SIKICH®

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

FINANCIAL AUDIT

For the Year Ended June 30, 2021

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

SIKICH.COM

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2021

TABLE OF CONTENTS

Other Reports Issued Under a Separate Cover:

The Department of Healthcare and Family Services' *State Compliance Examination* for the two years ended June 30, 2021, will be issued under a separate cover.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2021

AGENCY OFFICIALS

Director	Theresa Eagleson
Assistant Director (Acting) (4/16/21 – Present)	Jenny Aguirre
Assistant Director (Through 4/15/21)	Vacant
Chief Operating Officer	Ben Winick
General Counsel	Steffanie Garrett
Inspector General (Acting) (4/16/21 – Present)	Brian Dunn
Inspector General (Acting) (Through 4/15/21)	Patrick Conlon

DEPUTY DIRECTORS

Community Outreach	Kimberly McCullough-Starks
Administrative Operations (11/16/21 – Present)	Tanya Ford
Administrative Operations (Through 11/15/21)	Vacant
Human Resources (2/16/21 – Present)	Terri Shawgo
Human Resources (Through 2/15/21)	Vacant
New Initiatives (12/29/21 – Present)	Vacant
New Initiatives (Through 12/28/21)	Jane Longo

DIVISION ADMINSTRATORS

Child Support Services (Interim) (2/16/21 – Present)	Brian Tribble
Child Support Services (1/1/21 – 2/15/21)	Vacant
Child Support Services (Through 12/31/20)	Mary Bartolomucci
Finance	Michael Casey
Medical Eligibility (Interim) (1/16/22 - Present)	Tracy Keen
Medical Eligibility (Established 11/1/20 – 1/15/22)	Vacant
Medical Programs	Kelly Cunningham
Personnel & Administrative Services (Interim) (3/17/21 – Present)	Ruth Ann Day
Personnel & Administrative Services (Acting) (Through 3/16/21)	Terri Shawgo

AGENCY OFFICES

The Department's primary administrative offices are located at:

201 South Grand Avenue East Springfield, Illinois 62763	401 South Clinton Chicago, Illinois 62607

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2021

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Healthcare and Family Services (Department) was performed by Sikich LLP.

Based on their audit, the auditors expressed an unmodified opinion on the Department's basic financial statements.

SUMMARY OF FINDINGS

Number of	Current Report	Prior Report
Findings	8	11
Repeated Findings	8	8
Prior Recommendations Implemented or Not Repeated	3	3

SCHEDULE OF FINDINGS

Item No.	Page	Last/First Reported	Description	Finding Type
			Current Findings	
2021-001	56	2020/2017	Insufficient internal controls over changes to the Integrated Eligibility Systems (IES) and recipient data	Material Weakness
2021-002	59	2020/2020	Inadequate access review procedures for the Integrated Eligibility System (IES)	Material Weakness
2021-003	61	2020/2019	Inadequate disaster recovery controls over the Integrated Eligibility System (IES)	Material Weakness
2021-004	63	2020/2019	Detailed agreement with the Department of Innovation and Technology (DoIT) not sufficient and inadequate interagency agreement for the IES	Material Weakness
2021-005	65	2020/2018	Inadequate general information technology controls over IMPACT	Material Weakness

Item No.	Page	Last/First Reported	Description	Finding Type
			Current Findings	
2021-006	68	2020/2018	Insufficient review and documentation of provider enrollment determinations and failure to execute interagency agreements	Material Weakness and Noncompliance
2021-007	71	2020/2015	Failure to review third-party service providers' internal controls	Material Weakness
2021-008	75	2020/2020	Inadequate internal controls over census data	Significant Deficiency
			Prior Findings Not Repeated	
A	77	2020/2015	Inadequate controls over eligibility determinations and redeterminations	
B	77	2020/2017	Untimely processing of applications for benefits, redeterminations of eligibility for benefits, and eligibility change documentation	
C	77	2020/2020	C-97 reporting miscalculations	

EXIT CONFERENCE

The Department waived an exit conference in correspondence from Amy Lyons, External Audit Liaison, on May 24, 2022. The responses to the recommendations were provided by Theresa Eagleson, Director, on June 1, 2022.

The Department of Human Services' responses to Findings 2021-001 through 2021-006 were provided by Christopher Finley, Internal Auditor/Audit Liaison, in correspondence dated May 31, 2022.

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Healthcare and Family Services (Department), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Department, as of June 30, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2 to the financial statements, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. These financial statements do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2021, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements and above, the Department is not legally separate from the State of Illinois, and it relies heavily on the State's ability to appropriate resources for the continuation of the Department's health and social services programs. For the year ended June 30, 2021, approximately 35% of the Department's expenditures were funded with appropriations from the State of Illinois rather than from grants, fees and other revenues of the Department.

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis and budgetary comparison information for any of its funds and pension and other postemployment benefit (OPEB) related information for its Department-wide financial statements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements.

The combining General Fund schedules and nonmajor governmental and custodial funds financial statements (accompanying supplementary information) and the listing of agency officials (accompanying other information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The accompanying other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2022, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Restricted Use of this Auditor's 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, and the Department's management and is not intended to be and should not be used by anyone other than these specified parties.

[redacted]

Decatur, Illinois
June 3, 2022

Statement of Net Position and Governmental Funds Balance Sheet

June 30, 2021 (Expressed in Thousands)

	General Fund	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Position
ASSETS					
Unexpended appropriations	$ (252,398)	$ (31,697)	$ (284,095)	$ -	$ (284,095)
Cash equity with State Treasurer	990,454	30,207	1,020,661	-	1,020,661
Cash and cash equivalents	3,916	-	3,916	-	3,916
Securities lending collateral equity with State Treasurer	254,051	1,854	255,905	-	255,905
Due from other government - federal	1,494,107	21,896	1,516,003	-	1,516,003
Due from other government - local	47,185	-	47,185	-	47,185
Taxes receivable, net	66,452	-	66,452	-	66,452
Other receivables, net	1,124,022	6,315	1,130,337	-	1,130,337
Notes receivable	119,740	-	119,740	-	119,740
Due from other Department funds	3	20,570	20,573	(20,573)	-
Due from other State funds	101,237	-	101,237	-	101,237
Due from State of Illinois component units	16,138	-	16,138	-	16,138
Prepaid expenses	-	-	-	475	475
Capital assets not being depreciated	-	-	-	45,091	45,091
Capital assets being depreciated, net	-	-	-	1,012	1,012
Total assets	3,964,907	49,145	4,014,052	26,005	4,040,057
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources - SERS pensions	-	-	-	128,575	128,575
Deferred outflows of resources - OPEB	-	-	-	63,294	63,294
Total deferred outflows of resources	-	-	-	191,869	191,869
Total assets and deferred outflows of resources	$ 3,964,907	$ 49,145	$ 4,014,052	217,874	4,231,926
LIABILITIES					
Accounts payable and accrued liabilities	$ 1,145,133	$ 7,922	$ 1,153,055	-	1,153,055
Due to other government - federal	730,374	7,871	738,245	-	738,245
Due to other government - local	299,856	7,797	307,653	-	307,653
Due to other Department funds	20,570	3	20,573	(20,573)	-
Due to other State funds	32,681	11,576	44,257	-	44,257
Due to other State fiduciary funds	522	1,103	1,625	-	1,625
Due to State of Illinois component units	92,978	-	92,978	-	92,978
Unearned revenue	237,396	-	237,396	-	237,396
Obligations under securities lending of State Treasurer	254,051	1,854	255,905	-	255,905
Long-term obligations:					
Due within one year	-	-	-	18,011	18,011
Due subsequent to one year	-	-	-	1,819,599	1,819,599
Total liabilities	2,813,561	38,126	2,851,687	1,817,037	4,668,724
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources - Unavailable revenue	900,189	14,754	914,943	(914,943)	-
Deferred inflows of resources - SERS pensions	-	-	-	89,933	89,933
Deferred inflows of resources - OPEB	-	-	-	148,134	148,134
Total deferred inflows of resources	900,189	14,754	914,943	(676,876)	238,067
Total liabilities and deferred inflows of resources	3,713,750	52,880	3,766,630	1,140,161	4,906,791
FUND BALANCES (DEFICITS)/NET POSITION					
Fund balances (deficits)					
Committed for health and social services	2,016,211	27,962	2,044,173	(2,044,173)	-
Unassigned	(1,765,054)	(31,697)	(1,796,751)	1,796,751	-
Net investment in capital assets	-	-	-	45,869	45,869
Unrestricted net position	-	-	-	(720,734)	(720,734)
Total fund balances (deficits)/net position	251,157	(3,735)	247,422	$ (922,287)	$ (674,865)
Total liabilities, deferred inflows of resources, and fund balances (deficit)	$ 3,964,907	$ 49,145	$ 4,014,052		

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Healthcare and Family Services
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
June 30, 2021
(Expressed in Thousands)

Total fund balances - governmental funds	$	247,422
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		46,103
Prepaid expenses for governmental activities are current uses of financial resources for funds.		475
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		914,943
Deferred outflows of resources related to pension liability are not reported in the governmental funds since they do not provide current financial resources.		128,575
Deferred inflows of resources related to pension liability are not reported in the governmental funds since they do not use current financial resources.		(89,933)
Deferred outflows of resources related to OPEB liability are not reported in the governmental funds since they do not provide current financial resources.		63,294
Deferred inflows of resources related to OPEB liability are not reported in the governmental funds since they do not use current financial resources.		(148,134)
Some liabilities reported in the Statement of Net Position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds. These activities consist of:		
Capital lease obligations		(234)
Compensated absences		(11,751)
Net pension liability - SERS		(1,065,438)
Total OPEB liability		(760,187)
Net position (deficit) of governmental activities	$	(674,865)

The accompanying notes to the financial statements are an integral part of this statement.

Statement of Activities and Governmental Revenues, Expenditures, and Changes in Fund Balances

For the Year Ended June 30, 2021 (Expressed in Thousands)

	General Fund	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
Expenditures/expenses:					
Health and social services	$ 25,165,995	$ 369,330	$ 25,535,325	$ (30,472)	$ 25,504,853
Debt service principal	199	67	266	(266)	-
Debt service interest	16	11	27	-	27
Capital outlays	10,643	54	10,697	(10,697)	-
Total expenditures/expenses	25,176,853	369,462	25,546,315	(41,435)	25,504,880
Program revenues:					
Charges for services:					
Licenses and fees	2,673	228	2,901	(2,292)	609
Other, net	56,907	36,129	93,036	303	93,339
Total charges for services	59,580	36,357	95,937	(1,989)	93,948
Operating grant revenue:					
Federal, net	16,833,748	205,409	17,039,157	(718,549)	16,320,608
Other	1,000,640	-	1,000,640	29,157	1,029,797
Total operating grant revenue	17,834,388	205,409	18,039,797	(689,392)	17,350,405
Total program revenues	17,893,968	241,766	18,135,734	(691,381)	17,444,353
Net program expenses					(8,060,527)
General revenues:					
Interest and investment income	1,971	16	1,987	-	1,987
Medical provider assessment tax	3,114,957	-	3,114,957	52,754	3,167,711
Other taxes, net	349,439	-	349,439	(28,276)	321,163
Other	201,839	-	201,839	249,392	451,231
Total general revenues	3,668,206	16	3,668,222	273,870	3,942,092
Other sources (uses):					
Appropriations from State resources	9,066,174	230,010	9,296,184	-	9,296,184
Lapsed appropriations	(436,262)	(17,901)	(454,163)	-	(454,163)
Receipts collected and transmitted to State Treasury	(4,348,617)	(143,886)	(4,492,503)	-	(4,492,503)
Capital transfers to other State agencies	-	-	-	21,011	21,011
Amount of SAMS transfers-out	45,006	-	45,006	-	45,006
Transfers-in	175	31,070	31,245	(31,070)	175
Transfers-out	(71,070)	-	(71,070)	31,070	(40,000)
Capital lease financing	231	54	285	(285)	-
Total other sources (uses)	4,255,637	99,347	4,354,984	20,726	4,375,710
Change in fund balances/net position	640,958	(28,333)	612,625	(355,350)	257,275
Fund balances (deficits)/net position, July 1, 2020	(389,801)	24,598	(365,203)	(566,937)	(932,140)
Fund balances (deficits)/net position, June 30, 2021	$ 251,157	$ (3,735)	$ 247,422	$ (922,287)	$ (674,865)

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Healthcare and Family Services
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2021
(Expressed in Thousands)

Net change in fund balances - governmental funds	$	612,625
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation and losses on disposals in the current period.		9,797
Transfers of capital assets to other State agencies are not recorded in governmental funds. This amount represents the net transfers of capital assets at no cost from other State funds in the Statement of Activities.		21,011
Prepaid expenses in the Statement of Activities are not reported as expenses in governmental funds. This amount represents the decrease in prepaid expenses over the prior year.		(51)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the decrease in unavailable revenue over the prior year.		(417,511)
Deferred outflows of resources related to pension liability in the Statement of Activities that do not provide current financial resources are not reported in the governmental funds. This amount represents the increase in deferred outflows over the prior year.		347
Deferred inflows of resources related to pension liability in the Statement of Activities that do not use current financial resources are not reported in the governmental funds. This amount represents the decrease in deferred inflows over the prior year.		22,726
Deferred outflows of resources related to OPEB liability in the Statement of Activities that do not provide current financial resources are not reported in the governmental funds. This amount represents the decrease in deferred outflows over the prior year.		(88,549)
Deferred inflows of resources related to OPEB liability in the Statement of Activities that do not use current financial resources are not reported in the governmental funds. This amount represents the decrease in deferred inflows over the prior year.		12,293
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		266
Capital lease repayments and related adjustments are reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		(285)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These include:		
Increase in compensated absences obligation		(1,647)
Increase in net pension liability - SERS		(7,517)
Decrease in total OPEB liability		93,770
Change in net position of governmental activities	$	257,275

The accompanying notes to the financial statements are an integral part of this statement.

Statement of Fiduciary Net Position

June 30, 2021 (Expressed in Thousands)

	Custodial Funds
ASSETS	
Cash equity with State Treasurer	$ 17,901
Cash and cash equivalents	2,242
Other receivables, net	181,060
Total assets	201,203
LIABILITIES	
Accounts payable and accrued liabilities	201,203
Total liabilities	201,203
NET POSITION	
Unrestricted net position	-
Total net position	$ -

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois

Department of Healthcare and Family Services

Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2021
(Expressed in Thousands)

	Custodial Funds
Additions	
Custodial fund deposits received	$ 1,178,238
Total additions	1,178,238
Deductions	
Custodial funds disbursed	1,178,238
Total deductions	1,178,238
Net increase (decrease) in fiduciary net position	-
Net position, July 1, 2020	-
Net position, June 30, 2021	$ -

The accompanying notes to the financial statements are an integral part of this statement.

(1) Organization

The Department of Healthcare and Family Services (Department) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review by the Illinois General Assembly. The Department generally operates under a budget approved by the General Assembly in which resources are appropriated for the use of the Department. Activities of the Department are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the Office of Comptroller) as defined by the Illinois General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, with the exception of the Child Support Enforcement Trust Fund – SDU.

The Department is organized to provide for the improvement of the lives of Illinois' families through healthcare coverage and child support enforcement.

(2) Summary of Significant Accounting Policies

The financial statements of the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2) Fiscal dependence on the primary government and the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the required criteria, the Department has no component units and is not a component unit of any other entity. However, because the Department is not legally separate from the State of Illinois, the financial statements of the Department are included in the financial statements of the State of Illinois. The State of Illinois' Annual Comprehensive Financial Report (ACFR) may be obtained by accessing the Office of Comptroller's website - https://illinoiscomptroller.gov/financial-data/find-a-report/comprehensive-reporting/annual-comprehensive-financial-report/.

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Healthcare and Family Services, are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, major fund, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2021, and the changes in financial position for the year then ended in conformity with GAAP.

