STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL
William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF HUMAN SERVICES

Financial Audit For the Year Ending June 30, 2011 and Compliance Examination for the Two Years Ending June 30, 2011

Release Date: July 19, 2012

Summary of Findings:	
Total this report	**43**
Total last report	**29**
Repeated from last report:	**10**

SYNOPSIS

- Weaknesses were identified in the preparation of the generally accepted accounting principle (GAAP) reporting forms submitted to the Illinois Office of the Comptroller and preparation of year-end Department financial statements.

- The Department had various internal control weaknesses over commodity inventories at several locations.

- The Department's accounts receivable reporting system is cumbersome, relies on numerous subsystems, and requires manual entries.

- Auditors matched the addresses of child care providers with the addresses of sex offenders contained in the Illinois Sex Offender Registry and noted several instances where the addresses were the same.

- During testing, auditors noted overpayments were not resolved in a timely manner to the Administrative Service Organization the Department contracted with for converting from grant based payments to fee-for-service payments to providers of mental health services.

- The Department has not ensured its compliance with procedures for disposal of documents containing confidential and sensitive information.

- The Department had numerous internal control weaknesses in the Home Services Program.

- One of the Department's facilities, Tinley Park Mental Health Center, remained decertified as an eligible Medicare or Medicaid service provider.

- The Department's fiscal year 2011 annual financial reporting (GAAP) forms included 13 programs with unspent grant funds of which the Department had not determined the final disposition.

- The Department's Central Office and facilities inadequately administered locally held funds (bank accounts) during the audit period.

- The Department did not maintain adequate controls over the processing, approval and payment of invoices.

- The Department failed to make annual redeterminations of eligibility for KidCare (now known as ALL KIDS) in compliance with statutory requirements.

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

DEPARTMENT OF HUMAN SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2011
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2011

EXPENDITURE STATISTICS ($ expressed in thousands)	**FY 2011**	**FY 2010**	**FY 2009**
Total Expenditures	**$ 5,902,757**	**$ 5,560,905**	**$ 5,565,986**
OPERATIONS TOTAL	$ 1,734,819	$ 1,672,014	$ 1,788,391
% of Total Expenditures	29.4%	30.1%	32.1%
Personal Services	828,449	817,599	804,607
Other Payroll Costs (FICA, Retirement and Group Insurance)	112,558	107,701	246,004
Interfund Cash Transfers	266,376	228,351	212,188
Medical & Food Supplies for Distribution	245,047	239,596	249,101
Contractual Services	208,089	206,355	208,730
All Other Operating Expenditures	74,300	72,412	67,761
AWARDS AND GRANTS	$ 4,164,311	$ 3,881,712	$ 3,768,305
% of Total Expenditures	70.5%	69.8%	67.7%
PERMANENT IMPROVEMENTS	$ 73	$ 376	$ 40
% of Total Expenditures	0.0%	0.0%	0.0%
REFUNDS	$ 3,554	$ 6,803	$ 9,250
% of Total Expenditures	0.1%	0.1%	0.2%
Total Receipts	**$ 2,200,188**	**$ 1,991,384**	**$ 1,896,035**
Number of Employees, June 30	**13,637**	**12,933**	**13,788**

SELECTED ACTIVITY MEASURES (unaudited)	**FY 2011**	**FY 2010**	**FY 2009**
Human Capital Development:			
Average number of TANF families engaged each month	3,993	2,867	1,796
Average number of children served - child care, per month	173,100	168,000	174,500
Refugees and imigrants receiving outreach/interpretation services	54,221	63,110	57,377
Average child care cost per child, per month	$ 393	$ 343	$ 324
Home Services:			
Persons receiving in-home services to prevent institutionalization	38,682	39,165	39,412
Average monthly cost of in-home service per client	$ 1,312	$ 1,227	$ 1,104
Addiction Treatment and Related Services:			
Number of unduplicated patients served	69,517	76,941	82,874
Vocational Rehabilitation:			
Persons in supported employment	2,171	2,588	2,636

DEPARTMENT SECRETARY

During Examination: Carol L. Adams, Ph.D. (through 10/31/09), Michelle R. B. Saddler (10/11/09 through 9/30/10), Grace Hong Duffin, Acting (10/1/10 through 12/16/10), Michelle R. B. Saddler (effective 12/16/10)
Currently: Michelle R. B. Saddler

INTRODUCTION

This report presents our Department-wide financial statement audit for the year ended June 30, 2011 and compliance attestation examination for the two years ending June 30, 2011. At June 30, 2011 the Department operated 7 Developmental Centers, 8 Mental health Centers, 2 combined Mental Health and Developmental Centers and 3 Rehabilitation Services Facilities. During the engagement period the Department closed Howe Developmental Center. The findings are presented in the report beginning at page 19.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

WEAKNESSES IN PREPARATION OF GAAP REPORTING FORMS AND FINANCIAL STATEMENTS

During the audit of the June 30, 2011 Department financial statements exceptions were noted. Some of the conditions identified are as follows:

Financial reporting forms contained numerous errors, complete draft of Department financial statements were provided 5 months late

- Generally accepted accounting principles (GAAP) reporting packages submitted to the Office of the State Comptroller (Comptroller) contained numerous inaccuracies and required corrections which delayed audit testing of the financial statements and the Schedule of Federal Awards prepared by the Department. Auditors did not receive a complete draft of the financial statements and footnotes from the Department until February 24, 2012, approximately five months late.

