

**State of Illinois
DEPARTMENT OF
CENTRAL MANAGEMENT SERVICES**

**UNIVERSITY BENEFITS SCHEDULES
EXAMINATION
As of and For the Year Ended June 30, 2016**

Performed as Special Assistant Auditors for the
Auditor General, State of Illinois

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

UNIVERSITY BENEFITS SCHEDULES
EXAMINATION
As of and For the Year Ended June 30, 2016

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STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

AGENCY OFFICIALS

Director	Michael Hoffman, Acting (1/16/16 – present) Tom Tyrrell (4/30/15 – 1/15/16)
Assistant Directors	Markus Veile (1/20/15 – present) Jimmy Odom, Acting (1/13/17 – present) Kimberly McCullough-Starks (3/23/15 – 7/25/16)
Chief Administrative Officer	Vacant
Chief Operating Officer	Jennifer Waldinger (6/30/15 – present)
Chief Fiscal Officer	Karen Pape (3/3/15 – present)
General Counsel	Ryan Green, Acting (11/1/16 – present) LaShonda Hunt, Acting (7/1/16 – 10/31/16) Mike Basil (2/9/15 – 7/1/16)
Chief Internal Auditor	Jack Rakers, Acting (1/2/17 – present) Deborah Abbott (3/1/13 – 12/31/16)

Agency main offices are located at:

715 Stratton Office Building
401 South Spring Street
Springfield, IL 62706



April 27, 2017

Sikich LLP
3201 W. White Oaks Dr., Suite 102
Springfield, IL 62704

Ladies and Gentlemen:

We are responsible for determining the methodology and allocation of insurance premiums paid on-behalf of the State Universities and certain other agencies/component entities of the State of Illinois. We are responsible for disseminating the allocations to the Illinois Office of the Comptroller (IOC), State Universities, and certain other agencies/component entities of the State of Illinois for purposes of those entities' use in preparing their respective GAAP reporting packages and financial statements, as applicable. We assert the following as of and for the year ended June 30, 2016:

- A. The Department of Central Management Services (Department) developed and documented a methodology to allocate insurance premiums paid on behalf of the State Universities and certain other agencies/component entities of the State of Illinois.
- B. The Department prepared the allocation as an estimate based on information available as of July 25, 2016 in order to provide the information to the appropriate parties in time for their respective reporting deadlines.
- C. The Department maintained controls over the development, updating, maintenance and storage of the FY2016 University Benefits Analysis spreadsheet distributed to the State Universities and certain other agencies/component entities of the State of Illinois and the related data and records supporting the spreadsheet whether in electronic or manual format.
- D. The Department established and maintained a system of monitoring and reviewing the calculations used in the preparation of the FY2016 University Benefits Analysis spreadsheet.
- E. The Department allocated insurance premiums in a consistent, accurate and reasonable manner to the State Universities and certain other agencies/component entities of the State of Illinois.

- F. The Department has verified the accuracy of the supporting information used in preparing the FY2016 University Benefits Analysis.

- G. The Department utilizes the services of an independent actuary to review the reasonableness of the State Employee Group Insurance Program (SEGIP) premium equivalent rate development calculations prior to the beginning of the fiscal year for which they will be published and utilized. This includes review of certain elements such as calculations of claims incurred but not reported; enrollment summaries and projections; and numerous exhibits which project and accumulate costs by plan and enrollment type. While the independent actuary did not review the annual cost per employee calculation contained in the Reimbursement Rate Summary for All Employees, referred to as Exhibit 27, the cost per employee calculation is an accumulation of the aforementioned elements which are reviewed by the independent actuary. The specific data files and calculations underlying the "FY 2016 Reimbursement Rate Summary for All Employees" (Exhibit 27-B) utilized for the FY2016 University Benefit Analysis were included in the data files reviewed by the independent actuary as part of the fiscal year 2017 rate development review, as reported on by the independent actuary in their report dated March 17, 2016.

State of Illinois, Department of Central Management Services

SIGNED ORIGINAL ON FILE

Michael Hoffman, Acting Director

SIGNED ORIGINAL ON FILE

Karen Pape, Chief Fiscal Officer

SIGNED ORIGINAL ON FILE

Ryan Green, General Counsel

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

UNIVERSITY BENEFITS SCHEDULES
EXAMINATION
As of and For the Year Ended June 30, 2016

EXAMINATION REPORT

SUMMARY

The examination performed by Sikich LLP was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The Independent Accountant's Report does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

The auditors identified one matter involving the Department's compliance with the assertions listed in pages 2-3 of this report. The item is described in the accompanying Schedule of Findings on pages 6-8 of this report as item 2016-001, Inaccurate data used during calculation of the University Benefit Analysis.