The financial activities of the Department, which consist only of governmental activities, are reported under the health and social services function in the State of Illinois' Annual Comprehensive Financial Report. For reporting purposes, the Department has combined the fund and government-wide financial statements using a columnar format that reconciles individual line items of the fund financial data to government-wide data in a separate column. A brief description of the Department's government-wide and fund financial statements is as follows:

Government-wide Statements. The government-wide statement of net position and statement of activities report the overall financial activity of the Department, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the Department. The financial activities of the Department consist of governmental activities that are generally financed through taxes and intergovernmental revenues.

The statement of net position presents the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Department's governmental activities with the difference being reported as net position. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components – the amount due within one year and the amount due in more than one year.

The statement of activities presents a comparison between direct expenses and program revenues for the functions of the Department's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the Department's funds, including fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis on fund financial statements is the major governmental fund, which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Department administers the following major governmental fund (or portions thereof in the case of shared funds – see note 2 (d)):

> **General** – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund. The services that are administered by the Department and accounted for in the General Fund include, among others, promoting access to quality healthcare and child support. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements.

Additionally, the Department reports the following fund types:

Governmental Fund Types:

> **Special Revenue** – These funds account for transactions related to resources obtained from specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The Department does not have any major special revenue funds to disclose.

Fiduciary Fund Types:

> **Custodial** – These funds account for transactions related to assets collected by the Department, acting in a custodial capacity for distribution to other governmental units or designated beneficiaries.

(c) Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues and additions are recorded when earned and expenses and deductions are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include nursing home assessments, hospital assessments and intergovernmental grants. On an accrual basis, revenues from the nursing home assessments are recognized in the fiscal year in which the underlying exchange transaction occurs. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on formal debt issues, claims and judgments, and compensated absences are recorded only when the payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources that are susceptible to accrual include the nursing home assessment, hospital assessments, federal matching revenues, drug rebates, intergovernmental transfer agreement revenues, and child support. Other miscellaneous revenue sources are considered measurable and available only when cash is received.

(d) Shared Fund Presentation

The financial statement presentation for the General Fund accounts, General Revenue, State Coronavirus Urgent Remediation Emergency, Care Provider for Persons with Developmental Disabilities, and the Trauma Center, as well as the nonmajor governmental funds, the Department of Corrections Reimbursement and Education Fund and the Tobacco Settlement Recovery Fund, represent only the portion of the shared fund that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Annual Comprehensive Financial Report.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Department's portion of shared funds:

Unexpended Appropriations

This "asset" account represents lapse period warrants issued by the Office of Comptroller after June 30 annually, in accordance with the Statewide Accounting Management System (SAMS) records, plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year and voucher, interfund payments, and mandatory SAMS transfer transactions held by the Office of Comptroller at June 30.

Appropriations from State Resources

The "other financing source" account represents the final legally adopted appropriation according to SAMS records.

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records. Lapsed appropriations for certain Medicaid expenditures are the legally adopted appropriations less net warrants issued for the up to 16 month period from July to October of the following year. For fiscal year 2021, the state's general lapse period was extended through September 2021. The Department also considers the effect of the change in the amount of warrants held by the Office of Comptroller in the current and prior years on both unexpended appropriations described above and amounts reported as lapsed appropriations; as a result, the amount reported as lapsed appropriations for fiscal year 2021 reduced the Department's net position/fund balance by $1.9 billion.

Receipts Collected and Transmitted to State Treasury

This "other financing use" account represents all cash receipts received during the fiscal year from SAMS records.

Amount of SAMS Transfers-In

This "other financing use" account represents cash transfers made by the Office of Comptroller in accordance with statutory provisions to the corresponding fund during the fiscal year per SAMS records in which the Department did not make a deposit into the State Treasury.

Amount of SAMS Transfers-Out

This "other financing source" account represents cash transfers made by the Office of Comptroller in accordance with statutory provision from the corresponding fund during the fiscal year per SAMS records in which a legally adopted appropriation was not charged.

(e) Eliminations

Eliminations have been made in the government-wide statement of net position to minimize the "grossing-up" effect on assets and liabilities within the governmental activities column of the Department. As a result, amounts reported in the governmental funds balance sheet as interdepartmental interfund receivables and payables have been eliminated in the government-wide statement of net position. Amounts reported in the governmental funds balance sheet as receivable from or payable to fiduciary funds have been included in the government-wide statement of net position as receivable from and payable to external parties, rather than as internal balances.

(f) Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at the time of purchase. Cash and cash equivalents include cash on hand and cash in banks for locally held funds.

(g) Investments

Most investments are reported at fair value. The Illinois Funds, a 2a7-like pool, is reported at amortized cost.

(h) Interfund Transactions and Transactions with State of Illinois Component Units

The Department has the following types of interfund transactions between Department funds and funds of other State agencies:

Services provided and used – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the governmental funds balance sheet and the government-wide statement of net position.

Reimbursements – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers – flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

The Department also has activity with various component units of the State of Illinois for medical programs, intergovernmental transfer agreements and payments for services.

(i) Capital Assets

Capital assets, which includes property, plant, and equipment, and intangible assets, are reported at cost or estimated historical cost based on appraisals. Contributed assets are reported at acquisition value at the time received. Capital assets are depreciated and amortized using the straight-line method. Intangible assets (purchased computer software and internally generated computer software) are assets that do not have a physical existence, are nonfinancial in nature, are not in a monetary form, and have a useful life of over one year.

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Equipment	$ 5,000	3-10
Purchased Computer Software	$ 25,000	3-5
Internally Generated Computer Software	$1,000,000	5-20

(j) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Department has recorded deferred outflows and inflows of resources in the government-wide financial statements in connection with the net pension liability reported and explained in Note 9 and the total post-employment benefits liability reported and explained in Note 10. Unavailable revenues in governmental funds include receivables not “available” to finance the current period.

(k) Compensated Absences

The liability for compensated absences reported in the government-wide statement of net position consists of unpaid, accumulated vacation and sick leave balances for Department employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related cost (e.g., Social Security and Medicare taxes).

Legislation that became effective January 1, 1998, capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

(l) Pensions

In accordance with the Department's adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense have been recognized in the government-wide financial statements.

The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of service and the plan's fiduciary net position. The total pension expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total pension liability, plan administrative expenses, current year benefit changes, and other changes in plan fiduciary net position less employee contributions and projected earnings on plan investments. Additionally, the total pension expense includes the annual recognition of outflows and inflows of resources due to pension assets and liabilities.

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, pension expense and expenditures associated with the Department's contribution requirements, information about the fiduciary net position of the plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported within the separately issued plan financial statements. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value.

(m) Postemployment Benefits Other Than Pensions (OPEB)

The State provides health, dental, vision, and life insurance benefits for certain retirees and their dependents through the State Employees Group Insurance Program (SEGIP). The total OPEB liability, deferred outflows of resources, deferred inflows of resources, expense, and expenditures associated with the program have been determined through an actuarial valuation using certain actuarial assumptions as applicable to the current measurement period (see Note 10).

The OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and OPEB expense have been recognized in the government-wide financial statements.

(n) Fund Balances

In the fund financial statements, governmental funds report fund balances in the following categories:

Nonspendable – This consists of amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact.

Restricted – This consists of amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

Committed – This consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Department's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Department removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Department's highest level of decision-making authority rests with the Illinois General Assembly and the Governor. The State enacts "Public Acts" to commit their fund balances.

Assigned – This consists of net amounts that are constrained by the Department's intent to be used for specific purposes, but that are neither restricted nor committed.

Unassigned – This consists of residual fund balance that has not been restricted, committed, or assigned within the General Fund and deficit fund balances of other governmental funds.

In the General Fund, it is the Department's policy to consider restricted resources to have been spent first when an expenditure is incurred for which both restricted and unrestricted (i.e. committed, assigned or unassigned) fund balances are available, followed by committed and then assigned fund balances. Unassigned amounts are used only after the other resources have been used.

In other governmental funds (special revenue), it is the Department's policy to consider restricted resources to have been spent last. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Department first utilizes any assigned amounts, followed by committed and then restricted amounts.

(o) Net Position

In the government-wide statement of net position, net position is displayed in three components as follows:

Net investment in capital assets – This consists of capital assets, net of accumulated depreciation less the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

(p) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(q) Adoption of New Accounting Pronouncements

Effective for the year ending June 30, 2021, the Department adopted the following GASB statements:

Statement No. 84, *Fiduciary Activities*, which is intended to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. In addition, this statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The implementation of this statement had no financial impact on the Department's net position or results of operations.

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The implementation of this statement had no financial impact on the Department's net position or results of operations.

The portion of Statement No. 93, *Replacement of Interbank Offered Rates*, which is intended to address accounting and financial reporting implications that result from the replacement of an interbank offered rate as an appropriate benchmark interest rate. The implementation of this statement had no financial impact on the Department's net position or results of operations.

(r) Future Adoption of GASB Statements

Effective for the year ending June 30, 2022, the Department will adopt the following GASB statements:

Statement No. 87, *Leases*, which is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources and or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which is intended to (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) simplify accounting for interest cost incurred before the end of a construction period.

The portion of Statement No. 92, *Omnibus 2020*, which is intended to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements related to (1) intra-entity transfers of assets, (2) reporting assets accumulated for defined benefit postemployment benefits provided through plans that are not administered through trusts that meet specified criteria, (3) applicability of certain requirements of Statement No. 84 to postemployment benefit arrangements, (4) exception to acquisition value in a government acquisition and (5) nonrecurring fair value measurements.

The portion of Statement No. 93, *Replacement of Interbank Offered Rates*, that removes the London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate for a derivative instrument hedging the interest rate risk of taxable debt and the portion of Statement No. 93 that clarifies lease modifications do not include revisions to a lease solely to replace the LIBOR with another rate for the purpose of applying paragraphs 71 through 76 of Statement No. 87, *Leases*.

The portion of Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*, which is intended to enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

Effective for the year ending June 30, 2023, the Department will adopt the following GASB statements:

Statement No. 91, *Conduit Debt Obligations*, which is intended to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which is intended to improve financial reporting by addressing issues related to public-private and public-public partnerships (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs).

Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is intended to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments).

The Department has not yet determined the impact of adopting these statements on its financial statements.

(3) Deposits and Investments

(a) Deposits

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these deposits and investments are available within the State of Illinois' Annual Comprehensive Financial Report.

Cash on deposit for locally held funds of fiduciary activities had carrying amounts and bank balances of $2.242 million and $1.929 million, respectively, at June 30, 2021. Balances in excess of FDIC depository insurance were covered by collateral held by the Department's agent in the Department's name.

(b) Investments

Section 2 of the Public Funds Investment Act limits the State's investments outside the State Treasury to securities of the U.S. government or its agencies, short-term obligations of domestic corporations exceeding $500 million in assets that are rated in the three highest categories by at least two nationally recognized statistical ratings organizations not to exceed ten percent of the domestic corporations outstanding obligations, money market mutual funds invested in the U.S. government and/or its agencies, and repurchase agreements securities of the U.S. government or its agencies or money market mutual funds invested in the U.S.

government or its agencies. Investments of public funds in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act are also permitted.

As a governmental sponsored investment pool, The Illinois Funds is not eligible to register with the Securities and Exchange Commission ("SEC") and thus is not a registrant with the SEC; however, The Illinois Funds has adopted operating procedures consistent with those required of an SEC 2a-7 Fund (2a-7-like Fund). The Illinois Funds has a policy that it will, and does, operate in a manner consistent with SEC Rule 2a-7, which governs the operation of SEC regulated money market funds. While the Illinois Funds operates in accordance with SEC Rule 2a-7, for valuation purposes it complies with GASB Statement No. 79.

As of June 30, 2021, the Department had $3.916 million invested with the Illinois Funds. The Illinois Funds is an investment pool managed by the State of Illinois, Office of the Treasurer, which allows governments within the State to pool their funds for investment purposes. The Illinois Funds is a GASB Statement No. 79 qualified external investment pool that measures, for financial reporting purposes, all its investments at amortized cost. The fair value of the pool position is the same as the value of pool shares. There are no limitations or restrictions on withdrawals from the pool.

Interest Rate Risk: The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: The Department does not have a formal investment policy that limits investment choices. The Illinois Funds were rated AAAm by Standard & Poor's.

(c) Reconciliation to Statement of Net Position and Statement of Fiduciary Net Position

The Statement of Net Position and the Statement of Fiduciary Net Position cash and cash equivalents account contain certain short-term investments (included as investments above) to reflect their liquidity. A reconciliation (amounts expressed in thousands) follows:

	Deposits	Investments
Governmental Activities		
Amount per note	$ -	$ 3,916
Cash equivalents	3,916	(3,916)
Amounts per Statement of Net Position	$ 3,916	$ -
Fiduciary Funds		
Cash on deposit	$ 1,929	$ -
Cash due to Fund 0957	313	-
Amounts per Statement of Fiduciary Net Position	$ 2,242	$ -

(4) Accounts Receivable

(a) Taxes Receivable

Taxes receivable (amounts expressed in thousands) at June 30, 2021 are as follows:

	General Fund
Taxes receivable	$ 68,541
Less: allowance for uncollectible taxes	(2,089)
Taxes receivable, net	$ 66,452

(b) Other Receivables

Other receivables (amounts expressed in thousands) at June 30, 2021 are as follows:

	General Fund	Nonmajor Governmental Funds	Fiduciary Funds
Other receivables	$ 1,352,295	$ 285,754	$2,986,861
Less: allowance for uncollectible accounts	(228,273)	(279,439)	(2,805,801)
Other receivables, net	$ 1,124,022	$ 6,315	$ 181,060

(5) Notes Receivable

Notes Receivable at June 30, 2021, consisted of amounts owed to the Department for advances issued to long-term care providers and hospitals with a 0% interest rate charged. The balances consisted of the following (amounts expressed in thousands):

	General Fund
Notes receivable due within one year	$ 114,709
Notes receivable due after one year	5,031
Total	$ 119,740

(6) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2021 represent amounts due from Department funds, other State funds, and other State fiduciary funds.

	Due from		
Fund	Other Department Funds	Other State Funds	Description/Purpose
General	$ 3	$ 101,237	Due from other Department funds for PAERF reimbursements and from other State funds for subgrants received and for unapplied credits.
Nonmajor governmental funds	20,570	-	Due from other Department funds for subgrants received and for unapplied credits.
	$ 20,573	$ 101,237	

The following balances (amounts expressed in thousands) at June 30, 2021 represent amounts due to Department funds, other State funds, and other State fiduciary funds.

Fund	Due to Other Department Funds	Due to Other State Funds	Due to Other State Fiduciary Funds	Description/Purpose
General	$ 20,570	$ 32,681	$ 522	Due to other Department funds for internal transfers, to other State funds for purchases for services and Court of claims awards, and due to other State fiduciary funds for retirement benefits.
Nonmajor governmental funds	3	11,576	1,103	Due to other Department funds for PAERF reimbursements, to other State funds for purchases for services and Court of claims awards, and due to other State fiduciary funds for retirement benefits.
	$ 20,573	$ 44,257	$ 1,625	

(b) Transfers to/from Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2021 were as follows:

Fund	Transfers in from Other Department Funds	Transfers in from Other State Funds	Description/Purpose
General	$ -	$ 175	Transfer from other State funds for Asset Forfeiture Recovery.
Nonmajor governmental funds	31,070	-	Transfer from other Department funds per State appropriation.
	$ 31,070	$ 175	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2021 were as follows:

Fund	Transfers out to: Other Department Funds	Transfers out to: Other State Funds	Description/Purpose
General	$ 31,070	$ 40,000	Transfers to other Department funds and other State funds per State appropriation.
	$ 31,070	$ 40,000	

(c) *Balances Due to/from State of Illinois Component Units*

The following balances (amounts expressed in thousands) at June 30, 2021 represent amounts due from State of Illinois Component Units to the General Fund for intergovernmental agreement reimbursements.