Current year revenues and expenditures were understated on the Grant/Contract Analysis Form by $11.889 million

- In the prior year, auditors posted an adjustment to record the correct amount for the Women, Infants and Children (WIC) program rebates receivable, but the adjustment was not posted by the Comptroller. When preparing the expenditure reconciliation utilized to determine current year expenditures, the corrected amount was not considered. As a result, current year revenues and expenditures were understated on the Grant/Contract Analysis Form by $11.889 million.

Liabilities for three federal programs were not properly accounted for resulting in a total understatement of $14.467 million

- The Department had not properly accounted for prior or current year liabilities for three federal programs. As a result, the current year expenditures on the Grant/Contract Analysis Form were misstated. This resulted in a total understatement of $14.467 million. The Grant/Contract Analysis Form and Schedule of Expenditures of Federal Awards were revised to correct the misstatement.

Payroll expenditure were not timely posted to the accounting system for sixteen fund reporting packages totaling $1.448 million

- The Department had not timely posted payroll expenditure amounts to their accounting system. The reports which support financial reporting data had to be adjusted to include expenditures for the April 2011 payroll that were not posted until August, or four months late. This occurred in sixteen fund reporting packages for a total of $1.448 million in payroll expenditures.

Department attributed a number of issues for the identified exceptions

Department officials attributed numerous issues for the identified exceptions including the functionality of the Comptroller's WEDGE reporting system, a lack of a complete general ledger and grants management system as well as the lack of a sufficient number of staff to prepare financial reporting packages and financial statements in accordance with GAAP.

Because of the significance of the exceptions this is noted as a material weakness in the Department's internal control

Because of the significance of the weaknesses in preparation of GAAP reporting forms submitted to the Illinois Office of the Comptroller and preparation of year end Department financial statements, this is considered a material weakness in the Department's internal control. 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. (Finding 11-1, pages 19-21) **This finding was first reported in 2009.**

We recommended the Department implement procedures and cross-training measures to ensure GAAP Reporting Packages are prepared in a timely, accurate and complete manner.

Department agrees with auditors

Department officials agreed with the recommendation and noted they will implement procedures to cross-train employees to help ensure GAAP packages are prepared timely and accurately. Additionally, the Department is in the process of hiring staff to be utilized in the GAAP reporting process. (For the previous Department response, see Digest Footnote #1.)

INADEQUATE CONTROLS OVER COMMODITIES

During testing several exceptions and weaknesses were noted in the oversight function of the Department's commodities. The exceptions and weaknesses were noted at individual facilities/centers, schools and multiple warehouses locations. Following are some of the commodity/inventory problems noted during testing:

Average cost method is not being utilized to record the cost of commodities inventories at the Department's two warehouses

- The Department's Warehouse Control System does not allow the system user to readily review the purchase history of items to ensure the commodities are accurately priced under the average cost method. Auditors noted the average cost method is not being utilized to record the cost of commodities inventories at the Department's two warehouses.

Inventory counts could not be reconciled to perpetual inventory records

- Inventory counts could not be reconciled to perpetual inventory records at six of twenty facilities and two warehouses.

Pharmaceutical inventories for six facilities were misstated at June 30, 2011

- Pharmaceutical inventories for six facilities were misstated at June 30, 2011 by the value of the pharmaceuticals disbursed to patients June 27 - 30 but not posted to the Commodity Control System until July 1 - 3. A custom report was created to capture the pharmaceuticals that were disbursed from July 1st through July 3rd; however, the report contained a programming error and did not accurately reflect the pharmaceuticals that were disbursed June 27 - 30. Pharmacy personnel attempted to arrive at the correct year-end balance; however, the auditors were unable to verify test counts with the final inventory balances.

Four of twenty facilities had inventory items that were overstocked or in excess of a twelve month supply

- Four of twenty facilities had inventory items that were overstocked or in excess of a twelve month supply. The Illinois Procurement Code states every State agency shall inventory or stock no more than a 12-month need of equipment, supplies, commodities, articles, and other items, except as otherwise authorized by the State agency's regulations. In addition, auditors noted expired items at two facilities.

Similar exceptions were identified in previous reports

Similar exceptions were identified at the Department in previous reports. The Department stated they have established a centralized oversight for commodities; however, staffing shortages and the outdated system continue to contribute to the weaknesses noted for commodity inventories.