EXIT CONFERENCE

The Department waived an exit conference. The response to the recommendation was provided by Shayne Clennon from the Department's Division of Internal Audit in a correspondence dated April 25, 2017.

INDEPENDENT ACCOUNTANT'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have examined management's assertions that are included on pages 2-3 of this report regarding the accompanying FY2016 University Benefits Analysis, State Employee Group Insurance Program FY2016 Reimbursement Rate Summary for All Employees, and the Related Notes to the Schedules, collectively referred to as the University Benefits Schedules, as of and for the year ended June 30, 2016. The Department's management is responsible for the assertions. Our responsibility is to express an opinion on the assertions based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting management's assertions and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Department's compliance with its assertions.

Our examination disclosed instances of noncompliance described in Finding 2016-001 in the accompanying schedule of findings.

In our opinion, management's assertions referred to above are fairly stated, in all material respects.

As required by the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies, an immaterial finding excluded from this report has been reported in a separate letter to your office.

The Department's response to the finding identified in our examination is described in the accompanying schedule of findings. We did not examine the Department's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, the public Universities of the State of Illinois, and Department management, and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
April 27, 2017

SCHEDULE OF FINDINGS

2016-001. FINDING (Inaccurate data used during calculation of the University Benefit Analysis)

During our examination of the University Benefit Analysis for June 30, 2016, we noted errors in the data used by the Department of Central Management Services (Department), resulting in misstatements of the estimated cost of health insurance benefits paid on behalf of State universities and other entities.

Errors in the data used included the following:

- Several errors were discovered in a monthly report the Department uses to obtain counts of employees covered by the State Employees' Group Insurance Program (SEGIP) (covered employees) for each component unit. For example, the report showed the number of covered employees for State University Retirement System (SURS) ranged from 64-253 employees for the months of fiscal year 2016, and sometimes exceeding fluctuations of over 100 employees from month to month. Upon investigation, the figures on the report were found to be incorrect, and the actual number of covered employees ranged from 125-130 employees throughout the year for SURS. In all, covered employee counts for 4 of the 6 component units (67%) presented on this report were misstated for one or more months during fiscal year 2016. The Department failed to investigate the extreme fluctuations in covered employee counts. As a result of these errors, the Department overstated benefits paid on behalf of the four affected component units by a total of \$514,583.
- The Department prepared the University Benefits Analysis schedule for fiscal year 2016 using data as of July 31, 2016. Because data regarding covered employee counts for certain non-university entities was not available for all months of the fiscal year, the Department estimated covered employee counts for those months where data was unavailable. Several weaknesses were noted in the Department's estimation methodology. It is the Department's practice to estimate covered employee counts for a particular month by averaging the counts of that same month of the three preceding fiscal years. For example, if a component unit's covered employee data is unavailable for June 2016, the Department will estimate the covered employee count for that month by averaging the counts of June 2015, June 2014, and June 2013. This method ignores recent trends, which may have changed significantly from past fiscal years. Using their current methodology, the Department estimated the May count for Illinois Student Assistance Commission to be 229 employees, even though the preceding monthly counts ranged from 179-185 employees. The actual number of employees was 179 based on the subsequent report. The Department failed to consider data from recent months in formulating its estimate of covered employee counts, which resulted in a net misstatement for 3 of the 6 component units (50%) for which estimates were made. The estimated covered employee counts were compared to subsequent reports, and errors in the methodology were projected to result in an overstatement of \$191,855 in benefits paid on behalf of the Illinois Student Assistance Commission, an understatement of \$22,516 for Illinois Math and Science Academy, and an understatement of \$113,849 for SURS.

