



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, 2020

Release Date: June 2, 2021

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

SYNOPSIS

- **(20-01)** The Department did not conduct adequate independent internal control reviews over its external service providers' System and Organization Control (SOC) reports utilized by the Teacher Retirement Insurance Program (Program).

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

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

For the Year Ended June 30, 2020

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION (expressed in thousands)	Fiscal Year 2020	Fiscal Year 2019
Additions		
Contributions		
Employer.....	\$ 98,816	\$ 96,021
State.....	133,896	130,068
Active Plan Members.....	133,896	130,068
Federal Government Medicare Part D.....	794	975
Consolidated Omnibus Budget Reconciliation Act (COBRA).....	101	104
Total Contributions.....	<u>367,503</u>	<u>357,236</u>
Investment Income.....	193	397
Total Additions.....	<u>367,696</u>	<u>357,633</u>
Deductions		
Benefit Payments and Refunds.....	237,466	260,652
General and Administrative Expenses.....	9,472	10,430
Total Deductions.....	<u>246,938</u>	<u>271,082</u>
Net additions (deductions).....	120,758	86,551
Unrestricted Net Position		
Beginning of Year	68,064	(18,487)
End of Year.....	<u>\$ 188,822</u>	<u>\$ 68,064</u>
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS (expressed in thousands) (Unaudited)	June 30, 2020	June 30, 2019
Total OPEB Liability- Beginning.....	\$ 27,745,515	\$ 26,327,385
Net Change in Total OPEB Liability	\$ (820,780)	\$ 1,418,130
Total OPEB Liability- Ending.....	\$ 26,924,735	\$ 27,745,515
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability.....	0.70%	0.25%
PARTICIPANT INFORMATION	Fiscal Year 2020	Fiscal Year 2019
Inactive plan members currently receiving benefit payments.....	66,018	65,570
Inactive plan members entitled to but not yet receiving benefit payments...	38,390	38,916
Active members.....	157,206	155,119
Total.....	<u>261,614</u>	<u>259,605</u>
Number of participating employers.....	979	979
Number of nonemployer contributing entities.....	1	1
AGENCY DIRECTOR		
During Audit Period: Janel Forde (effective 2/18/20); Janel Forde (Acting) (7/1/19 - 2/17/20)		
Currently: Janel Forde		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

INADEQUATE REVIEW OF EXTERNAL SERVICE PROVIDERS

The Department of Central Management Services (Department) did not conduct adequate independent internal control reviews over its external service providers' System and Organization Control (SOC) reports utilized by the Teacher Retirement Insurance Program (Program).

9 external service providers used by the Department

The Department currently receives copies of the SOC reports from nine different external service providers and performs an independent internal control review of each SOC report to determine whether any areas of concern are noted for the Program. In total the Department received 12 SOC reports during the audit period for the Program.

These service providers provide:

- Medical plan coverage and payments
- Claims processing
- Benefits solutions
- Plan administration
- IT hosting

During testing of the 12 SOC reports, we noted the following:

Assessment not performed to determine implementation of CUECs

- Twelve of 12 (100%) SOC reports identified Complementary User Entity Controls (CUEC) necessary for the Service Organization's system which relies on the Department to implement the CUECs in order to achieve the Service Organization's control objectives. The Department did not perform an assessment to determine if it had implemented the CUECs for each.

Additional assessments not performed for subservice organizations carved out of SOC report

- Nine of 12 (75%) SOC external service provider reports identified additional subservice organizations used by the service organization that were carved out of the SOC report. These subservice organizations required additional CUECs and the service provider relied on the subservice organizations to implement the CUECs in order to achieve the Service Organization's control objectives. The Department did not perform additional assessments on the subservice organizations to determine if the CUECs had been implemented

Assessment not performed to determine reliance on SOC reports with qualified opinions

- Seven of 12 (58%) SOC reports had qualified opinions due to deficiencies noted by the SOC auditors. The Department did not perform an analysis on whether they could rely on the external service providers' controls due to the deficiencies noted in the SOC reports with

qualified opinions. Through our assessment of the types of deficiencies noted by the SOC auditors, and the substantive testing we performed in other areas of our audit, we were able to rely on the testing and assurance provided by the SOC reports (Finding 1, pages 24-27).

We recommended the Department:

- Monitor and document the operation of the CUECs relevant to the Department's operations.
- Either obtain and review SOC reports for subservice organizations, if applicable to the Department's internal control environment, or perform alternative procedures to satisfy itself the usage of the subservice organizations would not impact the Department's internal control environment. Such review and procedures should be documented.
- Document its review of the SOC reports and review all significant issues with third-party service providers and subservice organizations to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the Department, and any compensating controls.

**Department accepted
recommendation**

The Department accepted our recommendation and stated it has worked with the Department of Innovation and Technology and its external service providers to update its SOC Review Process.

AUDITOR'S OPINION

The auditors stated the financial statements of the Department of Central Management Services, Teacher Health Insurance Security Fund as of and for the year ended June 30, 2020, 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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