Component Unit	Due From General Fund
Southern Illinois University	$ 491
University of Illinois	15,647
	$ 16,138

The following balances (amounts expressed in thousands) at June 30, 2021 represent amounts due to State of Illinois Component Units for medical reimbursements.

Component Unit	Due To General Fund
Illinois State University	$ 6
Northern Illinois University	401
Southern Illinois University	5,652
University of Illinois	86,919
	$ 92,978

(7) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2021 is as follows:

	Balance July 1, 2020	Additions	Deletions	Net Transfers	Balance June 30, 2021
Governmental Activities:					
Capital assets not being depreciated/amortized:					
Internally generated intangible assets in development	$ 13,750	$ 10,330	$ -	$ 21,011	$ 45,091
Total capital assets not being depreciated/amortized:	13,750	10,330	-	21,011	45,091
Capital assets being depreciated:					
Equipment	5,146	367	312	-	5,201
Non-internally generated software	4,498	-	-	-	4,498
Less accumulated depreciation:					
Equipment	(3,952)	(576)	(312)	-	(4,216)
Non-internally generated software	(4,147)	(324)	-	-	(4,471)
Total capital assets being depreciated, net	1,545	(533)	-	-	1,012
Governmental activity capital assets, net	$ 15,295	$ 9,797	$ -	$ 21,011	$ 46,103

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2021 was charged as follows:

Health and social services	$ 900

(8) Long-Term Obligations

Changes in Long-Term Obligations
Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2021 were as follows:

	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021	Amounts Due Within One Year
Governmental Activities:					
Compensated absences	$ 10,104	$ 10,045	$ 8,398	$ 11,751	$ 1,319
Capital leases	215	285	266	234	175
Net OPEB liability	853,957	-	93,770	760,187	16,517
Net pension liability	1,057,921	7,517	-	1,065,438	-
Total Governmental Activities	$ 1,922,197	$ 17,847	$ 102,434	$ 1,837,610	$ 18,011

Compensated absences will be liquidated by the applicable governmental funds that account for the salaries and wages of the related employees. Net pension liabilities and net OPEB liabilities will be liquidated through the General Revenue Fund, and the special revenue funds that report wages.

Capital Lease Obligations

The Department has acquired certain office equipment through capital lease arrangements. Future debt service requirements under capital leases (amounts expressed in thousands) at June 30, 2021 were as follows:

Year Ending June 30,	Principal	Interest	Total
2022	$ 175	$ 12	$ 187
2023	59	1	60
	$ 234	$ 13	$ 247

(9) Defined Benefit Pension Plan

Plan description. Substantially all the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a single-employer defined benefit pension trust fund in the State of Illinois reporting entity. SERS is governed by article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). The plan consists of two tiers of contribution requirements and benefit levels based on when an employee was hired. Members who first become an employee and participate under any of the State's retirement plans on or after January 1, 2011 are members of Tier 2, while Tier 1 consists of employees hired before January 1, 2011 or those who have service credit prior to January 1, 2011. The provisions below apply to both Tier 1 and 2 members, except where noted. The SERS issues a separate ACFR available at www.srs.illinois.gov or that may be obtained by writing to the SERS, 2101 South Veterans Parkway, PO Box 19255, Springfield, Illinois, 62794-9255.

Benefit provisions. SERS provides retirement benefits based on the member's final average compensation and the number of years of service credit that have been established. The retirement benefit formula available to general State employees that are covered under the Federal Social Security Act is 1.67% for each year of service and for noncovered employees it is 2.2% for each year of service. The maximum retirement annuity payable is 75% of final average compensation for regular employees and 80% for alternative formula employees. The minimum monthly retirement annuity payable is $15 for each year of covered service and $25 for each year of noncovered service.

Members in SERS under the Tier 1 and Tier 2 receive the following levels of benefits based on the respective age and years of service credits.

<table>
<tr><th>Regular Formula Tier 1</th><th>Regular Formula Tier 2</th></tr>
<tr><td>A member must have a minimum of eight years of service credit and may retire at:

• Age 60, with 8 years of service credit.
• Any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with 8 years of credited service.
• Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).

The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.</td><td>A member must have a minimum of 10 years of credited service and may retire at:

• Age 67, with 10 years of credited service.
• Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67).

The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of $106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.</td></tr>
</table>

Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement. If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.	If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2020 rate is $115,929. If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.

Additionally, the Plan provides an alternative retirement formula for State employees in high-risk jobs, such as State policemen, fire fighters, and security employees. Employees qualifying for benefits under the alternative formula may retire at an earlier age depending on membership in Tier 1 or Tier 2. The retirement formula is 2.5% for each year of covered service and 3.0% for each year of non-covered service. The maximum retirement annuity payable is 80% of final average compensation as calculated under the alternative formula.

SERS also provides occupational and nonoccupational (including temporary) disability benefits. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least 18 months of credited service with the System. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of State employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers' Compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System. Certain nonoccupational death benefits vest after 18 months of credited service. Occupational death benefits are provided from the date of employment.

Contributions. Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed $106,800 with limitations for future years increased by the lesser of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2021, this amount was $116,740.

The State is required to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the ILCS, and all administrative expenses of the System to the extent specified in the ILCS. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

For fiscal year 2021, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For fiscal year 2021, the employer contribution rate was 54.831%. The Department's contribution amount for fiscal year 2021 was $41.465 million. In addition, the Department recorded $34.623 million of revenue and expenditures in the General Revenue account of the General Fund to account for payments to SERS for Department employees that were paid from statewide General Revenue Fund appropriations.

Pension liability, deferred outflows of resources, deferred inflows of resources, and expense related to pensions. At June 30, 2021, the Department reported a liability of $1,065.438 million for its proportionate share of the State's net pension liability for SERS on the statement of net position. The net pension liability was measured as of June 30, 2020 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's portion of the net pension liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2020. As of the current year measurement date of June 30, 2020, the Department's proportion was 3.0556%, which was a decrease of 0.1124% from its proportion measured as of the prior year measurement date of June 30, 2019.

For the year ended June 30, 2021, the Department recognized pension expense of $22.365 million. At June 30, 2021, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2020, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,723	$ 4,182
Changes of assumptions	22,475	6,284
Net difference between projected and actual investment earnings on pension plan investments	5,918	-
Changes in proportion	21,371	79,467
Department contributions subsequent to the measurement date	76,088	-
Total	$ 128,575	$ 89,933

$41.465 million reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

Year ended June 30,	
2022	$ (31,363)
2023	(8,951)
2024	1,628
2025	1,240
Total	$ (37,446)

Actuarial methods and assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.25%

Investment Rate of Return: 6.75%, net of pension plan investment expense, including inflation.

Projected salary increases: 2.75% - 7.17%, salary increase rates based on age related productivity and merit rates plus inflation.

Post-retirement benefit increases of 3.00%, compounded, for Tier 1 and the lesser of 3.00% or one-half of the annual increase in the Consumer Price Index for Tier 2.

Retirement Age: Experience-based table of rates specific to the type of eligibility condition. Table was last updated for the June 30, 2019 valuation pursuant to an experience study of the period July 1, 2015 – June 2018.

Mortality: Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018.

The actuarial assumptions used to calculate the total pension liability as of the current year measurement date are consistent with the actuarial assumptions used to calculate the total pension liability as of the prior year measurement date.

The long-term expected real rate of return on pension plan investments is determined using the best estimates of geometric real rates of return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation, calculated as of the measurement date of June 30, 2020, the best estimates of geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	23.0%	5.50%
Developed Foreign Equity	13.0%	5.90%
Emerging Market Equity	8.0%	7.80%
Private Equity	7.0%	7.50%
Intermediate Investment Grade Bonds	14.0%	1.10%
Long-term Government Bonds	4.0%	1.10%
TIPS	4.0%	1.00%
High Yield and Bank Loans	5.0%	3.70%
Opportunistic Debt	8.0%	4.70%
Emerging Market Debt	2.0%	2.70%
Real Estate	10.0%	3.20%
Infrastructure	2.0%	3.90%
Total	**100%**	

Discount rate. A discount rate of 6.35% was used to measure the total pension liability as of the measurement date of June 30, 2020 as compared to a discount rate of 6.47% used to measure the total pension liability as of the prior year measurement date. The June 30, 2020 single blended discount rate was based on the expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 2.45%, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made based on the statutorily required rates under Illinois law. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2075. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2075, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the net pension liability to changes in the discount rate. The net pension liability for the plan was calculated using the stated discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate as shown below (amounts expressed in thousands):

	1% Decrease 5.35%	Discount Rate 6.35%	1% Increase 7.35%
Department's proportionate share of the net pension liability	$ 1,287,918	$ 1,065,438	$ 882,569

Payables to the pension plan. At June 30, 2021, the Department reported a payable of $1.742 million to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2021.

(10) Postemployment Benefits

Plan description. The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the Illinois State Employees Group Insurance Program (SEGIP) to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the Department's full-time employees are members of SEGIP. Members receiving monthly benefits from the General Assembly Retirement System (GARS), Judges' Retirement System (JRS), State Employees' Retirement System of Illinois (SERS), Teachers' Retirement System (TRS), and State Universities Retirement System of Illinois (SURS) are eligible for these other post-employment benefits (OPEB). The eligibility provisions for each of the retirement systems are defined within Note 9 Defined Benefit Pension Plan. Certain TRS members eligible for coverage under SEGIP include: certified teachers employed by certain State agencies, executives employed by the Board of Education, regional superintendents, regional assistant superintendents, TRS employees, and members with certain reciprocal service.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (GARS, JRS, SERS, TRS and SURS). The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

Benefits provided. The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes $5,000.

Funding policy and annual other postemployment benefit cost. OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions, and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan.

Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For fiscal year 2021, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $12,260.64 ($6,910.32 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $15,224.16 ($6,449.28 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

Total OPEB liability, deferred outflows of resources, deferred inflows of resources, and expense related to OPEB. The total OPEB liability, as reported at June 30, 2021, was measured as of June 30, 2020, with an actuarial valuation as of June 30, 2019. At June 30, 2021, the Department recorded a liability of $760.187 million for its proportionate share of the State's total OPEB liability. The Department's portion of the OPEB liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2020. As of the current year measurement date of June 30, 2020, the Department's proportion was 1.7943%, which was a decrease of 0.1301% from its proportion measured as of the prior year measurement date of June 30, 2019.

The Department recognized a reduction in OPEB expenses for the year ended June 30, 2021, of $12.544 million. In addition, the Department recorded $8.869 million of revenue and expenditures in the General Revenue account of the General Fund to account for contributions to SEGIP for Department employees that were paid from statewide General Revenue Fund appropriations. At June 30, 2021, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2020, from the following sources (amounts expressed in thousands):

Deferred outflows of resources	
Differences between expected and actual experience	$ 4,302
Changes of assumptions	20,774
Changes in proportion and differences between employer contributions and proportionate share of contributions	21,701
Department contributions subsequent to the measurement date	16,517
Total deferred outflows of resources	$ 63,294
Deferred inflows of resources	
Changes of assumptions	$ 8,186
Changes in proportion and	76,342
differences between employer contributions and proportionate share of contributions	63,606
Total deferred inflows of resources	$ 148,134

The amounts reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

Year ended June 30,	
2022	$ (36,062)
2023	(27,362)
2024	(14,290)
2025	(20,783)
2026	(2,860)
Total	$ (101,357)

Actuarial methods and assumptions. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2019, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2019.

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Actuarial assumptions:	
Inflation Rate	2.25%
Projected Salary Increases*	2.50% - 12.25%
Healthcare Cost Trend Rate:	
Medical & Rx (Pre-Medicare & Post-Medicare)	8.25% grading down 0.25% per year over 16 years to 4.25% in year 2037. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Dental and Vision	4.00% grading up 0.25% in the first year to 4.25% through 2037.
Retirees' share of benefit-related costs	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2020 and 2021 are based on actual premiums. Premiums after 2021 were projected based on the same healthcare cost trend rates applied to per capita claim costs.

Note: the above actuarial assumptions were used to calculate the OPEB liability as of the current year measurement date and are consistent with the actuarial assumptions used to calculate the OPEB liability as of the prior year measurement date except for the following:

Inflation Rate	2.50%
Projected Salary Increases*	2.75% - 12.25%
Healthcare Cost Trend Rate:	
Medical and Rx (Pre-Medicare)	8.00% grading down 0.50% in the first year to 7.50%, then grading down 0.11% in the second year to 7.39%, followed by grading down of 0.50% per year over 5 years to 4.89% in year 7
Medical and Rx (Post-Medicare)	9.00% grading down 0.50% per year over 9 years to 4.50%
Dental and Vision	6.00% grading down 0.50% per year over 3 years to 4.50%

* Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2019 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study^	Mortality^^
GARS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 99% for males and females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
JRS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 102% for males and 98% for females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
SERS	July 2015 - June 2018	Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018
TRS	July 2014 - June 2017	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017
SURS	July 2014 - June 2017	RP-2014 White Collar, gender distinct, projected using MP-2014 two dimensional mortality improvement scale, set forward one year for male and female annuitants

^ The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined.

^^ Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

Discount rate. Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 3.13% at June 30, 2019, and 2.45% at June 30, 2020, was used to measure the total OPEB liability.

Sensitivity of total OPEB liability to changes in the single discount rate. The following presents the plan's total OPEB liability, calculated using a Single Discount Rate of 2.45%, as well as what the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (3.45%) or lower (1.45%) than the current rate (amounts expressed in thousands):

	1% Decrease (1.45%)	Current Single Discount Rate Assumption (2.45%)	1% Increase (3.45%)
Department's proportionate share of total OPEB liability	894,808	760,187	652,822

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate. The following presents the plans total OPEB liability, calculated using the healthcare cost trend rates as well as what the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates (amounts in table expressed in thousands). The key trend rates are 8.25% in 2021 decreasing to an ultimate trend rate of 4.25% in 2037.

	1% Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
Department's proportionate share of total OPEB liability	636,389	760,187	922,519

(11) Fund Deficits

The following funds had deficit balances at June 30, 2021 (amounts expressed in thousands):

	Governmental Activities
General Revenue Fund (001)	$ (1,865,180)
U of I Hospital Services Fund (136)	(38,299)
County Provider Trust Fund (329)	(104,196)
Long-Term Care Provider Fund (345)	(30,732)
Public Aid Recoveries Trust Fund (421)	(14,352)
Medical Interagency Program Fund (720)	(5,637)
Tobacco Settlement Recovery Fund (733)	(31,697)

These deficits are expected to be recovered from future years' State appropriations and federal funds.

(12) Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation; and natural disasters. The State retains the risk of loss (i.e., self-insured) for these risks.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claims liabilities are based upon the estimated ultimate cost of settling the claims including specific, incremental claim adjustment expenses, salvage, and subrogation and considering the effects of inflation and recent claim settlement trends including frequency and amount of payouts and other economic and social factors.

The Department's risk management activities for self-insurance, unemployment insurance and workers' compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Department, and accordingly, have not been reported in the Department's financial statements for the year ended June 30, 2021.

(13) Commitments and Contingencies

(a) Operating Leases

The Department leases equipment, buildings, and office space under terms of noncancelable operating lease agreements not extending past the end of the fiscal year that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was $3.2 million for the year ended June 30, 2021.

