the Department to follow this mandate during Calendar Year 2020, the State Employees’ Retirement System of Illinois (SERS) sent the Tollway a monthly extraction of Tollway-associated retirees along with each retiree’s total SERS’ service credit months and months of total service at the Tollway from SERS’ records. Further, this extraction included the State-paid OPEB costs for retirees, except for the State’s costs for “CMS Direct Bill” retirees, which SERS had previously extracted from the Department’s third-party administrator of SEGIP benefits for another purpose. The totality of this report was imported into the Tollway’s systems to generate a monthly invoice, where the amounts due were aggregated together across the calendar year for one contribution to SEGIP in February 2021.

No written agreement exists with SERS

Under Section 11 of the Act, the Tollway and the Department are solely responsible for ensuring compliance with this mandate. While SERS has some of the historical records necessary for the Tollway and the Department to fulfill this mandate, neither the Department nor the Tollway have communicated with nor entered into a written agreement with SERS so SERS officials could understand the information needs of the Tollway and the Department. As a result, the following occurred:

Improper calculations of service credit

- Each retiree’s service months to the Tollway were not calculated on the same basis as SERS’ total months of service credit. After consultation with officials at the Department with input from SERS officials, it was determined SEGIP benefits are processed based on the service credit granted by SERS. As such, a month of Tollway service should only be included on the monthly extraction if SERS also granted service credit with the associated month of service.

Extraction from SERS was inaccurate

- The monthly extraction from SERS did not include all retirees from the “True Tollway Employees” and “ISP District 15 Support Staff” groups, while some retirees from the Tollway’s other groups were incorrectly included within the monthly extraction.

“CMS Direct Bill” retirees not included in the monthly extraction

- The monthly extraction from SERS did not include the State’s costs for “CMS Direct Bill” retirees. These retirees, as their pension is too small to cover their retiree contribution to SEGIP for their benefits, receive a supplemental billing from the Department for balance due.

Failure to demonstrate completeness and accuracy of pro rata share

- Officials at the Tollway and the Department failed to demonstrate the amounts remitted by the Tollway for the pro rata share of its retirees from the “True Tollway Employees” and “ISP District 15 Support Staff” groups to SEGIP were complete and accurate.

After bringing these problems to the attention of officials at the Tollway, SERS, and the Department, it was determined there was a net underpayment of contributions to SEGIP for the retirees from the “True Tollway Employees” and “ISP District 15 Support Staff” groups. The Department proceeded to work with Tollway staff to reconcile the underpayment. The Department received a SERS prepared data extraction of OPEB costs associated with retirees from the Tollway for every month starting calendar year 2018 through June of 2021, the data was reviewed and duplicates were removed to arrive at a list of unique retirees. That data was then shared with the Tollway and ISP to review the data and remove any retirees incorrectly included in the report due to their employment with ISP. Additionally, the Tollway provided a list of all Tollway employees that separated from active service from July to December of 2021. All of this data was provided to both SERS and the vendor the Department utilizes for benefits enrollment (vendor). SERS reviewed each individual to validate both their total service credits and their Tollway service credits. The vendor used the data to provide the employer’s cost of group insurance for each month from July 2017 to December 2021 for each retiree. That cost data was then summarized and adjusted to reflect each individuals pro

Net Underpayment amount calculated and remitted to the Department

rata share (Tollway service credits divided by total SERS service credits). After subtracting the payments previously made by Tollway for July 2017 to December 2021, it was determined the Tollway's net underpayment of contributions to SEGIP was \$22,297,846. The Tollway agreed with the amount and sent payment to the Department on May 20, 2022. (Finding 1, pages 167-170)

We recommended the Department communicate with the Tollway and SERS so all parties have a complete understanding of both the overall process and Tollway's various employee groups so the factors unique to each group can be considered in calculating the Tollway's monthly retiree OPEB cost repayment pursuant to Section 11 of the Act. Further, we recommended that when an understanding has been reached, the parties should enter into a formal, written interagency agreement to memorialize each party's roles and responsibilities to fulfill this mandate.

Lastly, we recommended, that if, after investigation, the Department and the Tollway determine it is not possible and/or not practicable to comply with Section 11 of the Act for future periods, the Department and the Tollway work with the Governor and the General Assembly to develop a legislative remedy that addresses both the financing needs of SEGIP and facilitates financial reporting in accordance with generally accepted accounting principles.

Department officials accepted recommendation

The Department accepted the finding and stated the Department is in process of working with both the Illinois Toll Highway Authority and the State Retirement Systems to develop an agreed upon documented process by which each organization provides the necessary inputs and communication to develop an accurate and timely invoicing of the amounts due to the Department from the Tollway. The Department also stated that in addition to the development of the expected written procedure, the Department intends to seek legislative action that will provide for a more consistent treatment of Tollway employees and retirees as they relate to the reimbursement by the Tollway to the Department.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of specified requirements regarding the Toll Highway Specific Liability Percentage Calculation, the Schedule of Employer Allocations by Fund, the Schedule of University Special Funding Situations, the Schedule of Other Post Employment Benefit Amounts by Fund, and the Schedule of Deferred Amounts by Measurement Year of the State Employees Group Insurance Program as of and for the year ended June 30, 2021, and the related notes to the Schedules. The accountants stated the Agency complied, in all material respects, with the criteria set forth in Notes D through M of the Notes to the Schedules in the report.

This compliance examination was conducted by Sikich 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

FRANK J. MAUTINO
Auditor General

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