



**STATE OF ILLINOIS
DEPARTMENT OF
CENTRAL MANAGEMENT SERVICES**

**UNIVERSITY BENEFITS SCHEDULES
EXAMINATION
As of and For the Year Ended June 30, 2018**

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



SIKICH.COM

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

UNIVERSITY BENEFITS SCHEDULES
EXAMINATION
As of and For the Year Ended June 30, 2018

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STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

UNIVERSITY BENEFITS SCHEDULES
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As of and For the Year Ended June 30, 2018

AGENCY OFFICIALS

| | |
|------------------------------|--|
| Director | Tim McDevitt, Acting (3/3/18 – present) Michael Hoffman, Acting (through 3/2/18) |
| Assistant Directors | Sarah Kerley, Acting (2/1/18 – present) Ben Jones, Acting (6/22/18– present) Amiel Harper (8/1/17 – 6/15/18) Markus Veile (through 1/31/18) |
| Chief Administrative Officer | Vacant |
| Chief Operating Officer | Ngozi Okorafor (8/1/18 – present) Vacant (through 7/31/18) |
| Fiscal Officer | Mark Lewis (7/1/17 – present) |
| Legal Counsel | Kathleen Abbott, Acting (7/2/18 – present) Ryan Green (through 6/29/2018) |
| Chief Internal Auditor | Jack Rakers (5/16/18 – present) Jack Rakers, Acting (through 5/15/18) |

Agency main offices are located at:

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



November 27, 2018

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 to 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, 2018:

- 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 27, 2018 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 FY2018 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 FY2018 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 FY2018 University Benefits Analysis.

G. The Department utilized the services of an independent actuary to review the reasonableness of the fiscal year 2018 State Employee Group Insurance Program (SEGIP) premium equivalent rate development calculations (developed in fiscal year 2017 to be published and utilized for fiscal year 2018). 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 2018 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

Tim McDevitt, Acting Director

SIGNED ORIGINAL ON FILE

Mark Lewis, Fiscal Officer

SIGNED ORIGINAL ON FILE

Kathleen Abbott, Legal Counsel

STATE OF ILLINOIS
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

UNIVERSITY BENEFITS SCHEDULES
EXAMINATION
As of and For the Year Ended June 30, 2018

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 an unmodified 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 2018-001, inaccurate data used during calculation of the University Benefit Schedules. The Department adjusted the University Benefits Schedules to correct the misstatements.

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 19, 2018.

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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 FY2018 University Benefits Analysis, State Employee Group Insurance Program Adjusted Reimbursement Rates for FY 2018, and the related Notes to the Schedules, collectively referred to as the University Benefits Schedules, as of and for the year ended June 30, 2018. 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 opinion.

In our opinion, the University Benefits Schedules as of and for the year ended June 30, 2018 are presented in accordance with the criteria set forth in Notes 1 and 2, in all material respects.

As more fully described in the accompanying schedule of findings as item 2018-001, 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. The State of Illinois, Department of Central Management Services adjusted the University Benefits Schedules to correct the misstatements.

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.

There were no immaterial findings that have been excluded from this report.

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.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
November 27, 2018

SCHEDULE OF FINDINGS

2018-001. FINDING (Inaccurate data used during calculation of the University Benefit Schedules)

During our examination of the University Benefit Schedules for June 30, 2018, 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:

- The average cost per employee is a figure shown at the bottom of the University Benefit Analysis (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 (SEGIP) rate setting process. During our review of the calculation, we noted the Department included a \$10,392,285 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 2018, 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 approximately \$4.1 million.
- During our testing of non-exempt contribution, we noted a duplicate payment erroneously entered into the Benefits Reimbursement System for Governors State University. One of the checks was voided; however, this was not reflected in the Benefits Reimbursement System. This resulted in the amount of health insurance coverage costs paid by the Department on behalf of State universities being understated by \$28,752.

The Department adjusted the fiscal year 2018 University Benefit Schedules to correct these errors.

In addition to the errors noted in the calculation, the Department was unable to provide documentation that an internal review of calculations to determine the average cost of health insurance coverage per employee had been performed separate from their preparation.

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 recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports.

During the previous engagement, the Department stated it would strive to implement financial reporting procedures to ensure the accuracy, reliability and reasonableness of data utilized to perform the University Benefit Analysis.

Related to the exceptions noted for the fiscal year 2018 examination, Department management stated the estimated exempt funding overstatement was the result of the prospective estimation process utilized to calculate the average cost per employee. The fiscal year 2018 figures were produced before the Department was aware of the sunset provision in ACA. The Department has modified the UBS schedule to reflect the change in the calculation resulting from the removal of the ACA payment. The duplicated payment noted was due to complexities in the Benefits Reimbursement System.

Failure to ensure the accuracy and reasonableness of data used in the University Benefit Schedules 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. For the fiscal year 2019 SEGIP rate development process, and thus the fiscal year 2019 University Benefit Schedules, the Department has chosen not to utilize an actuary for review. Therefore, documented review by someone knowledgeable about the SEGIP rate setting process will be even more critical. (Finding Code No. 2018-001, 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. Furthermore, we recommend the Department strengthen controls to ensure SEGIP rate development calculations are performed and reviewed in a timely and accurate manner. This should include documentation of detailed instructions on the accumulation of data, formation of estimates or assumptions, performance of calculations, and review of the results of calculations.

DEPARTMENT RESPONSE

The Department agrees with the finding and recommendation. The Department will continue to prepare the UBA based upon the most accurate and reliable data available at the time of preparation. The Department will continue to perform timely and accurate reviews of the rate development calculations as well as work toward improving the documentation of such calculations.