(b) Litigation

A class action lawsuit existed at June 30, 2021. This is a class action consisting of "all individuals who on or after February 1, 2015, have applied to be determined eligible for long-term care Medicaid benefits from the State of Illinois and have not received a final eligibility determination or notice of an opportunity for a hearing within 45 days of the date of application in non-disability cases or 90 days in disability cases." On March 29, 2018, the Court entered a Preliminary Injunction Order requiring the Defendants to (1) determine, on or before June 28, 2018, the eligibility of class members for long-term care benefits for which they have applied, (2) implement policies and processes to ensure Defendants prospectively comply with the Medicaid Act's deadlines for eligibility determinations, and (3) beginning June 28, 2018, pay the long-term care and other benefits to (or for the benefit of) class members while their applications remain pending beyond the Medicaid Act's deadlines for eligibility determinations. The Department has substantially reduced eligibility backlogs of applications and redeterminations and is committed to maintaining these accomplishments. The value of the estimated liability associated with any backlogged applications is assumed to be in the historic data used in the calculation of the Department's overall medical accrual liability estimate recorded in the financial statements as accounts payable. On November 2, 2021, the parties informed the court that the defendants were in compliance with the requirements for timely determination of eligibility on applications for long-term care Medicaid benefits and agreed to a process to (1) decertify the class (2) dismiss the appeal of the preliminary injunction, (3) vacate the preliminary injunction, and (4) dismiss the case. The court accepted the parties' proposed steps to dispose of the case. The class was decertified on November 10, 2021, and the appeal was subsequently withdrawn. On December 17, 2021, the district court dissolved the preliminary injunction and dismissed the case.

A class action lawsuit existed at June 30, 2021. This is a class action consisting of a Plaintiff class seeking enforcement of a consent order that was entered in this class action in 1980. The order provides that Class members, whose Medicaid (without a cash grant) applications are pending at least 15 days over federally established time limits due to the State's delay and who make a request pursuant to a notice sent by the State informing them that their application is beyond the federal time limits, are entitled to a temporary medical card providing coverage for the full range of Medicaid benefits (except long-term care benefits) during the remaining period during which their applications are pending. The motion to enforce was subsequently withdrawn. The Department and the Department of Human Services (DHS) have done significant work to both reduce the application backlog and address the compliance concerns raised by class counsel. The parties have informed the court that they have resolved the substantive issues that spurred the motion to enforce.

A lawsuit existed at June 30, 2021. The plaintiff managed care organization filed an action in the Court of Claims to dispute the Department's Prompt Payment Act interest calculation methodology. The plaintiff contends that the Department should calculate interest based on total capitation rather than at the individual claim level plus pay all interest calculated under $5. The plaintiff is seeking $7.5 million in additional interest payments.

A lawsuit existed at June 30, 2021. The plaintiff hospital is alleging that the Department is in violation of federal law due to purported payment delays from Medicaid Managed Care Organizations (MCO's) to the hospital. The plaintiff's requested relief includes an injunction requiring the Department to make payments owed by MCO's and termination of the Medicaid MCO contracts. The plaintiff is seeking a preliminary injunction. The district court has granted the Department's motion to dismiss, and the plaintiff has appealed. An estimate of the possible loss cannot be made.

(c) Disproportionate Share Hospital Payments

In October 2004, the U.S. Department of Health and Human Services, Office of Inspector General (OIG) issued its reports, "Review of Illinois Medicaid Disproportionate Share Hospital Payments to the University of Illinois at Chicago Hospital" and "Review of Illinois Medicaid Disproportionate Share Hospital Payments to Mount Sinai Hospital of Chicago." The reports recommended that the State refund $140.282 million and $4.516 million respectively, in federal financial participation (FFP) to the federal government because of alleged overpayment to the hospitals of $280.6 million and $9.032 million above the hospital-specific limitation on Disproportionate Share Hospital (DSH) payments to the hospitals during State fiscal years 1997-2000. The state completed repayment in June 2019 to reduce potential interest costs. However, the State continues to strongly disagree with the OIG's findings. The U.S. Department of Health and Human Services Centers for Medicare and Medicaid Services (Federal CMS) concurred with the audit findings but stated "we interpret this recommendation as a prospective resolution and not a requirement to recoup any Federal payments associated with these findings." After approximately 12 years of no official action, in July 2016, the State received a formal disallowance from Federal CMS for these two audits. It is the State's position that it has followed Federal CMS published guidelines, and its methodology for calculating the hospital-specific limitation has been consistently approved by Federal CMS. The Department subsequently sought reconsideration, which was denied, and appealed the disallowances to the U.S. Department of Health and Human Services' Departmental Appeals Board (DAB). On April 2, 2018, the DAB sustained both disallowances and the Department sought reconsideration of the decision on June 1, 2018. Subsequent to June 30, 2018, the DAB denied the Department's motions for reconsideration and the Department exercised its right to further appeal the disallowances in the United States District Court for the Northern District of Illinois. On September 25, 2020, the Court ruled in the Department's favor. The U.S. Department of Health and Human Services appealed the ruling. The case was referred for mediation, which is ongoing.

(d) Noncompliance with Federal Regulations

During Fiscal Year 2018, the Department and the Department of Human Services implemented additional functionality within the automated eligibility system. Resulting from this transition, the State has experienced several significant issues, including problems with (1) the transfer of data files, (2) documentation of eligibility decisions, and (3) noncompliance with federal regulations requiring the timely determination and redetermination of eligibility for programs. Due to these problems, the U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services (Federal CMS) required the Department to finalize and submit a corrective action plan for approval.

The Department submitted two proposed CAPs, and both were approved by Federal CMS. Federal CMS has indicated to the Department that given that the approved CAPs have been implemented and the Department adheres to the timeframes and milestones contained therein, no disallowances or withholding of FFP funds is anticipated. Federal CMS CAP supervision activities are suspended during the COVID-19 Public Health Emergency.

Federal CMS also conducted its Payment Error Rate Measurement (PERM) program to determine improper payment rates for Illinois and 16 other states for the Reporting Year 2019 (RY2019) for the Medicaid and the Children's Health Insurance Program (CHIP). On November 26, 2019, the Department was notified of its results of the RY2019 PERM. With respect to eligibility errors identified in the PERM, Federal CMS stated that no recoveries or disallowances would be required. However, Federal CMS also noted that had the Department not met the good faith effort requirement established by section 1903(u) of the Social Security Act (i.e., complying with the Medicaid Eligibility Quality Control and corrective action plan requirements outlined in 82 Federal Register 31158), the total extrapolated dollars would have been available for disallowance for the Medicaid and CHIP programs. The report reflected an improper payment rate estimate of 35.37% for Medicaid and 34.15% for CHIP. The report further noted that improper payments did not necessarily represent expenses that should not have occurred. An improper payment could have been determined due to missing information or compliance issues. If that information had been available or the compliance requirement was met, the claim may have been a payable. With respect to other errors identified in the report, the Department has been informed of federal recoveries of $132,969. As a result of the PERM findings, the Department submitted a CAP to Federal CMS on February 24, 2020. PERM activities were suspended by Federal CMS between March 2020 and July 2020 due to the COVID-19 Public Health Emergency, after which Federal CMS began their review of the Department's CAP. Federal CMS returned the CAPs to the Department on February 26, 2021. The Department submitted a response to Federal CMS questions on March 26, 2021. The Department received acceptance of the PERM RY19 CAP on August 10, 2021. The Department's error rates will be measured again in RY2022.

(e) ***Requested Return of Federal Financial Participation***

In December 2018, the Department received a total of four Demand Letters from Federal CMS for the return of FFP related to certain optical service/supply, inpatient psychiatric, and Disproportionate Share Hospital (DSH) payments. The total dollar value of the FFP identified in those letters was approximately $121.5 million ($121.054 million in Disallowance Letters and $488 thousand without a Disallowance Letter). The Demand Letters were related to services that go back as far as the year 2000 in some instances. The Demand Letters did not represent formal disallowances of the identified FFP. The Department notified Federal CMS in writing that it did not plan to return the FFP and strongly disagreed with the assertions made within the Demand Letters. On September 27, 2019, Federal CMS issued three Disallowance Letters related to the inpatient psychiatric and DSH payments.

The Department appealed the disallowances to the U.S. Department of Health and Human Services Departmental Appeals Board (DAB). The $121.054 million was offset by the federal government via adjustment to the federal grant award and subsequently adjusted on the federal claim for December 31, 2019, pending the outcome of the appeal. Per agreement of the parties, the three appeals were consolidated and stayed pending the results of two other similar disallowance cases involving other states currently under consideration by the DAB. On June 23, 2021, the Department received a disallowance letter related to optical supplies and services. The $488 thousand was returned to the federal government with the December 31, 2021, federal claim. An entry related to this is included in the Department's 2021 financial reports.

(f) Federal Grants

The Department receives other federal grants that are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2021, other than identified above, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Department believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

(g) Data Breaches

Pandemic Supplement Nutrition Assistance for Children Receiving Free or Reduced School Lunches (P-EBT): The Illinois Application for Benefits Eligibility System (ABE) is a component of the Integrated Eligibility System (IES). On July 9, 2020, a state manager learned that one ABE user could see the applications of other customers who had applied for P-EBT benefits. The Illinois Department of Human Services (DHS), the Illinois Department of Healthcare and Family Services (HFS), and the Illinois Department of Innovation and Technology (DoIT) (collectively, the Departments), opened an investigation into this matter. On July 23, 2020, it was determined that a security breach occurred due to a system coding error. The information of approximately 285 individuals was compromised. The P-EBT applications contained the name, address, telephone number, dates of birth and, possibly, Social Security Numbers (SSN) of applicants and their child(ren).

The Departments promptly shut down ABE to prevent other users from possibly viewing other customers' P-EBT application information and immediately began an investigation to determine the cause of this incident. On July 31, 2020, the Departments notified the members of the Illinois General Assembly and the potentially affected individuals, and on August 11, 2020, the Office of the Illinois Attorney General was notified. The Departments also provided the potentially affected individuals with contact information for credit reporting agencies and the Federal Trade Commission, as well as a dedicated phone line to provide assistance and further information. HFS has paid no fines regarding this breach. The vendor used paid the mailing cost for the 285 notices.

Head of Household (HOH): On November 24, 2020, an issue within the Integrated Eligibility System (IES) was discovered. The Illinois Department of Human Services (DHS) and the Illinois Department of Healthcare and Family Services (HFS), in conjunction with the Illinois Department of Innovation and Technology (DoIT) (collectively, the Departments), opened an investigation into the matter. The Departments determined that a breach occurred when household members who were once on a case and had their access removed could still see information even after they were no longer part of that case. This means that if the HOH removed or requested removal of a prior household member from the case, the removed member still had the ability to access the previous HOH and the other household members' system-generated notices and uploaded documents. The information of 525 cases with 1,960 individuals was compromised. The information involved depended on the type of notices that were uploaded to IES but may have included social security numbers, public aid information, medical information, and financial information. The Federal Office for Civil Rights (OCR) has opened an investigation into the HOH breach.

On January 8, 2021, the Departments updated IES to limit case access to only the HOH. Other prior household members and current members no longer have access. The Departments notified the members of the Illinois General Assembly on July 29, 2021, the potentially affected individuals on September 9, 2021, and the Office of the Illinois Attorney General on September 10, 2021. The Departments also provided the potentially affected individuals with contact information for credit reporting agencies and the Federal Trade Commission, as well as a dedicated phone line to provide assistance and further information. HFS has paid no fines regarding this breach. However, as noted above an OCR investigation is currently open and pending resolution. The vendor used paid the mailing cost for the 1,960 notices.

National Change of Address (NCOA): On December 16, 2020, an issue within the Integrated Eligibility System (IES) system was discovered. The Illinois Department of Human Services (DHS), the Illinois Department of Healthcare and Family Services (HFS), and the Illinois Department of Innovation and Technology (DoIT) (collectively, the Departments), opened an investigation into this matter. The Departments determined that a security breach occurred in late November due to a file handling error during a monthly address update process. Each month, through a service provided by the United States Postal Service (USPS), addresses in IES are cross-referenced with address changes made by individuals through USPS. The

Departments determined that the cause of the incident was a mismatched file during a monthly address update that caused customers' addresses to be changed to incorrect addresses. As a result, notices for customers were sent to the wrong addresses. The information of 8,848 individuals was compromised. Depending on the type of notice the information compromised may have included the name of the head of household and/or other household members, case number, status as a recipient of medical assistance, Temporary Assistance for Needy Families benefits or Supplemental Nutrition Assistance Program benefits, name of dependents, birthdates, medical identification numbers (RIN), medical eligibility category and Medical coverage dates. Only one notice included a complete Social Security Number and five notices included a complete bank account number.

The Departments promptly corrected the addresses in IES. The Departments notified the members of the Illinois General Assembly on February 2, 2021, the potentially affected individuals on February 26, 2021, and the Office of the Illinois Attorney General on March 1, 2021. The Departments also provided the potentially affected individuals with contact information for credit reporting agencies and the Federal Trade Commission, as well as a dedicated phone line to provide assistance and further information. HFS has paid no fines regarding this breach. DHS and HFS split the payment for the mailing cost of 8,842 notices sent February 26, 2021, 595 notices sent February 26, 2021, and an additional 8,842 notices sent March 30,2021.

Provider's Breach: On January 14, 2021, State staff inadvertently uploaded the Social Security Numbers (SSN) of medical providers onto HFS' public-facing website during a routine weekly update of an online provider list. On February 27, 2021, HFS was notified by a provider of the improper disclosure. HFS and the Illinois Department of Innovation and Technology (DoIT) (collectively, the Departments), opened an investigation into this matter. The Departments determined that a security breach occurred when a staff member inadvertently updated the provider directory and the updated file included the medical provider identifier from HFS' legacy provider system. The updated file contained Personally Identifiable Information (PII) of the medical providers embedded within the legacy medical provider identifiers. The information of about 72,000 providers was compromised. The PII involved included the provider's name and social security number.

On or about February 27, 2021, the website was taken down. The Departments replaced the medical provider identifiers with the medical providers' National Provider Identifier (NPI) and put the website back online on March 1, 2021. The NPIs of the medical providers are publicly available. On April 6, 2021, the Departments notified the members of the Illinois General Assembly and the Office of the Illinois Attorney General. The potentially affected providers were notified on April 13, 2021. The Departments provided the potentially affected individuals with contact information for credit reporting agencies and the Federal Trade Commission, as well as a dedicated phone line to provide assistance and further information. HFS has paid no fines regarding this breach. HFS paid for the mailing cost for 71,201 notices. In addition, HFS procured an emergency contract with Equifax for credit monitoring services of all three credit bureaus, $1 million identity theft insurance, identity restoration, fraud alerts, free credit reports and scores, as well as mail-notification services and enhanced call center services. The total fixed cost of the service plan was $324,000. In addition, an estimate of $18,200 was added for address appended services. The total payment to the contractor was $331,839.

Missing US Mail Breach (April 19, 2021): On April 19, 2021, the Illinois Attorney General's (AG) Office notified the Department that an empty envelope had arrived at the AG's office. The envelope had contained personally identifiable information (PII) for nine child support case files, affecting 30 individuals. To date, the missing files have not been recovered. HIPAA requires covered entities to send breach notifications to affected individuals within 60 days after the breach is discovered (April 19, 2021). Breach notification to the individuals was required to occur on or before June 18, 2021. However, the individuals were notified of the breach by mail on February 28, 2022. The untimely notification was unintentional due to staffing turnover in the Department's privacy office, but potential HIPAA penalties for the delay will most likely be assessed. The penalty cannot be estimated at this time but the Department anticipates it to be less than $500,000.

Additionally, as required by law, HFS notified the U.S. Department of Health and Human Services, Office of Civil Rights (DHHS) (February 28, 2022), the AG (February 28, 2022) and the Illinois General Assembly (March 9, 2022). HFS is currently evaluating whether its processes for exchange of documents with the AG's

Office can be changed to decrease the risk of mail being lost or destroyed in transit. In addition, the Department is currently procuring credit monitoring and identity protection services for the impacted individuals, with costs estimated not to exceed $10,000.

Missing US Mail Breach (January 27, 2022): On January 27, 2022, the Department received an empty envelope through the United States Postal Service (USPS) sent from the Illinois Attorney General's Office (AG). The envelope had contained child support case files with personally identifiable information (PII) for 14 individuals. The Department and the AG worked extensively with the USPS to locate the files, but to date, the missing files have not been recovered. The Department notified the affected individuals on March 25, 2022 and the General Assembly and the AG on March 30, 2022. It is unlikely any penalties will be imposed due to the cause of the breach; however, one year's worth of credit monitoring will be provided for the impacted individuals, estimated to cost no more than $4,000.

