

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

**UNIVERSITY BENEFITS SCHEDULES  
EXAMINATION  
As of and For the Year Ended June 30, 2017**

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, 2017

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STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

**AGENCY OFFICIALS**

Director	Michael Hoffman, Acting (1/16/16 – present)
Assistant Directors	Markus Veile (1/20/15 – present) Amiel Harper (8/1/17– present) Jimmy Odom, Acting (1/13/17 – 5/8/17) Kimberly McCullough-Starks (3/23/15 – 7/25/16)
Chief Administrative Officer	Vacant
Chief Operating Officer	Vacant Jennifer Waldinger (6/30/15 – 6/15/17)
Chief Fiscal Officer	Mark Lewis, (7/1/17 – present) Karen Pape (3/3/15 – 6/30/17)
General Counsel	Ryan Green, Acting (11/1/16 – present) LaShonda Hunt, Acting (7/1/16 – 10/31/16)
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



November 9, 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 of the State of Illinois. We are responsible for disseminating the allocations to the Illinois Office of the Comptroller (IOC) and State Universities 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, 2017:

- A. The Department of Central Management Services (Department) developed and documented a methodology to allocate insurance premiums paid on behalf of the State Universities of the State of Illinois.
- B. The Department prepared the allocation as an estimate based on information available as of July 24, 2017, 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 FY2017 University Benefits Analysis spreadsheet distributed to the State Universities 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 FY2017 University Benefits Analysis spreadsheet.
- E. The Department allocated insurance premiums in a consistent, accurate and reasonable manner to the State Universities of the State of Illinois.
- F. The Department has verified the accuracy of the supporting information used in preparing the FY2017 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 2017 Reimbursement Rate Summary for All Employees" (FY 2018 Exhibit 27-B) utilized for the FY 2017 University Benefit Analysis were included in the data files reviewed by the independent actuary as part of the fiscal year 2018 rate development review, as reported on by the independent actuary in their report dated July 31, 2017.

Illinois Department of Central Management Services

**SIGNED ORIGINAL ON FILE**

Michael Hoffman, Acting Director

**SIGNED ORIGINAL ON FILE**

Mark Lewis, Fiscal Officer

**SIGNED ORIGINAL ON FILE**

Ryan Green, Legal Counsel

**SIGNED ORIGINAL ON FILE**

Karen Pape, Budget Manager

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

UNIVERSITY BENEFITS SCHEDULES  
EXAMINATION  
As of and For the Year Ended June 30, 2017

**EXAMINATION REPORT**

**SUMMARY**

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

Based on their examination, the accountants expressed a qualified opinion on the State of Illinois, Department of Central Management Services' University Benefits Schedules presented in accordance with the criteria in Notes 1 and 2 to the schedules.

**SUMMARY OF FINDINGS**

The accountants identified one matter involving a material misstatement of the University Benefit Schedules from the criteria in Notes 1 and 2. The item is described in the accompanying Schedule of Findings on pages 7-8 of this report as item 2017-001, 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 November 7, 2017.

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**SIKICH.COM**

## INDEPENDENT ACCOUNTANT'S REPORT

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have examined the accompanying FY2017 University Benefits Analysis, State Employee Group Insurance Program FY2017 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, 2017. The State of Illinois, Department of Central Management Services' management is responsible for presenting the University Benefits Schedules in accordance with the criteria set forth in Notes 1 and 2. Our responsibility is to express an opinion on the University Benefits Schedules based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the University Benefits Schedules are presented in accordance with the criteria, in all material respects. An examination involves performing procedures to obtain evidence about the University Benefits Schedules. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the University Benefits Schedules, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our qualified opinion.

As more fully described in the accompanying schedule of findings as item 2017-001, our examination disclosed errors in the data used by the State of Illinois, Department of Central Management Services, resulting in misstatements of the estimated cost of health insurance benefits paid on behalf of State universities.

In our opinion, except for the material misstatement described in the preceding paragraph, the University Benefits Schedules as of and for the year ended June 30, 2017 are presented in accordance with the criteria set forth in Notes 1 and 2, 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 State of Illinois, Department of Central Management Services' response to the finding identified in our examination is described in the accompanying schedule of findings. We did not examine the State of Illinois, Department of Central Management Services' 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 State Universities of the State of Illinois, and State of Illinois, Department of Central Management Services management, and is not intended to be and should not be used by anyone other than these specified parties.

*Sikich LLP*

Springfield, Illinois  
November 9, 2017

## SCHEDULE OF FINDINGS

**2017-001. FINDING** (Inaccurate data used during calculation of the University Benefit Analysis)

During our examination of the University Benefit Analysis (UBA) for June 30, 2017, 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.

Errors in the data used included the following:

- During our testing of non-exempt contributions, we noted a \$1,160,893 payment was erroneously entered into the Benefits Reimbursement System for the University of Illinois at Urbana-Champaign that was not a non-exempt contribution payment. Because this additional payment was entered, the amount of health insurance coverage costs paid by the Department on behalf of State universities was understated by \$1,160,893. The Department did not adjust the UBA for this understatement.
- The average cost per employee is a figure shown at the bottom of the UBA schedule, which represents the Department's estimated average cost of group health insurance benefits per covered member during the fiscal year. This figure is calculated as part of the annual State Employees Group Insurance Program rate setting process. During our review of the calculation, we noted the Department included a \$9,897,414 estimated Affordable Care Act (ACA) payment in the average cost calculation. However, a sunset provision in ACA on reinsurance fees was effective on December 31, 2016. Therefore, the Department did not pay this fee in fiscal year 2017, and this amount should not have been included as part of the calculation. As a result, the estimated costs paid by the Department on behalf of State universities were overstated by \$4,732,447. The overstatement by University follows:

Chicago State University	\$ 61,987
Eastern Illinois University	123,120
Governors State University	75,110
Northeastern Illinois University	127,174
Western Illinois University	174,758
Illinois State University	333,406
Northern Illinois University	346,849
Southern Illinois University	724,105
University of Illinois	2,765,938
Total	\$ 4,732,447

The Department did not adjust the UBA for these overstatements.

