



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND

Financial Audit
For the Year Ended: June 30, 2011

Release Date: May 2, 2012

Summary of Findings:

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

INTRODUCTION

This report covers our financial audit of the Teacher Health Insurance Security Fund for the year ended June 30, 2011. At June 30, 2011 the Net Assets Held in Trust for Other Postemployment Benefits reflected a net asset balance of \$7,125,000. Further, the Schedule of Funding Progress reflects an Unfunded Actuarial Accrued Liability of \$18,853,250,000.

SYNOPSIS

- The Department's year-end financial reporting was not timely.
- The Department failed to have a documented written rate-setting methodology for the calculation of the Teachers' Retirement Insurance Program premiums.

{Expenditures and Activity Measures are summarized on the reverse page.}

**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2011**

STATEMENT OF CHANGES IN PLAN NET ASSETS (expressed in thousands)	Fiscal Year 2011	Fiscal Year 2010
Additions		
Contributions		
Employer.....	\$ 70,570	\$ 67,706
State.....	85,953	79,007
Plan Member		
Actives.....	94,176	90,243
Retirees.....	162,586	151,057
Federal government Medicare Part D.....	23,422	23,897
Consolidated Omnibus Budget Reconciliation Act.....	88	98
Total contributions.....	<u>436,795</u>	<u>412,008</u>
Interest income.....	173	324
Total additions.....	<u>436,968</u>	<u>412,332</u>
Deductions		
Benefit payments and refunds.....	466,310	425,333
General and administrative.....	2,756	2,379
Total deductions.....	<u>469,066</u>	<u>427,712</u>
Net additions (deductions).....	(32,098)	(15,380)
Net assets held in trust for other postemployment benefits		
Beginning of year.....	39,223	54,603
End of Year.....	<u>\$ 7,125</u>	<u>\$ 39,223</u>

SCHEDULE OF FUNDING PROGRESS (expressed in thousands)	June 30, 2011	June 30, 2009	June 30, 2007
Actuarial Value of Assets.....	7,125	54,603	65,790
Actuarial Accrued Liability - Projected Unit.....	18,860,375	14,931,396	14,284,678
Unfunded Actuarial Accrued Liability.....	18,853,250	14,876,793	14,218,888
Funded Ratio.....	0.04%	0.37%	0.46%

SUPPLEMENTARY INFORMATION	Fiscal Year 2011	Fiscal Year 2010
Number of retirees and beneficiaries receiving benefits.....	69,438	65,333
Number of waived retirees who may elect healthcare coverage in the future.....	17,117	18,716
Number of terminated plan members entitled to but not yet receiving benefits..	13,498	16,840
Number of active plan members.....	162,127	169,538
Total.....	<u>262,180</u>	<u>270,427</u>
Number of participating employers.....	1,007	1,007

AGENCY DIRECTOR
During Examination Period: Ms. Julie Hamos
Currently: Ms. Julie Hamos

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

FINANCIAL STATEMENT PREPARATION

The Illinois Department of Healthcare and Family Services' (Department) did not complete the Teacher Health Insurance Security Fund's (Fund) financial statements in a timely manner.

Financial statements completed six and a half months after year end

During our audit of the June 30, 2011 Fund financial statements, we noted a complete set of the Fund's financial statements were not provided to the auditors until January 17, 2012, six and a half months after the year end.

Actuarial valuation provided eight months after year end

In addition, 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. The draft actuarial valuation was not available to the auditors until January 27, 2012 and the final actuarial valuation was not provided until February 27, 2012, eight months after the year end. (Finding 1, pages 20-21 of the Financial Report)

We recommended the Department implement additional internal control procedures to ensure Fund financial statements are prepared in a timely manner.

Department agrees with auditors

Department officials concurred with our recommendation and stated that the Department is continually assessing the financial reporting process and implementing procedures to improve upon timeliness.

LACK OF WRITTEN RATE-SETTING METHODOLOGY

Department had no written rate-setting methodology

The Department did not have a documented written rate-setting methodology to calculate the insurance rates that are used to determine the premium rates charged to participants for the Teachers' Retirement Insurance Program (TRIP).

Only one individual responsible for the calculation of insurance rates

We noted that only one individual is involved in calculating the insurance rates and there was no written rate-setting methodology of how this individual calculates the TRIP insurance rates. Additionally, there was no formal process for a documented review of the insurance rate calculation.

No health insurance information or methodology submitted to Teachers' Retirement System

Further, auditors noted that during fiscal year 2011, the Department did not provide any information relating to the health care premiums; historical and projected data on

enrollment, utilization, and costs; or a rate-setting methodology to the Teachers' Retirement System of the State of Illinois. The information and methodology were due by April 15th. (Finding 2, pages 22-23 of the Financial Report)

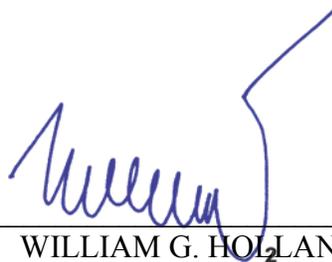
We recommended the Department develop a formal written rate-setting methodology as required by the State Employees Group Insurance Act. We also recommended the Department comply with all submission requirements of the State Employees Group Insurance Act.

Department agrees with auditors

Department officials concurred with our recommendation and stated that the Department will develop a formal written rate-setting methodology and comply with all submission requirements as required by the State Employees Group Insurance Act.

AUDITORS' OPINION

Our auditors state the financial statements of the Teacher Health Insurance Security Fund as of June 30, 2011, are fairly presented in all material respects.

A handwritten signature in blue ink, appearing to read 'William G. Holland', is written over a horizontal line. The signature is stylized and cursive.

WILLIAM G. HOLLAND
- Auditor General

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AUDITORS ASSIGNED

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