(14) Securities Lending Transactions

The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2021, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during fiscal year 2021 on the amount of loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral, or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during fiscal year 2021 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2021, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2021, were $5,491,725,001 and 5,417,669,749.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, paragraph 9, the State Treasurer has allocated the assets and obligations at June 30, 2021 arising from securities lending agreements to the various funds of the State. The total allocated to the Department at June 30, 2021, was $255.905 million.

(15) Coronavirus Pandemic Implication

The coronavirus pandemic, declared a state of emergency in 2020, continued to impact the Department. During fiscal year 2021, the Illinois General Assembly appropriated $830 million to the Department for distribution to Medicaid providers through the State CARES Pandemic Related Stability Payments Program for Funds Made Available Through the Federal CARES Act (Program). The Department expended $648 million of the appropriated funds, net of provider returns, to cover provider costs related to the

COVID-19 Public Health Emergency. The pass-through financial assistance was made available from the Coronavirus Relief Fund (CRF) (Assistance Listing No. 21.019) through the U.S. Department of the Treasury, the federal awarding agency. A portion of the unexpended appropriations were reappropriated to be utilized during fiscal year 2022 under the same program. As the program is ongoing, the Department anticipates continued impact to its financial position. In addition to CRF funding passed through to providers, the Department was reimbursed $15.5 million in CRF funds from the Illinois Emergency Management Agency for other pandemic related expenditures, including payments for pandemic health workers, telehealth, and virtual care services.

In fiscal year 2022, the Department will also receive COVID-19 funding through the American Rescue Plan Act (ARPA) to assist providers through the COVID-19 Public Health Emergency. In addition, a plan was submitted and approved by the federal government during fiscal year 2022 for ARPA funding for Home and Community Based Services (HCBS) programs. The plan allows for a 10% enhanced federal match on eligible records with a claim paid date April 1, 2021 through March 31, 2022. The resulting enhanced federal revenue is expected to be utilized from fiscal years 2022 – 2024 to enhance HCBS services.

The Department continues to monitor and evaluate the pandemic situation to determine any additional impacts, both operationally and financially.

(16) Subsequent Events

Pharmacy Benefit Manager Settlement
In September 2021, the Illinois Office of the Attorney General entered into a settlement agreement with a Medicaid managed care organization that delivered pharmacy benefits for the Illinois Department of Healthcare and Family Services (Department). Per the settlement, the pharmacy benefit manager (PBM) will pay the State of Illinois an amount totaling $56.7 million in two equal installments. The Department will be allocated $17.6 million in two installments of $8.8 million related to pharmacy adjudication discounts not applied. A portion of the settlement amount received by the Department will be returned to the federal government for amounts previously reimbursed. The Department is in the process of determining the amount that will be returned to the federal government. The PBM paid the first installment in November 2021 and is expected to pay the second in November 2022.

Managed Care Plan Waiver
One of the Department's Managed Care plans ceased providing services to the State's Medicaid clients on June 30, 2020, and the plan has since been in the process of closing out its operations. The Department originally estimated at June 30, 2021, it would receive $7.3 million (net) from the plan.

One of these estimates related to a risk corridor the Department had implemented to protect the State and the contracted health plans given the level of uncertainty surrounding the utilization of health care services during the pandemic. Another was related to the plan's Medical Loss Ratio (MLR). The Department requested a waiver of these requirements related to the plan from Federal CMS on January 29, 2022, and Federal CMS approved this request on February 4, 2022. The effect of this waiver was to eliminate the risk corridor and to encourage the plan to settle old claims to facilitate a smooth closure and minimize provider abrasion.

Additionally, there were some minor changes to estimates of amounts due from this plan as additional information was received and analyzed.

Based on the information above, the Department filed a Proof of Claim with the Department of Insurance, Office of the Special Deputy Receiver, on April 4, 2022, in the amount of $2.3 million.

Combining Schedule of Accounts - General Fund

June 30, 2021 (Expressed in Thousands)

	General Revenue 0001	U of I Hospital Services 0136	State Coronavirus Urgent Remediation Emergency 0324	County Provider Trust 0329	Care Provider for Persons with DD 0344	Long-Term Care Provider 0345	Hospital Provider 0346	Special Education Medicaid Matching 0355	Trauma Center 0397	Public Aid Recoveries Trust 0421
ASSETS										
Unexpended appropriations	$ (227,738)	$ -	$ (25,166)	$ -	$ -	$ -	$ -	$ -	$ 506	$ -
Cash equity with State Treasurer	931	6,339	-	17,038	57	28,066	290,451	-	-	270,959
Cash and cash equivalents	3,916	-	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	976	-	12,629	-	6,774	51,922	-	-	-
Due from other government - federal	371,019	42,330	-	85,304	258	48,511	16,403	31,645	289	28,823
Due from other government - local	-	-	214	46,962	-	-	-	9	-	-
Taxes receivable, net	-	-	-	-	639	7,449	55,403	-	-	-
Other receivables, net	69,354	1	24,703	9	-	5	36	-	-	751,118
Notes receivables	-	-	-	-	-	-	-	-	-	-
Due from other Department funds	99	15,281	-	-	-	-	-	-	-	18,186
Due from other State funds	39	-	-	-	-	124	-	-	-	100,000
Due from State of Illinois component units	-	15,647	249	-	-	-	-	-	-	-
Total assets	$ 217,620	$ 80,574	$ -	$ 161,942	$ 954	$ 90,929	$ 414,215	$ 31,654	$ 795	$ 1,169,086
LIABILITIES										
Accounts payable and accrued liabilities	$ 510,307	$ -	$ -	$ 72	$ -	$ 83,050	$ 18,813	$ 205	$ 468	$ 31,130
Due to other government - federal	188,756	-	-	5	-	1	-	-	-	66
Due to other government - local	2,632	-	-	149,178	-	1,066	133	31,449	38	6,548
Due to other Department funds	1,250,262	-	-	-	-	-	-	-	-	1,114,025
Due to other State funds	4,761	4	-	19	-	31	-	-	-	2,229
Due to other State fiduciary funds	-	-	-	39	-	7	-	-	-	474
Due to State of Illinois component units	11,164	73,258	-	-	-	-	-	-	-	2,259
Unearned Revenue	-	-	-	-	-	-	-	-	-	-
Obligations under securities lending of State Treasurer	-	976	-	12,629	-	6,774	51,922	-	-	-
Total liabilities	1,967,882	74,238	-	161,942	-	90,929	70,868	31,654	506	1,156,731
DEFERRED INFLOWS OF RESOURCES										
Unavailable revenue - Federal operating grants	114,872	28,988	-	65,802	250	27,995	-	-	289	21,357
Unavailable revenue - Medical provider assessment tax	-	-	-	-	19	2,737	50,005	-	-	-
Unavailable revenue - Other operating grants	-	15,647	-	38,394	-	-	-	-	-	-
Unavailable revenue - Other revenues	46	-	-	-	-	-	-	-	-	-
Unavailable revenue - Other charges for services	-	-	-	-	-	-	-	-	-	5,350
Total deferred inflows of resources	114,918	44,635	-	104,196	269	30,732	50,005	-	289	26,707
FUND BALANCES (DEFICITS)										
Committed for health and social services	-	-	-	-	685	-	-	-	-	-
Unassigned	(1,865,180)	(38,299)	-	(104,196)	-	(30,732)	293,342	-	-	(14,352)
Total fund balances (deficits)	(1,865,180)	(38,299)	-	(104,196)	685	(30,732)	293,342	-	-	(14,352)
Total liabilities, deferred inflows of resources, and fund balances (deficits)	$ 217,620	$ 80,574	$ -	$ 161,942	$ 954	$ 90,929	$ 414,215	$ 31,654	$ 795	$ 1,169,086

(Continued)

Combining Schedule of Accounts - General Fund

June 30, 2021 (Expressed in Thousands)

	Electronic Health Record Incentive 0503	Juvenile Rehab Services Medicaid Matching 0575	Health Information Exchange 0606	Medical Interagency Program 0720	Drug Rebate 0728	Medicaid Buy-in Program Revolving 0740	Healthcare Provider Relief 0793	Medical Special Purposes Trust 0808	Eliminations	Total
ASSETS										
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (252,398)
Cash equity with State Treasurer	598	-	317	51	160,289	517	214,627	214	-	990,454
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	3,916
Securities lending collateral equity with State Treasurer	-	-	112	347	73,012	185	108,094	-	-	254,051
Due from other government - federal	-	-	-	5,720	3,818	-	859,572	415	-	1,494,107
Due from other government - local	-	-	-	-	-	-	-	-	-	47,185
Taxes receivable, net	-	-	-	-	-	-	2,961	-	-	66,452
Other receivables, net	-	-	-	2	50	-	278,744	-	-	1,124,022
Notes receivables	-	-	-	-	-	-	119,740	-		119,740
Due from other Department funds	-	-	-	424	1,114,025	-	1,190,225	6,000	(2,344,237)	3
Due from other State funds	-	-	-	74	-	1,000	-	-	-	101,237
Due from State of Illinois component units	-	-	-	242	-	-	-	-	-	16,138
Total assets	$ 598	$ -	$ 429	$ 6,860	$ 1,351,194	$ 1,702	$ 2,773,963	$ 6,629	$ (2,344,237)	$ 3,964,907
LIABILITIES										
Accounts payable and accrued liabilities	$ 34	$ -	$ -	$ 1,177	$ 6,641	$ 50	$ 492,901	$ 285	$ -	$ 1,145,133
Due to other government - federal	-	-	-	-	541,545	1	-	-	-	730,374
Due to other government - local	9	-	-	79	-	-	108,724	-	-	299,856
Due to other Department funds	-	-	-	-	-	-	520	-	(2,344,237)	20,570
Due to other State funds	-	-	-	-	-	5	25,632	-	-	32,681
Due to other State fiduciary funds	-	-	-	-	-	2	-	-	-	522
Due to State of Illinois component units	-	-	-	5,257	7	-	821	212	-	92,978
Unearned Revenue	555	-	-	-	-	-	236,841	-	-	237,396
Obligations under securities lending of State Treasurer	-	-	112	347	73,012	185	108,094	-	-	254,051
Total liabilities	598	-	112	6,860	621,205	243	973,533	497	(2,344,237)	2,813,561
DEFERRED INFLOWS OF RESOURCES										
Unavailable revenue - Federal operating grants	-	-	-	5,395	-	-	273,209	-	-	538,157
Unavailable revenue - Medical provider assessment tax	-	-	-	-	-	-	-	-	-	52,761
Unavailable revenue - Other operating grants	-	-	-	242	-	-	-	-	-	54,283
Unavailable revenue - Other revenues	-	-	-	-	-	-	249,592	-	-	249,638
Unavailable revenue - Other charges for services	-	-	-	-	-	-	-	-	-	5,350
Total deferred inflows of resources	-	-	-	5,637	-	-	522,801	-	-	900,189
FUND BALANCES (DEFICITS)										
Committed for health and social services	-	-	317	-	729,989	1,459	1,277,629	6,132	-	2,016,211
Unassigned	-	-	-	(5,637)	-	-	-	-	-	(1,765,054)
Total fund balances (deficits)	-	-	317	(5,637)	729,989	1,459	1,277,629	6,132	-	251,157
Total liabilities, deferred inflows of resources, and fund balances (deficits)	$ 598	$ -	$ 429	$ 6,860	$ 1,351,194	$ 1,702	$ 2,773,963	$ 6,629	$ (2,344,237)	$ 3,964,907

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance - General Fund

For the Year Ended June 30, 2021
(Expressed in Thousands)

	General Revenue 0001	U of I Hospital Services 0136	State Coronavirus Urgent Remediation Emergency 0324	County Provider Trust 0329	Care Provider for Persons with DD 0344	Long-Term Care Provider 0345	Hospital Provider 0346
REVENUES							
Operating grants - federal, net	$ 4,448,535	$ 130,712	$ -	$ 1,987,665	$ 21,763	$ 197,915	$ 2,363,236
Other operating grants	243,700	28,598	-	727,051	-	-	-
Licenses and fees	2,659	-	-	-	-	-	-
Other charges for services, net	-	-	-	-	-	-	-
Interest and other investment income	-	9	-	122	-	58	581
Medical provider assessment tax	-	-	-	247,079	20,336	145,019	1,660,765
Other taxes, net	-	-	-	-	-	31,170	-
Other	1,134	-	-	-	-	-	-
Total revenues	4,696,028	159,319	-	2,961,917	42,099	374,162	4,024,582
EXPENDITURES							
Health and social services	6,822,005	182,596	626,618	3,051,669	5	393,859	3,599,650
Debt service principal	-	-	-	-	-	-	-
Debt service interest	-	-	-	-	-	-	-
Capital outlays	1,547	-	-	-	-	5	-
Total expenditures	6,823,552	182,596	626,618	3,051,669	5	393,864	3,599,650
Excess (deficiency) of revenues over (under) expenditures	(2,127,524)	(23,277)	(626,618)	(89,752)	42,094	(19,702)	424,932
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	8,222,938	-	830,000	-	1,226	-	-
Lapsed appropriations	(224,451)	-	(203,382)	-	(1,224)	-	-
Receipts collected and transmitted to State Treasury	(4,303,129)	-	-	-	(42,054)	-	-
Amount of SAMS transfers-out	45,001	-	-	-	5	-	-
Transfers-in	-	39,997	-	-	-	30,000	-
Transfers-out	(1,061,323)	-	-	-	-	(20,000)	(415,000)
Capital lease financing	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	2,679,036	39,997	626,618	-	(42,047)	10,000	(415,000)
Net change in fund balances	551,512	16,720	-	(89,752)	47	(9,702)	9,932
Fund balances (deficits), July 1, 2020	(2,416,692)	(55,019)	-	(14,444)	638	(21,030)	283,410
FUND BALANCES (DEFICITS), JUNE 30, 2021	$ (1,865,180)	$ (38,299)	$ -	$ (104,196)	$ 685	$ (30,732)	$ 293,342

(Continued)

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance - General Fund

For the Year Ended June 30, 2021
(Expressed in Thousands)

	Special Education Medicaid Matching 0355	Trauma Center 0397	Public Aid Recoveries Trust 0421	Electronic Health Record Incentive 0503	Juvenile Rehab Services Medicaid Matching 0575	Health Information Exchange 0606	Medical Interagency Program 0720
REVENUES							
Operating grants - federal, net	$ 162,381	$ 3,434	$ 83,986	$ 6,384	$ 3	$ -	$ 11,827
Other operating grants	-	-	-	-	-	-	1,291
Licenses and fees	-	-	-	-	-	-	-
Other charges for services, net	-	-	36,692	-	-	-	-
Interest and other investment income	-	-	-	-	-	1	-
Medical provider assessment tax	-	-	-	-	-	-	-
Other taxes, net	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total revenues	162,381	3,434	120,678	6,384	3	1	13,118
EXPENDITURES							
Health and social services	155,867	4,805	157,196	6,384	3	(316)	6,197
Debt service principal	-	-	46	-	-	-	-
Debt service interest	-	-	4	-	-	-	-
Capital outlays	-	-	405	-	-	-	-
Total expenditures	155,867	4,805	157,651	6,384	3	(316)	6,197
Excess (deficiency) of revenues over (under) expenditures	6,514	(1,371)	(36,973)	-	-	317	6,921
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	12,010	-	-	-	-	-
Lapsed appropriations	-	(7,205)	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	(3,434)	-	-	-	-	-
Amount of SAMS transfers-out	-	-	-	-	-	-	-
Transfers-in	-	-	4,906	-	-	-	-
Transfers-out	-	-	-	-	-	-	-
Capital lease financing	-	-	63	-	-	-	-
Net other sources (uses) of financial resources	-	1,371	4,969	-	-	-	-
Net change in fund balances	6,514	-	(32,004)	-	-	317	6,921
Fund balances (deficits), July 1, 2020	(6,514)	-	17,652	-	-	-	(12,558)
FUND BALANCES (DEFICITS), JUNE 30, 2021	$ -	$ -	$ (14,352)	$ -	$ -	$ 317	$ (5,637)

