



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
STATE EMPLOYEES GROUP INSURANCE PROGRAM

**Compliance Examination – Schedule of Allocation
 For the Year Ended June 30, 2020**

Release Date: October 20, 2021

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

INTRODUCTION

This digest covers the Compliance Examination of the Toll Highway Specific Liability Percentage Calculation, the Schedule of Employer Allocations by Fund, the Schedule of University Special Funding Situations, the Schedule of Other Post Employment Benefit (OPEB) Amounts by Fund, and the Schedule of Deferred Amounts by Measurement Year of the State Employee Group Insurance Program (SEGIP) as of and for the year ended June 30, 2020, and the related notes to the Schedules.

The Department of Central Management Services (Department), with the assistance of the public retirement systems sponsored by the State, is the administrator of this single-employer defined benefit OPEB plan not administered through a trust. The plan was established to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Certain agencies and funds of the State of Illinois present financial statements in accordance with generally accepted accounting principles (GAAP) and those agencies and fund employers must recognize their proportionate share of the collective OPEB amounts for OPEB provided to members through the SEGIP plan in order to present their financial statements in accordance with GAAP. The Governmental Accounting Standards Board (GASB) Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions requires the participating entities that prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP) to recognize their proportionate share of certain collective OPEB amounts in their financial statements, which includes the net OPEB liability.

Prior to the implementation of GASB Statement 75, the portion of the Plan’s liability not covered by assets was not allocated among the agencies and funds for financial reporting purposes. GASB Statement 75 changed previously followed financial reporting requirements and as a result agencies and funds are required to report their portion of the collective OPEB amounts in their GAAP basis financial statements.

Due to the agencies and funds needing to report their proportionate share of the collective OPEB amounts in their financial statements prepared in accordance with GAAP, the Department has prepared the Toll Highway Specific Liability Percentage Calculation, Schedule of Employer Allocations by Fund, the Schedule of University Special Funding Situations, the Schedule of OPEB Amounts by Fund, and the Schedule of Deferred Amounts by

Measurement Year which provide the necessary financial information for each entity to report their proportionate share of the collective OPEB amounts in their financial statements. By having these schedules examined it also provides the entities and the State's auditors an Independent Accountant's Opinion on the allocations and collective OPEB amounts reported in the Schedules.

The SEGIP net OPEB liability at July 1, 2019 was \$43.9 billion. At June 30, 2020, the SEGIP net OPEB liability was \$42.4 billion.

SYNOPSIS

- **(20-01)** The Department failed to separately state specific other postemployment benefits (OPEB) balances for the Illinois State Toll Highway Authority (Tollway) causing errors within its allocation of OPEB amounts related to the SEGIP to the State's funds, public universities, and the Tollway.
- **(21-02)** The Department did not ensure the repayment by the Tollway of the pro rata share of certain retiree costs incurred by the SEGIP was complete and accurate.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).

Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.

Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**FAILURE TO SEPARATELY STATE SPECIFIED
OPEB BALANCES FOR TOLLWAY**

The Department of Central Management Services (Department) failed to separately state specific other postemployment benefits (OPEB) balances for the Illinois State Toll Highway Authority (Tollway) causing errors within its allocation of OPEB amounts related to the State Employees Group Insurance Program (SEGIP) to the State’s funds, public universities, and the Tollway.

**Tollway’s employee related costs
consist of four groups**

During testing, we noted employee-related costs incurred by the Tollway include both Tollway employees and staff of the Illinois State Police (ISP) consisting of four groups, as defined and further described below:

- 1) **“True Tollway Employees”** work for the Tollway, including its administrative, engineering, traffic, construction, and maintenance staff. These employees are paid on Tollway payroll vouchers and participate in the Tollway’s own group insurance program. Upon retirement, they transition to SEGIP for their OPEB. SEGIP does not receive a “retiree-load” charge (a charge added to contributions for current employees to obtain cash to pay benefit costs for retirees on a pay-as-you-go basis) for these employees’ current benefits provided by the Tollway’s own group insurance plan.
- 2) **“ISP District 15 State Troopers”** consist of two groups providing personal services within ISP District 15, which patrols the highways and facilities which encompass the Tollway’s operations.
 - a. The majority of these employees participate in the SEGIP for both their current employee benefits and OPEB during retirement.
 - b. Master sergeants, however, can opt-out of SEGIP for healthcare benefits and participate in the Teamsters Local No. 727 Health and Welfare Benefits Fund for health insurance along with SEGIP for vision, dental, and life insurance benefits as an employee and then transition to SEGIP for all of their OPEB at retirement.

All troopers are paid on ISP’s payroll vouchers which are charged against the Tollway’s agency number and accounts. These vouchers include contributions to SEGIP for all troopers’ SEGIP-provided benefits. In addition, the

Department prepares supplemental billings charged to the Tollway's accounts for SEGIP to recover the healthcare costs paid to the Teamsters Local No. 727 Health and Welfare Benefits Fund along with the associated "retiree-load" for SEGIP.