- Due to the fact that not all contributions from universities related to fiscal year 2016 payroll periods had been received as of July 25, 2016, the date as of which data was compiled for the University Benefit Analysis, the Department estimated receivables of university contributions subsequent to July 25, 2016. Two errors were discovered in the Department's estimate. First, the Department failed to calculate an estimated receivable for Illinois State University (ISU) for the month of June 2016, which had not been paid as of July 25, 2016. As a result, the Department overstated the benefits paid on behalf of ISU by \$132,443. Second, the Department estimated that four and a half months of contributions were receivable for State University Retirement System (SURS), when five months actually were receivable. As a result, the Department overstated the benefits paid on behalf of SURS by \$186,171.
- Consistent with prior years, the Department prepared the University Benefits Analysis schedule using university headcount data as of June 30, 2016. However, considering significant declines in university headcounts during fiscal year 2016, ranging from 10% to 40%, it would have been more appropriate to consider average covered employee counts for the fiscal year. By using ending headcounts rather than average covered employee counts, the Department overstated benefits paid on behalf of universities by approximately \$41,300,000.

The Fiscal Control and Internal Auditing Act (FCIAA) (30 ILCS 10/3001) requires that all State agencies establish and maintain a system, or systems of internal fiscal and administrative controls to provide assurance that fiscal information is properly accounted, recorded, and accounted for to permit the preparation of accounts and reliable financial and statistical reports.

The Department stated this was due to errors with the Benefits Reimbursement System as well as new staff at both Bureau of Benefits and the Office of Fiscal Management. Those factors, combined with year-end time constraints, resulted in Financial Reporting using the prior year reporting methodology to maintain consistency from year to year.

Failure to ensure the accuracy and reasonableness of data used in the University Benefit Analysis could lead to misstatements in the amounts or health insurance coverage costs paid by the Department on behalf of State universities and other entities. The Illinois Office of Comptroller and State universities rely on calculations performed by the Department for annual GAAP reporting. (Finding Code No. 2016-001)

RECOMMENDATION

We recommend the Department implement procedures to ensure the preparation of the University Benefits Analysis is based on accurate and reliable data. The Department should consider the reasonableness and consistency of monthly contributions and covered employee count data to identify irregularities which may require adjustment for the University Benefit Analysis. The Department should also consider fluctuations in the universities' covered employee counts during the year in assessing the appropriate counts on which to base on-behalf contributions.

DEPARTMENT RESPONSE

The Department agrees with the recommendations. CMS Benefits will run the report monthly to check for reasonableness and consistency. On a monthly basis, CMS Benefits will investigate any excessive fluctuations in the number of covered employees. CMS Benefits will provide to CMS Division of Accounting/Financial Reporting the report of covered employees on a monthly basis. Based upon the monthly universities' covered employee count reports provided by CMS Benefits, CMS Accounting/Financial Reporting will use average covered employee counts for the University Benefits Analysis calculation.

Bureau of Benefits

FY2016 University Benefits Analysis

<u>Agency</u>	<u>University</u>	<u>Non-Exempt Contributions</u>	<u>Calculated Non-Exempt FTEs</u>	<u>Total Employees</u>	<u>Est. Exempt Employees</u>	<u>Est. Exempt Funding</u>	<u>Total. Est Contributions</u>
		(a)	(b)=(a)/23764	(c)	(d)=(c)-(b)	(e)=(d)*23764	(f)=(a)+(e)
608	Chicago State Univ	826,436	34.8	568.0	533.2	12,671,516	13,497,952
612	Eastern Illinois Univ	484,246	20.4	1,167.0	1,146.6	27,248,342	27,732,588
616	Governors State Univ	1,937,649	81.5	715.0	633.5	15,053,611	16,991,260
620	Northeastern Illinois Univ	2,020,313	85.0	1,174.0	1,089.0	25,878,623	27,898,936
628	Western Illinois Univ	1,023,896	43.1	1,611.0	1,567.9	37,259,908	38,283,804
636	Illinois State Univ	1,632,059	68.7	3,054.0	2,985.3	70,943,197	72,575,256
644	Northern Illinois Univ	2,207,029	92.9	3,209.0	3,116.1	74,051,647	76,258,676
664	Southern Illinois Univ	11,066,009	465.7	6,743.0	6,277.3	149,174,643	160,240,652
676	University of Illinois	78,927,400	3,321.3	25,428.0	22,106.7	525,343,592	604,270,992
601	Board of Higher Ed	153,746	6.5	35.6	29.1	692,338	846,084
605	Board of Governors	-	-	-	-	-	-
633	Board of Regents	-	-	-	-	-	-
684	Ill Comm College Board	251,499	10.6	45.3	34.7	825,142	1,076,641
691	Ill Student Assist. Comm	2,286,071	96.2	205.8	109.6	2,604,302	4,890,374
692	Ill Math and Sci Academy	36,018	1.5	220.7	219.2	5,209,212	5,245,230
693	St Univ Retirement System	2,708,006	114.0	127.0	13.1	311,133	3,019,139
695	St Univ Civil Serv Merit Bd	-	-	8.9	8.9	210,906	210,906
	Total	105,560,380	4,442.0	44,312.3	39,870.3	947,478,110	1,053,038,490