(Continued)

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance - General Fund

For the Year Ended June 30, 2021
(Expressed in Thousands)

	Drug Rebate 0728	Medicaid Buy-in Program Revolving 0740	Healthcare Provider Relief 0793	Medical Special Purposes Trust 0808	Eliminations	Total
REVENUES						
Operating grants - federal, net	$ 1,595	$ -	$ 7,405,008	$ 9,304	$ -	$ 16,833,748
Other operating grants	-	-	-	-	-	1,000,640
Licenses and fees	-	14	-	-	-	2,673
Other charges for services, net	-	-	56,907	-	(36,692)	56,907
Interest and other investment income	591	2	607	-	-	1,971
Medical provider assessment tax	-	-	1,041,758	-	-	3,114,957
Other taxes, net	-	-	318,269	-	-	349,439
Other	-	-	200,705	-	-	201,839
Total revenues	2,186	16	9,023,254	9,304	(36,692)	21,562,174
EXPENDITURES						
Health and social services	(104,568)	185	10,298,029	2,503	(36,692)	25,165,995
Debt service principal	-	-	153	-	-	199
Debt service interest	-	-	12	-	-	16
Capital outlays	-	165	8,521	-	-	10,643
Total expenditures	(104,568)	350	10,306,715	2,503	(36,692)	25,176,853
Excess (deficiency) of revenues over (under) expenditures	106,754	(334)	(1,283,461)	6,801	-	(3,614,679)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	-	-	9,066,174
Lapsed appropriations	-	-	-	-	-	(436,262)
Receipts collected and transmitted to State Treasury	-	-	-	-	-	(4,348,617)
Amount of SAMS transfers-out	-	-	-	-	-	45,006
Transfers-in	-	-	1,348,025	2,500	(1,425,253)	175
Transfers-out	-	-	-	-	1,425,253	(71,070)
Capital lease financing	-	-	168	-	-	231
Net other sources (uses) of financial resources	-	-	1,348,193	2,500	-	4,255,637
Net change in fund balances	106,754	(334)	64,732	9,301	-	640,958
Fund balances (deficits), July 1, 2020	623,235	1,793	1,212,897	(3,169)	-	(389,801)
FUND BALANCES (DEFICITS), JUNE 30, 2021	$ 729,989	$ 1,459	$ 1,277,629	$ 6,132	$ -	$ 251,157

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2021 (Expressed in Thousands)

	Special Revenue					
	Provider Inquiry Trust 0341	**Money Follows the Person Budget Transfer 0522**	**Department of Corrections Reimbursement and Education 0523**	**Tobacco Settlement Recovery 0733**	**Child Support Administrative 0757**	**Total**
ASSETS						
Unexpended appropriations	$ -	$ -	$ -	$ (31,697)	$ -	$ (31,697)
Cash equity with State Treasurer	2	5,212	-	-	24,993	30,207
Securities lending collateral equity with State Treasurer	-	1,854	-	-	-	1,854
Due from other government - federal	-	-	-	-	21,896	21,896
Other receivables, net	39	1	-	-	6,275	6,315
Due from other Department funds	-	-	-	-	20,570	20,570
Total assets	$ 41	$ 7,067	$ -	$ (31,697)	$ 73,734	$ 49,145
LIABILITIES						
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ -	$ 7,922	$ 7,922
Due to other government - federal	-	-	-	-	7,871	7,871
Due to other government - local	-	-	-	-	7,797	7,797
Due to other Department funds	-	-	-	-	3	3
Due to other State funds	-	-	-	-	11,576	11,576
Due to other State fiduciary funds	-	-	-	-	1,103	1,103
Due to State of Illinois component units	-	-	-	-	-	-
Obligations under securities lending of State Treasurer	-	1,854	-	-	-	1,854
Total liabilities	-	1,854	-	-	36,272	38,126
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - Federal operating grants	-	-	-	-	14,748	14,748
Unavailable revenue - Other revenues	-	-	-	-	6	6
Total deferred inflows of resources	-	-	-	-	14,754	14,754
FUND BALANCES (DEFICITS)						
Committed for health and social services	41	5,213	-	-	22,708	27,962
Unassigned	-	-	-	(31,697)	-	(31,697)
Total fund balances (deficits)	41	5,213	-	(31,697)	22,708	(3,735)
Total liabilities, deferred inflows of resources, and fund balances (deficits)	$ 41	$ 7,067	$ -	$ (31,697)	$ 73,734	$ 49,145

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds

For the Year Ended June 30, 2021 (Expressed in Thousands)

	Special Revenue					
	Provider Inquiry Trust 0341	**Money Follows the Person Budget Transfer 0522**	**Department of Corrections Reimbursement and Education 0523**	**Tobacco Settlement Recovery 0733**	**Child Support Administrative 0757**	**Total**
REVENUES						
Operating grants - federal, net	$ -	$ -	$ 9	$ 115,301	$ 90,099	$ 205,409
License and fees	228	-	-	-	-	228
Other charges for services, net	-	-	-	-	36,129	36,129
Interest and other investment income	-	16	-	-	-	16
Total revenues	228	16	9	115,301	126,228	241,782
EXPENDITURES						
Health and social services	355	73	-	227,142	141,760	369,330
Debt service principal	-	-	-	-	67	67
Debt service interest	-	-	-	-	11	11
Capital outlays	-	-	-	-	54	54
Total expenditures	355	73	-	227,142	141,892	369,462
Excess (deficiency) of revenues over (under) expenditures	(127)	(57)	9	(111,841)	(15,664)	(127,680)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	230,010	-	230,010
Lapsed appropriations	-	-	-	(17,901)	-	(17,901)
Receipts collected and transmitted to State Treasury	-	-	(18)	(143,868)	-	(143,886)
Transfers-in	-	-	-	-	31,070	31,070
Transfers out	-	-	-	-	-	-
Capital lease financing	-	-	-	-	54	54
Net other sources (uses) of financial resources	-	-	(18)	68,241	31,124	99,347
Net change in fund balances	(127)	(57)	(9)	(43,600)	15,460	(28,333)
Fund balances, July 1, 2020	168	5,270	9	11,903	7,248	24,598
FUND BALANCES (DEFICITS), JUNE 30, 2021	$ 41	$ 5,213	$ -	$ (31,697)	$ 22,708	$ (3,735)

Combining Statement of Fiduciary Net Position - Custodial Funds

June 30, 2021 (Expressed in Thousands)

	Child Support Enforcement Trust 0957	Child Support Enforcement Trust - SDU 2957	Total
ASSETS			
Cash equity with State Treasurer	$ 17,901	$ -	$ 17,901
Cash and cash equivalents	313	1,929	2,242
Other receivables, net	181,057	3	181,060
Total assets	199,271	1,932	201,203
LIABILITIES			
Accounts payable and accrued liabilities	199,271	1,932	201,203
Total liabilities	199,271	1,932	201,203
NET POSITION			
Unrestricted net position	-	-	-
Total net position	$ -	$ -	$ -

Combining Statement of Changes in Fiduciary Net Position
Custodial Funds

For the Year Ended June 30, 2021 (Expressed in Thousands)

	Child Support Enforcement Trust 0957	Child Support Enforcement Trust - SDU 2957	Total
Additions			
Custodial fund deposits received	$ 187,114	$ 991,124	$ 1,178,238
Total additions	187,114	991,124	1,178,238
Deductions			
Custodial funds disbursed	187,114	991,124	1,178,238
Total deductions	187,114	991,124	1,178,238
Net increase (decrease) in fiduciary net position	-	-	-
Net position, July 1, 2020	-	-	-
Net position, June 30, 2021	$ -	$ -	$ -

SIKICH®

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS
Members of American Institute of Certified Public Accountants

132 South Water St., Suite 300
Decatur, IL 62523
217.423.6000

SIKICH.COM

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Healthcare and Family Services (Department), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and we have issued our report thereon dated June 3, 2022.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as item 2021-006.

Internal Control Over Financial Reporting

Management of the Department is responsible for establishing and maintaining effective internal controls over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 2021-001 through 2021-007 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as item 2021-008 to be a significant deficiency.

State of Illinois, Department of Healthcare and Family Services Responses to the Findings

The Department's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

State of Illinois, Department of Human Services' Responses to Findings

The State of Illinois, Department of Human Services' responses to items 2021-001 through 2021-006 are described in the accompanying Schedule of Findings. The State of Illinois, Department of Human Services' responses were not subjected to the auditing procedures applied to the audit of the financial statements and accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

[redacted]

Decatur, Illinois
June 3, 2022

2021-001. **FINDING** (Insufficient internal controls over changes to the Integrated Eligibility System (IES) and recipient data)

The Department of Healthcare and Family Services and the Department of Human Services (collectively, the "Departments") had insufficient internal controls over changes to the Integrated Eligibility System (IES) and recipient data.

Management of the Departments have shared responsibility for various human service programs in the State and for internal controls over the manual and automated processes relating to eligibility for these programs. The Departments' IES is the automated system used by the Departments which intakes, processes (with the assistance of caseworkers), and approves recipient applications, maintenance items, and redeterminations in order to determine eligibility and make payments for the State's human service programs.

Change control is the systematic approach to managing changes to an IT environment, application, or data. The purpose is to prevent unnecessary and/or unauthorized changes, ensure all changes are documented, and minimize any disruptions due to system changes.

IES Application Changes Policies and Procedures

Our review of the April 20, 2020 IES Change Management Plan (Plan) noted the Plan did not:

- Define the requirements for the prioritization or classification of changes,
- Define the numerical grading for determining impact,
- Define the detailed documentation requirements for test scripts and results, impact analysis, design documentation, or other required documentation, and
- Define when changes were required to include a specific requirement, who was to review the various steps and when and by whom approvals were required.

Additionally, we noted backout plans to return the system to a previous functional version in the event a change moved into production caused undesired results had not been prepared for individual infrastructure changes.

Testing of IES Application Changes

Due to the Plan's limitations noted above, the scope of our audit procedures was limited to the Departments' testing and approval of IES changes prior to placing them into production. Specifically, we could not perform testing on other change management control procedures, which would otherwise be typically tested, as they were not included in the Plan.

Our testing noted no exceptions during testing of IES application changes.

The internal control requirements of the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) within the Code of Federal Regulations (Code) (2 C.F.R. § 200.303) requires the Departments to establish and maintain effective internal control over the Medicaid Program to provide reasonable assurance that the Departments are managing the Medicaid Program in compliance with federal statutes, regulations, and the terms and conditions and comply with federal statutes, regulations and terms and conditions of the Medicaid Program.

These internal controls should be in compliance with guidance in *Standards for Internal Control in the Federal Government* (otherwise commonly referred to as the Green Book) issued by the Comptroller General of the United States or the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO).

The Code (45 C.F.R. § 95.621(f)(1)), *ADP System Security Requirement*, requires the Departments to be responsible for the security of all automated data processing (ADP) projects under development, and operational systems involved in the administration of the U.S. Department of Health and Human Services programs. The Departments are required to determine the appropriate security requirements based on recognized industry standards or standards governing security of federal ADP systems and information processing.

The National Institute of Standards and Technology (NIST), Special Publication 800-128, *Guide for Security-Focused Configuration Management of Information Systems*, states critical elements are to include:

- Developed and documented policies, plans, and procedures, and
- Properly authorized, tested, approved and tracking of all changes.

Furthermore, NIST, Special Publication 800-53, *Security and Privacy controls for Federal Information Systems and Organizations*, Configuration section, states policies and procedures should be in place detailing who can authorize modifications and how the authorizations are to be documented. Additionally, documentation of authorizations should be obtained prior to implementation.

The Departments' Change Management Policy and Procedure requires each change to IES have impact scores completed, Departments' approval of the requirements and design documents, Remedy ticket, release notes, and be approved by the IES Bureau Chief to move the change to the production environment.

This finding was first noted during the Departments' financial audits of the year ended June 30, 2017. In subsequent years, the Departments have been unable to fully implement its corrective action plan.

The Departments' management indicated the change management policies and procedures are in the process of being updated, however they are not yet complete due to other competing priorities.

Failure to establish and adhere to robust internal controls over changes to IES diminishes the Departments' ability to secure IES as well as the recipient data from unauthorized changes and accidental or intentional destruction or alteration. (Finding Code No. 2021-001, 2020-003, 2019-004, 2018-007, 2017-009)

RECOMMENDATION

We recommend management of both Departments work together to strengthen controls in the Change Management Plan by including:

- Specific requirements for the prioritization or classification of changes,
- Definitions of the numerical grading for determining impact,
- Detailed documentation requirements for test scripts and results, impact analysis, design documentation, or other required documentation,
- Definitions of when changes are required to include a specific requirement, who should review the various steps, and when, and by whom approvals are required, and
- Requirements for backout plans to return the system to a previous functional version in the event a change moved into production causes undesired results, for individual infrastructure changes.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will work with the Department of Human Services to develop policy guidance that strengthens controls.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. IDHS will review its Change Management policy and procedure to assure that it meets the auditor recommendations. IDHS will also review and modify, as needed, its documentation of the various steps and the responsible individuals, in the change approval process and work to develop a documented change backout plan.

2021-002. **FINDING** (Inadequate access review procedures for the Integrated Eligibility System (IES))

The Department of Healthcare and Family Services and the Department of Human Services (collectively, the "Departments") failed to implement adequate procedures over the user access review process for the Integrated Eligibility System (IES).

Management of the Departments have shared responsibility for various human service programs in the State and for internal controls over the manual and automated processes relating to eligibility for these programs. The Departments' IES is the automated system used by the Departments which intakes, processes (with the assistance of caseworkers), and approves recipient applications, maintenance items, and redeterminations in order to determine eligibility and make payments for the State's human service programs.

During our audit, we noted the following deficiencies in the user access review procedures performed by the Departments:

- Evidence of timely, affirmative responses from the regional monitors, noting IES access has been corrected and validated, was not tracked or documented.
- There was insufficient evidence retained to conclude the access review included a review of entitlements (user access permissions and other rights) to ensure users' access was limited to only data they need to perform their job responsibilities.

Additionally, during our testing of the Departments' access provisioning policies, we noted the policies did not define the time period in which the Departments were required to disable a terminated individual's system access. Because there was no systemic record of the date access was removed nor a definition by management of timeliness thereof, we were unable to determine whether user access was removed timely when a user was transferred or terminated.

Departments' management indicated they are working to develop a solution to document the provisioning of employees in IES.

The Code of Federal Regulations (Code) (45 C.F.R. § 95.621 (f)(1)), *ADP System Security Requirement*, requires the Departments to be responsible for the security of all automated data processing (ADP) projects under development, and operational systems involved in the administration of the U.S. Department of Health and Human Services programs. State agencies are required to determine the appropriate security requirements based on recognized industry standards governing security of federal ADP systems and information processing.

The National Institute of Standards and Technology (NIST), Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Access Control section, states an entity is to define within policies and procedures personal security transactions, establishment and termination of access, based on assessed risk of the entity's environment. Additionally, the U.S. Department of Health and Human Services' Security Rule adopted pursuant to the Health Information Portability and Accountability Act and published within the Code (45 C.F.R. § 164.308(a)(3)(ii)(C)), *Security and Privacy Controls for Federal Information Systems and Organizations – Administrative Safeguards*, requires the Departments to implement "procedures for terminating access to electronic protected health information when the employment of, or other arrangement with, a workforce member ends."