- 3) ***"ISP District 15 Support Staff"*** are Tollway employees supporting the troopers assigned to ISP District 15. These employees are paid on Tollway payroll vouchers and participate in the Tollway's own group insurance program until they transition to SEGIP for their OPEB at retirement. SEGIP does not receive a "retiree-load" charge calculated on these employees' current benefits from the Tollway's own group insurance plan.

"retiree-load" not charged by the Department

Tollway reimburses SEGIP for pro rata share

Because the "True Tollway Employees" and "ISP District 15 Support Staff" participate in the Tollway's group insurance program until retirement, the Department has not charged the "retiree-load" built into active-employee SEGIP contributions to fund pay-as-you-go costs associated with retirees participating in SEGIP. Rather, the Tollway reimburses SEGIP for the pro rata share of the cost of providing retiree benefits to those retirees who had service in "True Tollway Employees" and "ISP District 15 Support Staff" positions compared to their total service credit to the State as determined by the State Employees' Retirement System of Illinois (SERS), as required by the State Employees Group Insurance Act of 1971 (Act) (5 ILCS 375/11).

only current employee contributions considered

material allocation error resulted

During our review of the SEGIP allocation, we noted the Department only considered current employee contributions (accounted for within detail object code 1180 group insurance contributions) to SEGIP within its allocation methodology. Both the Department and the Tollway failed to identify the pro rata share for "True Tollway Employees" and "ISP District 15 Support Staff" had not been considered in SEGIP's allocation methodology, which resulted in a material allocation error.

contributions significantly overstated

A collateral problem to this matter is the contributions reported in SEGIP's allocation for the Illinois State Toll Highway Authority Fund (Fund 455), while excluding detail object code 1180 group insurance contributions to the Tollway's own group insurance plan, did not exclude contributions to finance the specific-liability associated with retirees from the "True Tollway Employees" and "ISP District 15 Support Staff" groups. Therefore, Fund 455's contributions which should have been limited to only the "ISP District 15 State Troopers" groups were significantly overstated.

Department recomputed allocation

After these errors were brought to the attention of Department officials, the Department recomputed SEGIP's Fiscal Year 2019 allocation (the beginning balance of Fiscal Year 2020) and corrected SEGIP's Fiscal Year 2020 allocation. As such, Fiscal Year 2020's beginning balances are presented in this

report along with SEGIP's ending balances as reflected in the Table of Contents. (Finding 1, pages 268-271).

We recommended the Department take immediate action to enhance the Department's internal controls to make certain SEGIP's allocation on a go-forward basis is complete and accurate by ensuring:

- 1) Department officials have a thorough understanding of the Tollway's various types of employees and unique statutory provision impacts SEGIP and
- 2) detail object code 1180 group insurance contributions from the Tollway used in SEGIP's allocation are limited to contributions associated with ISP District 15 State Troopers only, which are annually reconciled between the Department's records and Tollway's records.

Further, we recommended the Department enhance its internal and external communications to help ensure all information impacting SEGIP has been considered and accounted for when preparing SEGIP's annual allocation.

Department officials agreed with recommendation

The Department agreed with the finding and recommendation and stated it will continue to enhance its internal controls to help ensure SEGIP'S allocation is complete and accurate. Additionally, the Department stated it will continue to strengthen its internal and external communications to help ensure all information impacting SEGIP has been considered.

NONCOMPLIANCE WITH THE STATE EMPLOYEES GROUP INSURANCE ACT OF 1971

The Department did not ensure the repayment by the Illinois State Toll Highway Authority (Tollway) of the pro rata share of certain retiree costs incurred by the State Employees Group Insurance Program (SEGIP) was complete and accurate.

Department Director is the administrator of SEGIP

The State Employees Group Insurance Act of 1971 (Act) (5 ILCS 375/5) ordains the Department's Director as the administrator of SEGIP to fulfill the State's policy of assuring affordable, quality benefits are provided to the State's eligible employees and retirees and their dependents. As further described in Finding 2020-001, employee-related costs incurred by the Tollway include both Tollway employees and staff of the Illinois State Police (ISP) and consist of four groups. The "True Tollway Employees" and "ISP District 15 Support Staff" groups are paid on Tollway payroll vouchers and participate in the Tollway's group insurance program until they transition to SEGIP for their OPEB at retirement. As these groups participate in the Tollway's group insurance program until retirement, the Department has not collected the "retiree-load" charge (a charge added to contributions for

“retiree-load” charge not collected

current employees to obtain cash to pay benefit costs for retirees on a pay-as-you-go basis) built into active-employee SEGIP contributions to fund costs associated with retirees participating in SEGIP. Rather, the Act (5 ILCS 375/11) requires the Tollway reimburse SEGIP for the pro rata share of the cost of providing retiree benefits to those retirees who had service in “True Tollway Employees” and “ISP District 15 Support Staff” positions compared to their total service to the State.

