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# REPORT DIGEST

**DEPARTMENT OF  
HEALTHCARE AND  
FAMILY SERVICES -  
TEACHER HEALTH  
INSURANCE SECURITY  
FUND**

**FINANCIAL AUDIT**

For the Year Ended:  
June 30, 2009

**Summary of Findings:**

Total this audit	2
Total prior audit	2
Repeated from last audit	1

Release Date:  
May 11, 2010



State of Illinois  
Office of the Auditor General  
**WILLIAM G. HOLLAND**  
AUDITOR GENERAL

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## SYNOPSIS

- The Department's year-end financial reporting was not timely completed and contained weaknesses and inaccuracies.
- The Department did not charge the correct health insurance premium rates for the Teachers Retirement Insurance Program.

{Financial Information and Activity Measures summarized on the reverse page.}

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**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**  
**TEACHER HEALTH INSURANCE SECURITY FUND**  
**FINANCIAL AUDIT**  
**Year Ended June 30, 2009**

<b>FINANCIAL OPERATIONS (in thousands)</b>	<b>FY 2009</b>
<b>Additions</b>	
Contributions	
Employer.....	\$ 66,312
State.....	75,474
Plan Member:	
Activities.....	88,416
Retirees.....	148,726
Federal government Medicare Part D .....	22,285
Consolidated Omnibus Budget Reconciliation Act .....	<u>220</u>
Total contributions .....	401,433
Interest income.....	<u>1,388</u>
Total additions .....	<u>402,821</u>
<b>Deductions</b>	
Benefit payments .....	408,243
Administrative expense .....	<u>2,220</u>
Total deductions .....	<u>410,463</u>
<b>Net increase/(decrease) .....</b>	(7,642)
<b>Net assets held in trust for other postemployment benefits</b>	
Beginning of year .....	<u>62,245</u>
End of year.....	<u>\$ 54,603</u>

<b>SUPPLEMENTARY INFORMATION</b>	<b>FY 2009</b>
Number of retirees and beneficiaries receiving benefits.....	65,543
Number of waived retirees who may elect healthcare coverage in the future.....	15,984
Number of terminated plan members entitled to but not yet receiving benefits .....	15,867
Number of active plan members .....	<u>164,797</u>
Total.....	<u>262,191</u>
Number of participating employers.....	1,007

<b>AGENCY DIRECTOR</b>
During Audit Period: Mr. Barry S. Maram (7/1/08 through 4/15/10)
Currently: Ms. Julie Hamos (4/16/10 through current)

## INTRODUCTION

This digest covers the financial audit of the Teacher Health Insurance Security Fund for the year ended June 30, 2009. The financial audit report includes two findings pertaining to significant deficiency in internal control.

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### FINANCIAL STATEMENT PREPARATION

The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Illinois Office of the Comptroller (Comptroller) contained weaknesses and inaccuracies. These problems, if not detected and corrected, could materially misstate the Teacher Health Insurance Security Fund's (Fund) financial statements. In addition, financial reporting was not timely.

During our audit of the June 30, 2009 Fund's financial statements, we noted:

- The GAAP Reporting Package was not submitted to the Comptroller in a timely manner. The GAAP Reporting Package was submitted to the Comptroller 10 days late. In addition, the Comptroller submitted to the Department review comments for the GAAP Reporting Package on September 28, 2009; however, the Department did not provide a response to those review comments until October 23, 2009. Further, a complete set of the Fund's financial statements **was not** provided to the auditors **until** February 19, 2010, seven and a half months **after** the year end.
- To complete the Fund's financial statements, the Department was required to obtain and include in the Fund's financial statements actuarial valuations for purposes of complying with the requirements of Statement No. 43 of the Governmental Accounting Standards Board. These actuarial valuations **were not** available to the auditors **until** January 8, 2010.