The Departments' management indicated that although IES tracks when access is revoked, the system is not programmed to track when the request for revoking access was initiated.

The Departments' failure to maintain adequate internal control over the review of user access rights increases the risk IES may be accessed by individuals who are not authorized to access recipients' personal and health information. (Finding Code No. 2021-002, 2020-004)

RECOMMENDATION

We recommend management of the Departments enhance internal control over IES access by adopting a formal written policy or procedure requiring and/or including:

- Documented approval from regional monitors that access changes were made as directed. The policy/procedure should address the form in which such approval will be documented, the number of days in which approvals (or corrections) should be communicated by the regional monitors, and the individual or division responsible for maintaining the documentation.
- The review of entitlements granted when conducting the review of access rights.
- A definition of "timely" for disabling an individual's access to the IES system, and a process for tracking whether access was revoked timely based on the definition.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will work with the Department of Human Services to enhance internal control policy and procedures over IES.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. Late in Fiscal Year 2020, IDHS published on its OneNet additional details regarding the review and termination of IES access by the Regional Systems Monitors. Furthermore, IDHS will document procedures to include return notification from the Systems Monitors of the corrective actions taken from the access review and follow-up verification that the access granted to the individual agrees with the access requested.

2021-003. **FINDING** (Inadequate disaster recovery controls over the Integrated Eligibility System (IES))

The Department of Healthcare and Family Services and the Department of Human Services (collectively, the "Departments") lacked the ability to perform a full disaster recovery, and lacked adequate disaster recovery controls over the Integrated Eligibility System (IES).

Management of the Departments have shared responsibility for various human service programs in the State and for internal controls over the manual and automated processes relating to eligibility for these programs. The Departments' IES is the automated system used by the Departments which intakes, processes (with the assistance of caseworkers), and approves recipient applications, maintenance items, and redeterminations in order to determine eligibility and make payments for the State's human service programs.

The Departments did not have full disaster recovery functionality and consequently have not conducted disaster recovery testing over IES since 2019.

In addition, although the Department of Human Services' Disaster Recovery Plan (Plan) addresses the recovery and operation of IES, we noted the Plan did not include:

- Detailed recovery scripts,
- Detailed environment diagrams,
- IES support staff and vendor contact information,
- Responsibilities for recovery of IES,
- Documentation on the backup of IES, and
- Did not fully depict the current environments.

This finding was first noted during the Departments' financial audits of the year ended June 30, 2019. In subsequent years, the Departments have been unable to fully implement its corrective action plan.

The Code of Federal Regulations (Code) (45 C.F.R. § 95.621(f)(2)(ii)(F), *ADP System Security Requirements and Review Process*, requires the Departments' automated data processing (ADP) security plan, policies and procedures to include contingency plans to meet critical processing needs in the event of short or long-term interruption of service.

The National Institute of Standards and Technology (NIST), Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Contingency Planning section, includes disaster recovery plans and the testing of disaster recovery plans as baseline security controls integral to ensuring appropriate security requirements and controls are applied to information systems.

The Departments' management indicated the project of implementing a fully functioning disaster recovery plan has been delayed due to staffing shortage issues since the Phase 2 database migration. Departments' management explained full disaster recovery functionality is not yet available in the current IES environment and it has outgrown the capacity of the legacy disaster recovery hardware. As such, Departments' management indicated the IES Disaster Recovery Plan cannot be accurately documented and a complete, end-to-end disaster recovery exercise cannot take place until the new disaster recovery environment at an alternate data center is completed and tested.

The lack of an adequate Disaster Recovery Plan and the lack of functionality with which to perform full disaster recovery could result in the Departments' inability to recover IES data in the event of a disaster, which could be detrimental to recipients of benefits, and the Departments', and State's operations. (Finding Code No. 2021-003, 2020-005, 2019-005)

RECOMMENDATION

We recommend the Departments work with the Department of Innovation and Technology (DoIT) to allocate sufficient resources to enable a full recovery of IES in the event of a disaster. Additionally, in the interim, we recommend the Departments work with DoIT to develop a prioritization plan and emergency operating procedures to allow IES to operate under reduced capacity in the event of a disaster.

We further recommend management of the Departments enhance the Disaster Recovery Plan to include:

- Detailed recovery scripts,
- Detailed environment diagrams,
- IES support staff and vendor contact information,
- Responsibilities for recovery of IES,
- Documentation on the backup of IES, and
- The current environment for all areas.

Finally, we recommend the Departments perform disaster recovery testing on a regular basis as defined in the Plan.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will support the lead, Department of Human Services, as they adopt and implement a disaster recovery plan.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. An Information System Contingency Plan (ISCP) document for IES legacy is 90% completed. The DoIT-IDHS Bureau of Information Security and Audit Compliance will work on implementing an ISCP for the new IES Technical Refresh environment, using Alternate Data Center Architecture diagrams provided by its IT vendor. IDHS has tested continuation of operations plans in place for use in the event of a system outage.

2021-004. **FINDING** (Detailed agreement with the Department of Innovation and Technology (DoIT) not sufficient and inadequate interagency agreement for the IES)

The Department of Healthcare and Family Services (HFS) and the Department of Human Services (DHS) (collectively, the "Departments") each entered into an interagency agreement (IA) with the Department of Innovation and Technology (DoIT) which did not define each agency's roles and responsibilities with respect to the Integrated Eligibility System (IES). Additionally, HFS and DHS entered into an IA with each other which addressed IES access and data sharing, but the IA did not define each agency's roles and responsibilities with respect to the IES.

Management of the Departments have shared responsibility for various human service programs in the State and for internal controls over the manual and automated processes relating to eligibility for these programs. The Departments' IES is the automated system used by the Departments which intakes, processes (with the assistance of caseworkers), and approves recipient applications, maintenance items, and redeterminations in order to determine eligibility and make payments for the State's human service programs.

The Departments' IES application and data resides on DoIT's environment. In addition, DoIT's staff is responsible for coordinating and making changes to the IES application and data after receiving approved instructions from the Departments. Furthermore, DoIT's staff assists the Departments with user access security.

Additionally, as set by the State of Illinois' State Plan under Title XIX of the Social Security Act (State Plan) (Section 1.1), the State has designated agency responsibility for administering and supervising the administration of the Medicaid Program to HFS. However, Section 1.1 of the State Plan allows HFS to delegate specific functions to other State agencies to assist with the administration of the Medicaid Program, pursuant to a written IA defining each agency's roles and responsibilities. As such, DHS administers several human service programs under the Medicaid Program, including developmental disabilities support services, rehabilitation services, and substance abuse (prevention and recovery).

Auditor Testing and Results

Interagency Agreements

During our audit, we noted the Departments had neither updated their existing agreement or, alternatively, entered into an additional IA with DoIT documenting roles and responsibilities for each function they perform on the Departments' behalf.

Additionally, we noted HFS and DHS had neither updated their existing agreement or, alternatively, entered into an additional IA to define the specific roles and responsibilities for each agency.

This finding was first noted during the Departments' financial audits of the year ended June 30, 2019. In subsequent years, the Departments have been unable to fully implement its corrective action plan.

The internal control requirements of the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) within the Code of Federal Regulations (2 C.F.R. § 200.303), requires the Departments to: (1) establish and maintain effective internal control over the Medicaid Program to provide reasonable assurance the Departments are managing the Medicaid Program in compliance with federal statutes, regulations, and the terms and conditions; and (2) comply with federal statutes, regulations and terms and conditions of the Medicaid Program. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" (otherwise commonly referred to as the Green Book) issued by the Comptroller General of the Unites States or the "Integrated Framework" issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO).

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over State's resources.

The Departments' management indicated the IAs with DoIT and between each other had been delayed due to turnover in staff involved in the process.

The Departments' failure to execute the appropriate IAs increases the risk that IES functions will not be performed by each party in accordance with their assigned responsibility. (Finding Code No. 2021-004, 2020-006, 2019-006)

RECOMMENDATION

We recommend management of the Departments either expand its existing agreement or execute a new detailed agreement with DoIT, and expand on the existing agreement between the Departments to ensure IES roles and responsibilities, required to be performed by each party, are formally documented.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services accepts the recommendation. The Departments are currently working together to expand the agreement.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. The Department will continue to finalize revisions of the draft intergovernmental agreement to identify the assigned roles of HFS, IDHS, and DoIT, and will complete the necessary intergovernmental agreement process.

2021-005. **FINDING** (Inadequate general information technology controls over IMPACT)

The Department of Healthcare and Family Services (HFS) and the Department of Human Services (DHS) (collectively, the "Departments") failed to establish and maintain adequate general information technology internal controls (general IT controls) over the operation of the State of Illinois' Illinois Medicaid Program Advanced Technology system (IMPACT).

In calendar year 2012, HFS and the State of Michigan's Department of Community Health entered into an intergovernmental agreement (IGA) for the State of Illinois (State) to utilize Michigan's existing Medicaid Management Information System (MMIS) and its related infrastructure with the goal of replacing the State's MMIS to accommodate the processing of the State's Medicaid provider enrollment determinations and all Medicaid claim payments to such providers. Since 2012, the State has implemented two phases of IMPACT: Electronic Health Record Medicaid Incentive Payment Program (eMIPP) and Provider Enrollment (PE).

An IGA was entered into in 2015 which formally established the Illinois-Michigan Program Alliance for Core Technology. Additionally, the parties agreed to pursue expansion of the Michigan MMIS environment to accommodate the processing of Illinois' Medicaid claims. The IGA required Michigan to extend it current system to utilize cloud architecture that would result in converged infrastructure, maximizing the effectiveness of shared resources, and allowing the shared services to be offered to HFS.

As a result of the Departments not having access to or control over IMPACT and its infrastructure, the auditors requested HFS provide a System and Organization Control (SOC) report which would provide the State and auditors information on the design and effectiveness of internal controls over IMPACT. In response, HFS provided a Security Assessment Report (Report), however, this report did not evaluate the design and implementation of Michigan's internal controls.

Specifically, the Report did not document:

- Timeframe/period in which the Security Assessment Report covered,
- Independent service auditor's report,
- Details of the testing conducted, and
- Details of Michigan's internal controls as they relate to:
    - Control environment,
    - Risk assessment processes,
    - Information and communication,
    - Control activities, and
    - Monitoring activities.

As a result, the auditors were unable to perform adequate procedures to satisfy themselves that certain general IT controls (change management) to IMPACT were operating effectively during the audit period.

<u>Change Management</u>
As a result of the Departments' failure to obtain a SOC report, as noted above, or conduct their own timely, independent internal control review over changes to IMPACT, data, or the infrastructure, the auditors were unable to determine if changes made during the audit period were proper and approved.

<u>User Access Control</u>
The auditors noted HFS included all users, including DHS users, in its annual IMPACT Provider Enrollment Access Review. However, due to no executed interagency agreement between HFS and DHS (see Finding 2021-006), there was no interim user access review completed for DHS.

Change Management

Departments' management indicated they believe the Security Assessment Report adequately assessed the internal controls over IMPACT, data, and infrastructure.

User Access Control

HFS management indicated IMPACT automatically locks accounts after 60 days of non-use. While the auditors do not disagree the accounts lock after 60 days of inactivity, during the 60 days individuals will continue to have access. Further, the 60 day automatic lock is only for non-use. If the individual continues to utilize their account, it remains active. DHS management indicated they were relying on the user access review process performed by HFS.

This finding was first noted during the Departments' financial audit reports for the year ended June 30, 2018. In subsequent years, the Departments have been unable to fully implement a corrective action plan.

The Code of Federal Regulations (Code) (45 C.F.R § 95.621(f)(1)), *ADP System Security Requirement*, requires the Departments to be responsible for the security of all automated data processing (ADP) projects under development, and operational systems involved in the administration of the U.S. Department of Health & Human Services programs. The Departments are required to determine the appropriate security requirements based on recognized industry standards or standards governing security of federal ADP systems and information processing.

The internal control requirements of the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) within the Code (2 C.F.R. § 200.303) requires the Departments to: (1) establish and maintain effective internal control over the Medicaid Program to provide reasonable assurance the Departments are managing the Medicaid Program in compliance with federal statutes, regulations, and the terms and conditions; and (2) comply with federal statutes, regulations and terms and conditions of the Medicaid Program. These internal controls should be in compliance with guidance in *Standards for Internal Control in the Federal Government* (otherwise commonly referred to as the Green Book) issued by the Comptroller General of the United States or the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO).

Additionally, the Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, fifth revision) published by the National Institute of Standards and Technology (NIST), System and Service Acquisition and Configuration Management Sections, sanctions the development, implementation, and monitoring of internal controls over changes, access, and service providers.

Without having obtained and reviewed a SOC report, the Departments do not have assurance the service provider's internal controls over IMPACT, data and the infrastructure are adequate to protect from unauthorized changes and accidental and intentional destruction or alteration. Additionally, without performing periodic user access reviews of DHS users, unauthorized and/or inappropriate access to the IMPACT system could go undetected by the Departments for an extended period of time. (Finding Code No. 2021-005, 2020-007, 2019-010, 2018-002)

RECOMMENDATION

We recommend the Departments work with the service provider to obtain assurance the internal controls over IMPACT, data, and the infrastructure, including change control and user access, are adequate. Additionally, until the Departments execute an intergovernmental agreement which addresses all user access testing, we recommend DHS perform periodic user access reviews of all DHS employees with access to IMPACT.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. A SOC report will be generated and available for the next audit year which will provide HFS with the assurance needed regarding the internal controls over IMPACT.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. IDHS will work with HFS and the service provider to ensure controls over IMPACT, data, and the infrastructure are adequate.

2021-006. **FINDING** (Insufficient review and documentation of provider enrollment determinations and failure to execute interagency agreements)

The Department of Healthcare and Family Services (HFS) failed to execute interagency agreements (IA) with the Department of Human Services (DHS) establishing adequate internal controls over operation of the State of Illinois' Illinois Medicaid Program Advanced Cloud Technology system (IMPACT). In addition, HFS failed to sufficiently review and document eligibility requirements either prior to the approval of eligibility, and/or during the required monthly screenings for enrolled providers.

Interagency Agreements
Auditors noted HFS did not enter into or have an existing IA with DHS defining each agency's roles and responsibilities as they related to IMPACT during fiscal year 2021.

HFS and DHS management indicated the IA has been drafted, however it has not yet been finalized.

Detail Sample Testing of IMPACT Providers at HFS
During fiscal year 2021, 24,209 provider enrollment applications were approved in IMPACT. In order to determine if the providers' applications were approved in accordance with federal and State laws/rules/regulations, a sample of 60 approved applications were selected for testing. Our testing noted seven (12%) approved provider applications did not contain documentation to substantiate a review of the provider's required professional license or board certification to confirm the licenses/certifications were valid at the time the application was approved.

HFS management indicated the failure to either document or confirm the applicants had a valid non-expired license with no current limitations on the providers license/certification was due to oversight.

Detail Sample Testing of IMPACT Providers at DHS
During testing, the auditors determined DHS did not solely utilize IMPACT as the official book of record or consistently rely on it to verify its providers met certain Medicaid requirements prior to approving them to provide services. Specifically, in fiscal year 2021, DHS performed procedures to determine if its providers met certain Medicaid requirements outside of IMPACT. Upon completion of those procedures, DHS personnel then entered the providers' information into IMPACT and approved the provider's file in order to grant approval for payment.

DHS management indicated it uses IMPACT for determining provider eligibility for Medicaid requirements, but each program is unique with various requirements that must be performed outside of IMPACT.

In order to determine if DHS provider applications were approved in accordance with federal and State laws/rules/regulations, prior to DHS entering their information into IMPACT, the auditors selected a sample of 60 approved applications for detailed testing and had no exceptions.

Additionally, on a monthly basis, IMPACT conducts monthly screenings of provider profiles against several databases to determine if the provider licenses are valid and current, and identifies suspected criminal activity. During testing, the auditors determined DHS personnel did not regularly follow-up on issues identified in IMPACT during the monthly screenings.