To enable the Tollway and the Department to accomplish this mandate during Calendar Year 2020, the State Employees’ Retirement System of Illinois (SERS) sent the Tollway a monthly extraction of Tollway-associated retirees along with each retiree’s total SERS’ service credit months and months of total service at the Tollway from SERS’ records. Further, this extraction included the State-paid OPEB costs for retirees, except for the State’s costs for “CMS Direct Bill” retirees, which SERS had previously extracted from the Department’s third-party administrator of SEGIP benefits for another purpose. The totality of this report was imported into the Tollway’s systems to generate a monthly invoice, which was sent to and approved by CMS. These monthly invoices were then aggregated together across the calendar year for one cash contribution by the Tollway in February 2021.

Under Section 11 of the Act, the Tollway and the Department are solely responsible for ensuring compliance with this mandate. However, the Department has no authority to determine or validate eligible service credits under the Illinois Pension Code (40 ILCS 5/) and can only ensure appropriate charges based on service credits as determined by the applicable retirement system. While SERS has some of the historical records necessary for the Tollway and the Department to fulfill this mandate, neither the Department nor the Tollway have communicated with nor entered into a written agreement with SERS so SERS officials could understand the information needs of the Tollway and the Department. As a result, the following occurred:

no written agreement existed

- Each retiree’s service months to the Tollway were not calculated on the same basis as SERS’ total months of service credit. After consultation with officials at the Department with input from SERS officials, it was determined SEGIP benefits are processed based on the service credit granted by SERS. As such, a month of Tollway service should only be included on the monthly extraction if SERS also granted service credit with the associated month of service.

inaccurate monthly extraction

- The monthly extraction from SERS did not include all retirees from the “True Tollway Employees” and “ISP District 15 Support Staff” groups, while some retirees

from the Tollway's other groups were incorrectly included within the monthly extraction.

- The monthly extraction from SERS did not include the State's costs for "CMS Direct Bill" retirees. These retirees, as their pension is too small to cover their retiree contribution to SEGIP for their benefits, receive a supplemental billing from the Department for balance due.
- Officials at the Tollway and the Department failed to demonstrate the amounts remitted by the Tollway for the pro rata share of its retirees from the "True Tollway Employees" and "ISP District 15 Support Staff" groups to SEGIP were complete and accurate.

After bringing these problems to the attention of officials at the Tollway, SERS, and the Department, SERS prepared a new data extraction of OPEB costs associated with retirees from the "True Tollway Employees" and "ISP District 15 Support Staff" groups for the months of June 2018, June 2019, and June 2020. The amounts due to SEGIP from these months were used to estimate the total amount due to SEGIP from the 42-month period starting on July 1, 2017, through December 31, 2020. This 42 month period was selected as OPEB records were not readily available from SERS due to a system conversion at the Department for periods which occurred before July 1, 2017.

SERS prepared new data extraction

Tollway officials estimated the Tollway had a net underpayment of contributions to SEGIP for the retirees from the "True Tollway Employees" and "ISP District 15 Support Staff" groups during this 42-month period of \$18,438,839. (Finding 2, pages 272-275).

\$18.4 million estimated underpayment of contributions to SEGIP

We recommended the Department communicate with the Tollway and SERS so all parties have a complete understanding of both the overall process and Tollway's various employee groups so the factors unique to each group can be considered in calculating the Tollway's monthly retiree OPEB cost repayment pursuant to Section 11 of the Act. When an understanding has been reached, the parties should enter into a formal, written interagency agreement to memorialize each party's roles and responsibilities to fulfill this mandate. At a minimum, officials at the Tollway and the Department should agree their records for the amount due to SEGIP.

In addition, we recommended the Department work with the Tollway and SERS to calculate the total amount past due to SEGIP which can be ascertained or, if necessary, soundly estimated based on available records and contribute this amount to SEGIP as soon as practicable. If, after investigation,

the Department and the Tollway determine it is not possible and/or not practicable to comply with Section 11 of the Act both for past periods and future periods, the Department and the Tollway should work with the Governor and the General Assembly to develop a legislative remedy that addresses both the financing needs of SEGIP and facilitates financial reporting in accordance with generally accepted accounting principles.

Department officials agreed with recommendation

The Department agreed with the finding and recommendation and stated it will work with the Tollway and SERS to ensure the repayment by Tollway of the pro rata share of certain retiree costs incurred by SEGIP is complete and accurate.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of specified requirements regarding the Toll Highway Specific Liability Percentage Calculation, the Schedule of Employer Allocations by Fund for the year ended June 30, 2020, the Schedule of University Special Funding Situations for the year ended June 30, 2020, the Schedule of Other Post Employment Benefit Amounts by Fund for the year ended June 30, 2020, and the Schedule of Deferred Amounts by Measurement Year for the year ended June 30, 2020, and the total ending OPEB liability, total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense for the total of all participating State Agencies and Universities in the State Employee Group Insurance Program as of and for the year ended June 30, 2020, and the related notes to the Schedules. The accountants stated the Agency complied, in all material respects, with the criteria set forth in Notes D through M of the Notes to the Schedules in the report.

This compliance examination 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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