



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TEACHERS RETIREMENT INSURANCE PROGRAM

Financial Audit – Schedule of Allocation
 For the Year Ended June 30, 2018

Release Date: July 23, 2019

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							

SYNOPSIS

- **(18-01)** The Department of Central Management Services did not accurately calculate the changes in the proportionate share for the Teachers Retirement Insurance Program for the deferred outflow of resources, deferred inflow of resources, and the Other Post Employment Benefits expense.

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.

{ The purpose of these schedules is summarized on next page. }

INTRODUCTION

This digest covers the Financial Audit of the Schedule of Employer Allocations for the Teachers' Health Insurance Security Fund as of and for the years ended June 30, 2018 and the related notes to the Schedules. In addition, the digest also covers the Financial Audit of the total for all entities of the columns titled beginning total Other Post Employment Benefit (OPEB) liability, ending total OPEB liability, total deferred outflows of resources, total deferred inflows of resources, and total Employer OPEB expense subject to allocation (specified column totals) in the Schedule of OPEB Amounts by Employer of the State of Illinois, Department of Central Management Services as of and for the year ended June 30, 2018. We previously released a separate Financial Audit of the Fund's financial statements (released April 25, 2019) as of and for the year ending June 30, 2018.

The Department, along with the Teacher' Retirement System (TRS), is the administrator of a cost-sharing, multiple-employer defined benefit postemployment benefit plan. The plan was established to provide health insurance for TRS annuitants and dependent beneficiaries. Certain contributions are statutorily required to be made to the plan by employees, employers and the State of Illinois (State), which would be considered a non-employer contributing entity. The Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* requires the participating employers and non-employer 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.

Within a cost sharing plan like the Fund, the OPEB obligation to the employees of more than one employer are pooled and Plan assets can be used to pay the benefits of the employees of any employer that is a member of the Plan. Prior to the implementation of GASB Statement 75, the portion of the Plan's liability not covered by assets was not allocated among the employers or State for financial reporting purposes. GASB Statement 75 changed previously followed financial reporting requirements and as a result employers and the State are required to report their portion of the collective OPEB amounts in their GAAP basis financial statements.

Due to employers and the State of Illinois 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 Schedule of Employer Allocations and the Schedule of OPEB Amounts by Employer which provide the necessary financial information for each employer and the State to report their proportionate share of the collective pension amounts in their financial statements. By having these Schedules audited it also provides the employer's and the State's auditors an Independent Auditor's Opinion on the allocations and collective OPEB amounts reported in the Schedules.

The Plan's net OPEB liability at June 30, 2017 was \$25.9 billion. At June 30, 2018, the Plan's net OPEB liability was \$26.3 billion, of which \$15.1 billion (57.3%) was allocated to the State of Illinois as its portion of the net OPEB liability. The remaining amount, \$11.2 billion, was allocated to the other 978 employers.

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**INACCURATE CALCULATION OF CHANGES IN
PROPORTION FOR THE DEFERRED OUTFLOW OF
RESOURCES, DEFERRED INFLOW OF RESOURCES
AND THE OTHER POST EMPLOYMENT BENEFITS
EXPENSE**

The Department of Central Management Services did not accurately calculate the changes in the proportionate share for the Teachers Retirement Insurance Program for the deferred outflow of resources, deferred inflow of resources and the Other Post Employment Benefits expense.

**Multiple items were allocated
incorrectly**

During testing of the Schedule of Other Post Employment Benefit Amounts by Employer (Schedule), we noted the Department excluded the changes in proportion for the net effect of the change in the employer's proportionate shares of the collective deferred outflows of resources and deferred inflows of resources related to OPEB. This resulted in an incorrect allocation of the deferred outflow of resources, deferred inflow of resources and the OPEB expense to the school districts and State. The Department revised the Schedule for this error. (Finding 2018-001, pages 16-17)

We recommended the Department review the Schedules prepared by the Actuary for accuracy to ensure the requirements of GASB Statement No. 75 are appropriately met.

Department agreed with auditors

The Department agreed with the finding and recommendation and stated they will continue to review all schedules prepared by the Actuary for compliance with applicable accounting standards.

AUDITOR'S OPINION

Our auditors stated the Schedule of Employer Allocations for the year ended June 30, 2018, and the total beginning OPEB liability, total ending OPEB liability, total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense for the total of all participating community colleges in the Teachers' Health Insurance Security Fund as of and for the year ended June 30, 2018, and the related notes to the Schedules, are fairly stated in all material respects.

This financial audit 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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