FY2016 Avg. Annual Cost per Employee (actuarial report exhibit 27B)=

23,764.00

NOTE: Attached notes are an integral part of this analysis.

State Employees Group Insurance Program FY 2016 Reimbursement Rate Summary for All Employees

	<u>FY 2016 Projected Number of Employees</u>		<u>FY 2016 Projected Unadjusted Updated Monthly Cost</u>		<u>FY 2016 Projected Total Monthly Cost</u>
Quality Care Health Plan					
Employee	17,164	\$	1,523.67	\$	313,827,305
Active One Dependent	3,227	\$	746.66	\$	28,913,476
Active Two Plus Dependent	4,011	\$	1,102.64	\$	53,072,318
Active Medicare Dependent	54	\$	279.07	\$	180,836
				\$	395,993,935
Managed Care Health Plans					
Employee	83,047	\$	1,423.21	\$	1,418,319,161
Active One Dependent	17,630	\$	544.20	\$	115,130,857
Active Two Plus Dependent	32,126	\$	1,027.39	\$	396,069,807
Active Medicare Dependent	122	\$	400.44	\$	586,244
				\$	1,930,106,069
Quality Care Dental Plan					
Employee	98,666	\$	21.17	\$	25,067,201
Employee One Dependent	20,795	\$	21.09	\$	5,262,897
Employee Two Plus Dependent	35,735	\$	58.38	\$	25,033,775
				\$	55,363,873
Managed Care Dental Plan					
Employee	0	\$	-	\$	-
Employee One Dependent	0	\$	-	\$	-
Employee Two Plus Dependent	0	\$	-	\$	-
				\$	-
Total Annual Cost				\$	2,381,463,877
Total Employees					100,211
Annual Cost Per Employee				\$	23,764
Monthly Cost Per Employee				\$	1,980.37
Updated Collected Monthly Cost Per Employee		\$	198,455,323		

NOTE: Attached notes are an integral part of this analysis.

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

UNIVERSITY BENEFITS ANALYSIS
EXAMINATION

Notes to the Schedules
As of and For the Year Ended June 30, 2016

1. Background

The Department of Central Management Services (Department) pays for the group insurance costs for certain university employees on behalf of all State-operated universities in Illinois. The Department refers to university employees as either exempt or non-exempt as follows:

- Exempt employees – Those employees whose group insurance costs the universities are exempt from paying because the Department covers the cost.
- Non-exempt employees – Those employees whose group insurance costs the universities are not exempt from paying. The Department does not pay for any of the group insurance costs of these employees.

At the end of each fiscal year, the Department prepares the University Benefits Analysis Report that summarizes exempt and non-exempt employees and exempt and non-exempt funding. The Department submits this report to the Illinois Office of the Comptroller (Comptroller) by August 1 following the end of each fiscal year. These amounts are utilized in the universities' fiscal year financial reporting. The Comptroller also uses these amounts to determine the amount of on-behalf revenue to allocate to the universities.

2. University Benefits Schedules Source Information

Information reported in the University Benefits Schedules was derived from a variety of sources. Non-exempt contributions, total covered employees, and estimated annual cost per employee were used in the calculations shown on the FY2016 University Benefits Analysis. The detail of the estimated annual cost per employee is shown in the State Employees Group Insurance Program FY2016 Reimbursement Rate Summary for All Employees. The Department has developed a detailed average cost rate setting methodology which incorporates the consultation of actuaries and other business consultants.

3. University Benefits Analysis Schedule Not Intended to Subtotal

The University Benefits Analysis schedule is prepared with imbedded calculations and is not intended to subtotal down columns or across rows as presented due to rounding of the various amounts. Calculations across rows and totals of columns are performed on unrounded numbers with the results rounded for presentation.