



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, 2023**

Release Date: August 1, 2024

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

INTRODUCTION

This digest covers the Compliance Examination of 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, 2023, 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 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 ii 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, 2022 was \$17.1 billion. At June 30, 2023, the SEGIP net OPEB liability was \$17.2 billion.

SYNOPSIS

- **(23-01)** The Department of Central Management Services (Department) charged all State agencies and State Universities (employers) with employees enrolled in the Consumer Driven Health Plan (CDHP) incorrect group insurance reimbursement rates, which resulted in various misstatements.
- **(23-02)** The Department did not ensure complete and accurate census data was utilized in the Other Post-Employment Benefits (OPEB) actuarial valuation.

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 CHARGE AND COLLECT ACCURATE
GROUP INSURANCE REIMBURSEMENTS**

The Department charged incorrect rates for insurance reimbursements

The Department of Central Management Services (Department) charged all State agencies and State Universities (employers) with employees enrolled in the Consumer Driven Health Plan (CDHP) incorrect group insurance reimbursement rates, which resulted in various misstatements in the Schedule of Employer Allocations by Fund, Schedule of University Special Funding Situations, Schedule of Other Post Employment Benefit Amounts by Fund and Schedule of Deferred Amounts by Measurement Year (Schedules) during Fiscal Year 2023.

During OPEB allocation (employer's proportionate share of the collective total OPEB liability) testing it was noted that all individuals enrolled in the CDHP were charged the incorrect employer group insurance reimbursement rates. The reimbursement rates charged for the CDHP matched the rates for the Quality Care Health Plan. This resulted in a monthly overcharge ranging from \$266.18 to \$770.90 (based on number of dependents and if Medicare eligible) per employee. During Fiscal Year 2023, 1,968 employees were enrolled in CDHP.

The Department was aware of the issue

The Department indicated they became aware of the issue in February 2023, but continued to charge incorrect group insurance reimbursement rates for the remainder of Fiscal Year 2023. At the end of Fiscal Year 2023, the use of incorrect group insurance reimbursement rates resulted in an overcharge of \$8,128,944 based on the Department's internal analysis. Department management indicated it made credits for the overcharge available to agencies in the third party benefits solution application, but failed to communicate the situation to the agencies or provide instructions on how to obtain and apply the credits.

The Department offered credits but did not inform agencies on how to get them

Through analysis of the \$8,128,944 overcharge, we determined the population of employees impacted included those paid from exempt funds. Employers do not make group insurance reimbursement payments out of exempt funds. Credits that should have been issued by the Department for the overcharge totaled \$4,515,233. (Finding 1, pages 243-245)

We recommended the Department implement a process to ensure group insurance reimbursement charges agree to published rates. Additionally, we recommended the Department implement a mechanism to track credits, which takes in account the funds the employees are paid from and work with the employers to ensure that the credits owed are utilized by the employers.

Department agreed

The Department accepted the finding and recommendation and indicated they have put testing measures in place to ensure all rate updates sent are tested to verify they are loading to the benefit deduction files correctly going forward.

INACCURATE AND INCOMPLETE CENSUS DATA

The Department did not ensure complete and accurate census data was utilized in the Other Post-Employment Benefits (OPEB) actuarial valuation.

The health care plan did not agree with the actuary report, had incorrect plan codes, and was missing retirees in the valuation

During testing of changes reported to the State Employees Group Insurance Program (SEGIP) from the previous valuation report compared to the current valuation report, we noted the health care plan did not agree to the actuary report for 19 of 25 (76%) SEGIP members. The retiree census data as of June 30, 2022, had an incorrect healthcare plan code for some of the records. In addition, it was noted 363 retirees and survivors over 75 with dental only enrollment were inadvertently excluded from the valuation.

The independent actuary regenerated the OPEB liability with the updated census data amounts and noted the errors resulted in an overstatement of the actuarially determined OPEB liability of \$9,907,000. The overstatement was deemed to be immaterial to the Schedule of Other Post Employment Benefit Amounts by Fund and the Department has passed on making the adjustment. (Finding 2, pages 246-247)

We recommended the Department ensure that complete and accurate census data is utilized by the actuary.

Department agreed

The Department accepted the finding and recommendation and indicated they will ensure that complete and accurate data is sent to the actuary.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of specified requirements regarding the Schedule of Employer Allocations by Fund, the Schedule of University Special Funding Situations, the Schedule of Other Post Employment Benefit Amounts by Fund, and the Schedule of Deferred Amounts by Measurement Year of the State Employees Group Insurance Program as of and for the year ended June 30, 2023, 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 CPA LLC.

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

FJM: MEG: KRP