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**Financial statements not provided to auditors until seven and a half months after year-end**

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**GASB 43 actuarial valuations not available to auditors until January 8, 2010**

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**Reporting of revenue and expense accounts inaccurate**

- We noted weaknesses in the financial accounting for, and reporting of, revenue and expense accounts. Specifically, the Department incorrectly classified employer contributions and member contributions resulting in an adjustment totaling \$8.531 million. The Department also did not correctly calculate revenues and expenses resulting in an overall adjustment totaling \$1.782 million to reduce revenues and expenses. (Finding 1, pages 17-18)

We recommended the Department implement additional internal control procedures to ensure GAAP Reporting Packages are prepared in an accurate and timely manner.

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**Department agrees with auditors**

Department officials concurred with our recommendation and stated that they are continually assessing the financial reporting process and implementing procedures to improve upon timeliness and accuracy. As an ongoing effort the Department continues to strive to meet the mandated deadlines, which resulted in the GAAP Reporting Package being submitted in a more timely manner this year than in prior years.

**INCORRECT HEALTH INSURANCE PREMIUM RATES CHARGED**

The Department did not charge the correct health insurance premium rates for the Teachers' Retirement Insurance Program.

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**Health care premium rate-setting methodology not adequate**

The Department set the fiscal year 2009 health insurance premium rates for Teachers' Retirement System benefit recipient and dependent beneficiaries by increasing the prior year rate by 5%. The Department did not take into account the percentage that was to be paid by the Teacher Health Insurance Security Fund. As a result, we noted that the Department did not have an adequate rate-setting methodology used to determine the amount of the health care premiums to be charged. In addition, the Department did not present the rate-setting methodology (included but not limited to utilization levels and costs) used to determine health care premiums to the Teachers' Retirement System by April 15<sup>th</sup> as required.

We also noted the following 2009 premium rates of Teachers' Retirement Insurance Program health insurance were not in compliance with parameters established in State statute.

- The monthly health insurance premium rate charged to a Teachers' Retirement System benefit recipient for ages twenty-three through sixty-four selecting the medical coverage program was \$206.77; however, the health insurance premium rate should have only been \$205.12. The benefit recipients were overcharged a total of \$19,744 during fiscal year 2009.
- The monthly health insurance premium rate charged to a Teachers' Retirement System benefit recipient for ages sixty-five and over selecting the medical coverage program was \$310.97; however, the health insurance premium rate should have only been \$307.38. The benefit recipients were overcharged a total of \$6,570 during fiscal year 2009.
- The monthly health insurance premium rate charged to a Teachers' Retirement System benefit recipient for ages twenty-three through sixty-four selecting the major medical coverage program was \$413.53; however, the health insurance premium rate should have only been \$410.25. The benefit recipients were overcharged a total of \$297,703 during fiscal year 2009.
- The monthly health insurance premium rate charged to a Teachers' Retirement System benefit recipient for ages sixty-five and over selecting the major medical coverage program was \$621.93; however, the health insurance premium rate should have only been \$614.76. The benefit recipients were overcharged a total of \$61,103 during fiscal year 2009.
- The monthly health insurance premium rate charged to a Teachers' Retirement System dependent beneficiary who is Medicare primary was \$252.09; however, the health insurance premium rate should have only been \$232.43. The benefit recipients were overcharged a total of \$499,914 during fiscal

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**Teacher Retirement System  
benefit recipients and  
dependent beneficiaries  
overcharged a total of  
\$885,034**

year 2009. (Finding 2, pages 20-22)

We recommended the Department ensure health insurance premium rates are set for the Teachers' Retirement Insurance Program as required by the State Employees Group Insurance Act of 1971. Further, the Department should ensure adequate rate setting methodologies are established and make annual required reports to the Teachers' Retirement System.

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**Department agrees with auditors**

Department officials concurred with our recommendation and stated that they will ensure health insurance premium rates are set for the Teachers' Retirement Insurance Program as required by the statute. Furthermore, the Department stated that they will submit the rate-setting methodology (including but not limited to utilization levels and costs) used to determine the amount of the health care premiums to the Teachers' Retirement System by April 15, 2010.

**AUDITORS' OPINION**

Our auditors state the financial statements of the Teacher Health Insurance Security Fund as of June 30, 2009, are fairly presented in all material respects.

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WILLIAM G. HOLLAND, Auditor General

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**AUDITORS ASSIGNED**

This audit was performed by the staff of the Office of the Auditor General.