DHS indicated that follow-up reviews of issues have not been consistently performed due to the lack of an executed interagency agreement.

This finding was first noted during the Departments' financial audit reports for the year ended June 30, 2018. In subsequent years, the Departments have been unable to fully implement a corrective action plan.

The Code of Federal Regulations (Code) (42 C.F.R. § 455.412 (b)) requires the applicable Department to confirm that the provider's license has not expired and that there are no current limitations on the provider's license/certification.

The Code (42 C.F.R. § 455.412 (a)) requires the Departments to have a method for verifying that any provider claiming to be licensed in accordance with the laws of any State is licensed by such State. The Code (42 C.F.R. § 455.412 (b)) requires the confirmation that a provider's license has not expired and that there are no current limitations on the provider's license/certification. In addition, the Department's *Approval Process Document, applicable to Atypical Individuals and Individuals*, requires Department staff reviewing licenses to document their review of ensuring the licenses were valid and current in the comments section in IMPACT.

The Code (42 C.F.R. § 455.436 (c)(1)) requires the Departments to consult appropriate databases to confirm identity upon enrollment and reenrollment. In addition, the Code (42 C.F.R § 455.450 (a)(3)) requires the Departments to conduct database checks on a pre-and post-enrollment basis to ensure that providers continue to meet the enrollment criteria for their provider type, in accordance with § 455.436.

The Code (2 C.F.R § 200.303), *Internal Controls*, requires the Departments to: (1) establish and maintain effective internal control over the Medicaid Program to provide reasonable assurance that the Departments are managing the Medicaid Program in compliance with federal statutes, regulations, and the terms and conditions; and (2) comply with federal statues, regulations and terms and conditions of the Medicaid Program. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" (otherwise commonly referred to as the Green Book) issued by the Comptroller General of the United States or the "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO).

Additionally, the Code (42 C.F.R. § 431.17) requires the Departments to maintain records necessary for the proper and efficient operations of the State's Medicaid Plan.

Further, the Fiscal Control and Internal Auditing Act (FCIAA) (30 ILCS 10/3001) requires HFS and DHS to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable laws; (2) obligations and costs are in compliance with applicable laws; and (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Inadequate controls over the operation of IMPACT, such as insufficient review, approval and monitoring of provider enrollment information, could result in providers being inaccurately determined eligible, the State expending federal and State funds for which providers eligibility have not been adequately demonstrated or documented, and could result in further expenditures to providers who are ineligible. Noncompliance with federal laws and regulations could result in denied claims, sanctions and/or loss of future federal funding, and ultimately inaccurate financial statements or financial information. Further, failure to execute interagency agreements increases the risk that IMPACT functions won't be performed by each party in accordance with their assigned responsibility. (Finding Code No. 2021-006, 2020-008, 2019-010, 2018-002)

RECOMMENDATION

We recommend HFS management work with DHS to ensure all provider applications are properly reviewed, approved, and documented within IMPACT. In addition, we recommend HFS work with DHS to execute detailed interagency agreements which document specific roles and responsibilities as they relate to IMPACT. Finally, until the interagency agreement is finalized, we recommend DHS follow-up on issues identified pertaining to their providers, from the IMPACT monthly screenings.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services accepts the recommendation. The interagency agreement is being finalized. Provider enrollment staff works with Department of Human Services (DHS) staff monthly, to conduct quality assurance reviews of provider applications approved during previous month. Any identified errors are communicated to DHS and corrected.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. IDHS will work with the Department of Healthcare and Family Services (HFS) to ensure provider applications are properly reviewed, approved, and documented within IMPACT. An interagency agreement was drafted and submitted for final approval. IDHS will review the findings and follow up on deficiencies identified pertaining to our providers from the IMPACT monthly screenings.

2021-007. **FINDING** (Failure to review third-party service providers' internal controls)

The Department of Healthcare and Family Services (Department) did not obtain or conduct independent internal control reviews of its third-party service providers.

The Department utilized third-party service providers for various services in the engagement period, including:

- Software used in the data matching and verification, process management, and reporting of client's eligibility redeterminations.
- Administration and payment of claims for the enrollees of the State's Dental Program.
- An externally developed and hosted application, Illinois Medicaid Program Advanced Cloud Technology (IMPACT), which processed the Medicaid Incentive Payment Program (eMIPP) and provider credentialing certifications.
- The software and infrastructure for the Department's Pharmacy Benefits Management System.
- Management and operations of the State's Disbursement Unit for the collection and disbursement of payments under child support orders.
- IT hosting, software, and data entry services, as well as the establishment of rates and review of information related to the State's Managed Care Program.
- Infrastructure IT and IT related services for the State of Illinois' Integrated Eligibility System (IES) provided by the Department of Innovation and Technology (DoIT).

During testing of the 12 third-party service providers, we noted:

- The Department omitted one service provider in its initial population of its service providers. While the Department was able to subsequently provide a System and Organization Control (SOC) report from the provider, the SOC report appeared to be incomplete. We determined this exception did not materially impact the financial statements.
- The Department did not obtain SOC reports or conduct independent internal control reviews for six service providers (50%).
- The Department did not provide the auditors a bridge letter for one service provider (8%) when the SOC report did not cover the entire engagement period.
- The contracts between the Department and three of its service providers (25%) did not contain a requirement for a SOC report or an independent internal control review of the outsourced controls.
- The Department did not identify the Complementary User Entity Controls (CUECs) relevant to the Department's operations nor its applicable controls for six service providers (50%).

Alternative Audit Procedures Performed (DoIT):

The Statewide IES application and data reside on the DoIT environment. In this regard, DoIT is a service provider to the Department. The Department did not obtain a SOC 1 Type 2 report for these services performed by DoIT and the Department did not perform alternative procedures to obtain evidence all services were provided in a sufficient manner.

The Department is responsible for the design, implementation, and maintenance of internal controls related to information systems and operations to assure its critical and confidential data are adequately safeguarded. The Department is also responsible for the design and maintenance of internal controls relevant to financial reporting. These responsibilities are not limited due to the processes being outsourced to an external party or another State agency.

In order to determine if the environment is secure in which IES resides, we performed general IT controls testing over 28 IES servers housed at DoIT. As a result of our testing, we noted significant weaknesses in the controls over the environment.

Further, during the Department's own internal security review, completed as part of its Plan of Actions and Milestones (2021) report to the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (Federal CMS), other significant threats were identified over the Department's general IT environment.

This finding was first noted during the Department's financial audit of the year ended June 30, 2015. In subsequent years, the Department has been unable to fully implement its corrective action plan.

The Code of Federal Regulations (Code) (45 C.F.R. § 95.621(f)(1)), *ADP System Security Requirement*, requires the Department to be responsible for the security of all automated data processing system (ADP) projects under development and operational systems involved in the administration of the U.S. Department of Health and Human Services programs. The Department is required to determine the appropriate security requirements based on recognized industry standards or standards governing security of federal ADP systems and information processing.

Federal CMS', *MARS-E Document Suite* (minimum acceptable risk standards for exchanges), states that protecting and ensuring the confidentiality, integrity, and availability of state Marketplace information, common enrollment information, and associated information systems is the responsibility of the states.

The industry standard for understanding business processes, internal controls, and the suitability and operating effectiveness of internal controls provided by a service provider is through obtaining a SOC 1 Type 2 report. A SOC 1 Type 2 report provides:

a. Service provider management's description of the service organization's system;

b. A written assertion by service provider management about whether in all material respects and, based on suitable criteria, including:
   i. Service provider management's description of the service organization's system fairly presents the service organization's system was designed and implemented throughout the specified period,
   ii. the controls related to the control objectives stated in third-party service provider management's description of the service organization's system were suitably designed throughout the specified period to achieve those control objectives, and, the controls related to the control objectives stated in third-party service provider management's description of the service organization's system operated effectively throughout the specified period to achieve those control objectives; and,

c. An Independent Service Auditor's report that:
   i. expresses an opinion on the matters in b (i-ii), and
   ii. includes a description of the service auditor's tests of controls and the results thereof.

Additionally, the Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, fifth revision) published by the National Institute of Standards and Technology (NIST), System and Service Acquisition Section, requires entities outsourcing their IT environment or operations to obtain assurance over the entities internal controls related to services provided. Such assurance may be obtained via System and Organization Control reports or independent reviews.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Department management indicated while it determined in its review which vendors should provide a SOC based on services provided, the contracts do not require the entities to provide them, and some have declined to do so. The contracts for these providers were executed prior to the Department's implementation of a SOC monitoring process. Further, Department management indicated it believes the internal control review performed on the State of Michigan contract for IMPACT is sufficient. Questions for that review were developed by an independent party, who then reviewed the responses from the vendor and asked further questions, which were then answered by the provider. Department management indicated the independent party then provided an analysis of the internal controls. Related to the bridge letter that did not cover the entire engagement period, Department management indicated it obtained a bridge letter that did not cover the entire engagement period and requested an additional letter. Failure to follow up and obtain the letter was due to oversight. Department management indicated it has not yet implemented a process for identification of CUECs and determining its internal controls relative to them. Finally, Department management indicated the omission of a service provider from its population of service providers was due to an oversight.

Without having obtained and reviewed a SOC report or another form of independent internal control review, the Department does not have assurance the service provider's internal controls are adequate to ensure program payments and claims are accurate and secure. The SOC reports, which include the CUECs, specifically assume the user entities will apply complementary controls included in the reports. The system descriptions within the SOC reports are designed to consider these controls will be implemented by the user entities and doing so is necessary to fully achieve the control objectives covered by the SOC reports. The failure of the Department to consider the application of the CUECs to itself lessens the effectiveness of relying on the SOC reports as an element of its financial reporting internal control structure. Additionally, the Department's failure to monitor the services provided by DoIT could result in client data for programs administered by the Department being housed in an environment that exposes it to significant risks. (Finding Code No. 2021-007, 2020-009, 2019-011, 2018-014, 2017-011, 2016-003, 2015-004)

RECOMMENDATION

We recommend the Department:

- Obtain SOC reports or perform independent reviews of internal controls associated with outsourced systems at least annually. Because IMPACT, for the State of Illinois, is hosted and maintained by a service provider, the Department is required to obtain a SOC report or perform another type of independent review over the system's general information technology (IT) internal controls. If an independent review is performed, the related report should include an "opinion" concerning the IT internal controls, a description of the general IT controls, and the testing performed.
- Obtain bridge letters from service providers when the SOC report does not cover the entire engagement period.
- Include the requirement for a SOC report or an independent internal control review of the outsourced controls in the contracts between the Department and the service provider.
- Monitor and document the operation of the CUECs relevant to the Department's operations.
- Maintain complete inventories of service providers.
- Develop and implement corrective action to address the significant weaknesses identified in the controls over the environment by the auditors and Department personnel.

DEPARTMENT RESPONSE

The Department of Healthcare and Family Services accepts the recommendation. While progress has been made in this area, this progress was slowed by key staff turnover and lack of staff with knowledge of the specialized subject matter. The Department has enlisted the assistance of a consulting vendor to assist with improvements to processes and procedures and is implementing those changes.

During and after the period under review, the Department:

- Implemented a requirement for review of Department procurement requests to determine whether service organization control reporting is applicable and to ensure that appropriate language is included with contracts where necessary.
- Improved tracking of the request and receipt of SOC reports & bridge letters where applicable.
- Improved tracking, quality and timeliness of SOC report reviews.
- Developed a process for reviewing the Complementary User Entity Control requirements within SOC reports and documenting that the Department has applicable controls. Implementation is in progress.

The Department is also investigating the creation of an organization unit and establishing positions specifically tasked with contract risk monitoring and service organization controls.

2021-008. **FINDING** (Inadequate internal controls over census data)

The Department of Healthcare and Family Services (Department) did not have a reconciliation process to provide assurance census data submitted to its pension and other post-employment benefits (OPEB) plans was complete and accurate.

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or OPEB plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuation (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current period is split among the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the Department's employees are members of the State Employees' Retirement System of Illinois (SERS) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple-employer plans. Finally, we noted CMS' actuaries use SERS' census data records to prepare the OPEB actuarial valuation.

During testing, we noted the following:

1) The Department had not performed an initial complete reconciliation of its census data recorded by SERS to its internal records to establish a base year of complete and accurate census data.
2) The Department had not developed a process to annually obtain from SERS the incremental changes recorded by SERS and CMS in their census data records and reconcile these changes back to the Department's internal supporting records.

For employers where their employees participate in plans with multiple-employer and cost-sharing features, the American Institute of Certified Public Accountants' *Audit and Accounting Guide: State and Local Governments* (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate against the risk of a plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

Department management indicated the errors noted above were due to oversight and Department personnel became aware of the requirement to perform a reconciliation late in the fiscal year 2020 audit and did not receive fiscal year 2020 census data from SERS for comparison.

Failure to reconcile active members' census data reported to and held by SERS to Department's records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the Department's pension and OPEB balances, which may result in a misstatement of these amounts. (Finding Code No. 2021-008, 2020-011)

RECOMMENDATION

We recommend the Department work with SERS to develop an annual reconciliation process of its active members' census data from its underlying records to a report from each plan of census data submitted to the SERS' actuary and CMS' actuary. After completing an initial full reconciliation, the Department may limit the annual reconciliation to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods. Any errors identified during this process should be promptly corrected by either the Department or SERS, with the impact of these errors communicated to both SERS' actuary and CMS' actuary.

DEPARTMENT RESPONSE

The Department of Healthcare and Family Services accepts the recommendations. During FY22, the Department received its first employee census data reconciliation file from SERS which contained information as of June 30, 2021. Source records from the Department's Personnel Office and the Department's Payroll Office were compared to that report and any discrepancies were noted. Department staff worked with SERS to correct any erroneous information. Nothing discovered in the census data review materially changed the Department's retirement or OPEB liability.

A. **FINDING** (Inadequate controls over eligibility determinations and redeterminations)

During the previous engagement, the Department of Healthcare and Family Services and the Department of Human Services (collectively the "Departments") lacked controls over eligibility determinations and redeterminations for Federal programs where such determination is documented using the Integrated Eligibility System (IES). We tested 60 cases and noted 15 exceptions where either the case was not certified timely and/or the case file did not contain documentation supporting eligibility upon certification.

During the current engagement, we tested 60 cases and did not note any exceptions. As a result, this finding is not repeated. (Finding Code No. 2020-001, 2019-001, 2018-005, 2017-008, 2016-001, 2015-002)

B. **FINDING** (Untimely processing of applications for benefits, redeterminations of eligibility for benefits, and eligibility change documentation)

During the previous engagement, the Department of Healthcare and Family Services and the Department of Human Services (collectively the "Departments") did not maintain adequate internal control to ensure change documentation and applications for benefits and redeterminations of eligibility for benefits were reviewed and/or completed timely. At June 30, 2020, we noted a backlog of 20,511 medical applications, 4,208 SNAP applications, and 2,223 TANF applications for which the determination of eligibility to receive benefits was not completed timely. Additionally, we noted there were 70,466 cases in which information change documentation information had been received, however not reviewed.

During the current engagement, we noted the backlog of change documentation, applications, and redeterminations was significantly less and is no longer considered to have a significant impact on the amounts reported in the Departments' financial statements. As a result, this finding is not repeated. (Finding Code No. 2020-002, 2019-003, 2018-006, 2017-006)

C. **FINDING** (C-97 reporting miscalculations)

During the previous engagement, the Department of Healthcare and Family Services (Department) incorrectly reported the amount of accounts receivable estimated to be uncollectible on the Office of Comptroller's Quarterly Summary of Accounts Receivable (C-97) reports and did not accurately allocate accounts receivable and related uncollectible balances between funds.

During the current engagement, we did not note any instances in our testing for which the Department incorrectly reported the amount of accounts receivable on the C-97 reports and related uncollectible balances between funds. As a result, this finding is not repeated. (Finding Code No. 2020-010)