Bureau of Benefits

FY2018 University Benefits Analysis

| Agency | University | Non-Exempt Contributions | Calculated Non-Exempt FTEs | Total Employees | Est Exempt Employees | Est Exempt Funding | Total Est Contributions |
|--------|----------------------------|--------------------------|----------------------------|-----------------|----------------------|--------------------|-------------------------|
| | | (a) | (b)=(a)/20,070 | (c) | (d)=(c)-(b) | (e)=(d)*20,070 | (f)=(a)+(e) |
| 608 | Chicago State Univ | \$ 306,219 | 15.3 | 571.0 | 555.7 | \$ 11,153,751 | \$ 11,459,970 |
| 612 | Eastern Illinois Univ | 431,935 | 21.5 | 1,037.0 | 1,015.5 | 20,380,655 | 20,812,590 |
| 616 | Governors State Univ | 642,088 | 32.0 | 535.0 | 503.0 | 10,095,362 | 10,737,450 |
| 620 | Northeastern Illinois Univ | 2,218,313 | 110.5 | 932.0 | 821.5 | 16,486,927 | 18,705,240 |
| 628 | Western Illinois Univ | 875,480 | 43.6 | 1,515.0 | 1,471.4 | 29,530,570 | 30,406,050 |
| 636 | Illinois State Univ | 1,408,361 | 70.2 | 2,887.0 | 2,816.8 | 56,533,729 | 57,942,090 |
| 644 | Northern Illinois Univ | 2,456,539 | 122.4 | 2,775.0 | 2,652.6 | 53,237,711 | 55,694,250 |
| 664 | Southern Illinois Univ | 7,972,097 | 397.2 | 6,114.0 | 5,716.8 | 114,735,883 | 122,707,980 |
| 676 | University of Illinois | 67,232,502 | 3,349.9 | 23,855.0 | 20,505.1 | 411,537,348 | 478,769,850 |
| 676A | UofI Foundation | 1,815,769 | n/a | 106.0 | n/a | n/a | 1,815,769 |
| | Total | \$ 85,359,301 | 4,162.6 | 40,327.0 | 36,058.4 | \$ 723,691,937 | \$ 809,051,239 |

FY2018 Avg. Annual Cost per Employee (actuarial report exhibit 28A)= \$ 20,070

*In previous years total employees were based on full-time equivalent employees. In the current year the Department used the actual enrolled employees, resulting in a decreased number of employees.

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

State Employees Group Insurance Program Adjusted Reimbursement Rates for FY 2018

| | <u>FY 2018 Plans</u> | <u>FY 2018 Unadjusted Monthly Cost</u> | <u>FY 2018 Total Monthly Cost</u> |
|----------------------------------|----------------------|--|---------------------------------------|
| Health and Life Insurance | | | |
| Quality Care Health Plan | | | |
| Projected Cost for FY 2018 | | \$ 1,725.12 | |
| Adjustment for FY 2012 | | \$ (39.75) | |
| Adjustment for FY 2013 | | \$ (81.75) | |
| Adjustment for FY 2014 | | \$ (113.62) | |
| Adjustment for FY 2015 | | \$ (70.83) | |
| Adjustment for FY 2016 | | \$ (122.68) | |
| Employee | 16,106 | \$1,296.49 | \$20,881,342.38 |
| Active One Dependent | 3,024 | \$ 953.63 | \$2,883,784.35 |
| Active Two Plus Dependent | 3,715 | \$ 1,208.96 | \$4,491,286.14 |
| Active Medicare Dependent | 58 | \$ 375.50 | \$21,778.84 |
| Managed Care Health Plans | | | |
| Projected Cost for FY 2018 | | \$ 1,480.54 | |
| Adjustment for FY 2012 | | (\$39.75) | |
| Adjustment for FY 2013 | | (\$81.75) | |
| Adjustment for FY 2014 | | (\$113.62) | |
| Adjustment for FY 2015 | | (\$70.83) | |
| Adjustment for FY 2016 | | (\$122.68) | |
| Employee | 79,204 | \$1,051.92 | \$83,315,937.30 |
| Active One Dependent | 16,863 | \$ 588.29 | \$9,920,388.61 |
| Active Two Plus Dependent | 30,657 | \$ 1,069.95 | \$32,801,559.42 |
| Active Medicare Dependent | 125 | \$ 430.36 | \$53,794.97 |
| Dental Insurance | | | |
| Quality Care Dental Plan | | | |
| Employee | 93,865 | \$ 25.08 | \$2,354,230.22 |
| Employee One Dependent | 19,841 | \$ 22.00 | \$436,584.23 |
| Employee Two Plus Depend | 33,999 | \$ 66.04 | \$2,245,427.55 |
| Managed Care Dental Plan | | | |
| Employee | 0 | \$ - | \$0.00 |
| Employee One Dependent | 0 | \$ - | \$0.00 |
| Employee Two Plus Depend | 0 | \$ - | \$0.00 |
| Total Monthly Cost | | | <u>159,406,114.01</u> |
| Total Employees Covered | | | <u>95,310</u> |
| Monthly Cost Per Employee | | | 1,672.50 |
| 12 months | | | 12 |
| Annual Cost Per Employee | | | <u>20,070.02</u> |

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, 2018

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 the Department for the employer’s share of Group Insurance. The employer’s share is paid by using General Revenue Funds (GRF).
- Non-exempt employees – The employer reimburses the Department 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 FY2018 University Benefits Analysis. The detail of the estimated annual cost per employee is shown in the State Employees Group Insurance Program Adjusted Reimbursement Rates for FY2018. 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 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.