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.

During the previous engagement, errors occurred which were different than those noted during the fiscal year 2017 examination. In response to those exceptions, the Department stated it agreed with the recommendations provided in the finding.

Related to the exceptions noted for the fiscal year 2017 examination, Department management stated the issue with non-exempt contributions was a result of the payment being manually entered in error based on information from several different systems. Regarding the issue with the average cost calculation, the Department stated at the time of the calculations, there was no knowledge of the sunset of this tax.

Failure to ensure the accuracy and reasonableness of data used in the University Benefit Analysis could lead to misstatements in the amounts of health insurance coverage costs paid by the Department on behalf of State universities. The State Comptroller and State universities rely on calculations performed by the Department for annual GAAP reporting. (Finding Code No. 2017-001, 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.

#### **DEPARTMENT RESPONSE**

The Department agrees with the finding and recommendation. The Department will strive to implement financial reporting procedures to ensure the accuracy, reliability and reasonableness of data utilized to perform the University Benefit Analysis.

**Bureau of Benefits**

**FY2017 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)/24,008	(c)	(d)=(c)-(b)	(e)=(d)*24,008	(f)=(a)+(e)
608	Chicago State Univ	401,858	16.7	581	564.3	13,546,790	13,948,648
612	Eastern Illinois Univ	566,355	23.6	1,154	1,130.4	27,138,877	27,705,232
616	Governors State Univ	1,797,310	74.9	704	629.1	15,104,322	16,901,632
620	Northeastern Illinois Univ	2,221,087	92.5	1,192	1,099.5	26,396,449	28,617,536
628	Western Illinois Univ	922,921	38.4	1,638	1,599.6	38,402,183	39,325,104
636	Illinois State Univ	1,663,700	69.3	3,125	3,055.7	73,361,300	75,025,000
644	Northern Illinois Univ	2,760,751	115.0	3,251	3,136.0	75,289,257	78,050,008
664	Southern Illinois Univ	9,676,323	403.0	6,787	6,384.0	153,265,973	162,942,296
676	University of Illinois	72,849,306	3,034.4	25,925	22,890.6	549,558,094	622,407,400
	<b>Total</b>	<b>92,859,610</b>	<b>3,867.9</b>	<b>44,357</b>	<b>40,489.1</b>	<b>972,063,246</b>	<b>1,064,922,856</b>

FY2017 Avg. Annual Cost per Employee (actuarial report exhibit 27B)=

24,008.00

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

**State Employees Group Insurance Program  
 FY 2017 Reimbursement Rate Summary for All Employees**

	<u>FY 2017 Projected Number of Employees</u>		<u>FY 2017 Projected Unadjusted Updated Monthly Cost</u>		<u>FY 2017 Projected Total Monthly Cost</u>
<b>Quality Care Health Plan</b>					
Employee	16,111	\$	1,607.90	\$	310,858,530
Active One Dependent	3,023	\$	863.15	\$	31,311,788
Active Two Plus Dependent	3,716	\$	1,101.79	\$	49,130,999
Active Medicare Dependent	58	\$	319.93	\$	222,669
				\$	391,523,986
<b>Managed Care Health Plans</b>					
Employee	79,238	\$	1,417.47	\$	1,347,811,451
Active One Dependent	16,866	\$	563.00	\$	113,947,524
Active Two Plus Dependent	30,671	\$	1,025.44	\$	377,415,191
Active Medicare Dependent	125	\$	407.13	\$	610,699
				\$	1,839,784,865
<b>Quality Care Dental Plan</b>					
Employee	93,865	\$	23.86	\$	26,873,735
Employee One Dependent	19,841	\$	21.06	\$	5,013,104
Employee Two Plus Dependent	33,999	\$	63.53	\$	25,917,478
				\$	57,804,316
<b>Managed Care Dental Plan</b>					
Employee	0	\$	-	\$	-
Employee One Dependent	0	\$	-	\$	-
Employee Two Plus Dependent	0	\$	-	\$	-
				\$	-
Total Annual Cost				\$	2,289,113,167
Total Employees					95,349
Annual Cost Per Employee				\$	24,008
Monthly Cost Per Employee				\$	2,000.64
Updated Collected Monthly Cost Per Employee		\$	190,759,431		

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

STATE OF ILLINOIS  
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

UNIVERSITY BENEFITS SCHEDULES  
EXAMINATION

Notes to the Schedules  
As of and For the Year Ended June 30, 2017

**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 public universities in Illinois. The Department refers to university employees as either exempt or non-exempt as follows:

- Exempt employees – The employer does not reimburse CMS for the employer’s share of Group Insurance. The employer’s share is paid by using General Revenue Funds.
- Non-exempt employees – The employer reimburses CMS for the employer’s share of Group Insurance from non-GRF funds.

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 FY2017 University Benefits Analysis. The detail of the estimated annual cost per employee is shown in the State Employees Group Insurance Program FY2017 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 Schedules Not Intended to Subtotal**

The University Benefits Analysis schedules are prepared with imbedded calculations and are 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.