Department expended over $34.85 million for commodities in fiscal year 2011

Strong internal controls require an improved centralized oversight function related to commodities. This is important considering the Department made commodities expenditures of $34.85 million during fiscal year 2011. In addition, the Department recorded ending commodities inventories of $7.8 million at June 30, 2011. (Finding 11-2, pages 22-25) **This finding was first reported in 1999.**

We recommended the Department continue strengthening its oversight function related to commodities to allow for improved internal controls.

Department agrees with auditors

Department officials agreed with the recommendation and are investigating ways to strengthen and develop a more centralized oversight function related to commodities to allow for improved internal controls. (For the previous Department response, see Digest Footnote #2.)

WEAKNESSES OVER QUARTERLY REPORTING OF ACCOUNTS RECEIVABLE

Compiling accounts receivable information is complex and cumbersome and, as a result, there is a potential for errors in reporting

During testing of the quarterly receivable forms, the auditors noted the reports were manually compiled from multiple accounts receivable systems in order to issue a single report. The compilation is complex and cumbersome and, as a result, there is a potential for errors in reporting. The current process takes approximately 15-20 hours to complete over a period of several weeks.

For fiscal year 2011, unreconciled differences ranged from $13 million to $23 million at the end of each quarter

Auditors noted the quarterly accounts receivable reports submitted to the Comptroller contained differences that could not be reconciled with the Department's supporting documentation. Auditors reviewed the supporting documentation for these receivables but were unable to reconcile the amounts to the totals reported for the quarter end. For fiscal year 2011, differences ranged from $13 million to $23 million at the end of each quarter.

Quarterly accounts receivable reports were generated for funds that do not report receivables

Auditors also noted there were quarterly accounts receivable reports generated for funds that do not report receivables. According to Department personnel, these amounts are populated in error and must be zeroed out manually.

Limitations in the current systems make it cumbersome and difficult to support

The Department has developed formal written policies and procedures to document its existing system and cross-trained other workers on preparing the required reports. It appears there is a methodology for accumulating quarterly accounts receivable information, but limitations in current systems make it cumbersome and difficult to support.

Because of significance of the weaknesses this is noted as a material weakness in the Department's internal control

Because of the significance of the weaknesses in the Department's accounts receivable reporting system, this is considered a material weakness in the Department's internal control. 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. (Finding 11-5, pages 30-31) **This finding was first reported in 2007.**

We recommended the Department implement a Department-wide accounts receivable system, working with the appropriate parties regarding any possible state-wide consolidated accounting system initiatives.

Department agrees with auditors

Department officials agreed with the recommendation and continue to review the accounts receivable agency wide. Based on the results of the review, the Department indicated they will establish and implement any changes as solutions occur. (For the previous Department response, see Digest Footnote #3.)

CHILD CARE PROVIDER ADDRESSES MATCHED TO ILLINOIS SEX OFFENDER REGISTRY

The Department supplements child care services to more than 168,000 children monthly

The Department's Child Care Assistance Program provides low-income, working families with access to quality, affordable child care that allows them to continue working. According to the Department's Annual Child Care Report, in fiscal year 2010 the Department supported an average of 168,000 children from 89,900 families each month. The Department expended $794 million related to child care assistance in fiscal year 2010. The Department's Child Care Manual bars anyone from "residing in a family home in which a child care facility operates" who has been included in the Illinois Sex Offender Registry.

24 providers identified in the previous report whose address matched an address of a registered sex offender

In a finding in the prior report, auditors noted 90 instances where a child care provider's address matched an address of a registered sex offender. Of those ninety providers identified in the previous report it was determined 24 providers were providing child care services. For those 24 providers, the Department sent letters to the parents of the children involved notifying them that a sex offender is listed at the same address.

5 providers identified in the current report whose address matched an address of a registered sex offender

In order to follow up on the prior finding, auditors requested a listing of the current addresses of the child care providers who were noted in the prior finding as having a sex offender registered at their address. Auditors noted 16 providers who listed addresses that still matched the address of a registered sex offender. Of the 16 providers, the Department indicated 11 of them are no longer providing child care services. In 5 cases, the provider's address still matches the address of a sex offender.

Department officials stated a lack of staff and resources contributed to the discrepancies

The Department stated the Child Care Resource and Referral office responsible for administering payments to the provider was notified to close out the provider and send the parent a change of provider form. However, documentation provided to auditors did not enable them to verify the action taken with providers. Department officials stated a lack of staff and resources contributed to the discrepancies. (Finding 11-6, pages 32-34)

We recommended the Department ensure that children for which the State is assisting with child care costs are not placed in arrangements in which the provider or other members of the household are listed on the Illinois Sex Offender Registry. Specifically, the Department should implement systems to allow the Department to periodically match the addresses of child care providers with those addresses listed in the Illinois Sex Offender Registry.

Department agrees with auditors

Department officials agreed with the recommendation and noted they have entered into an agreement with the Department of Children and Family Services (DCFS) to perform the background checks for license-exempt providers. The background check performed is the same background check that DCFS performs for child care providers under licensure. In addition, the Department noted they will explore enhancing their technology system to determine if they can perform the address match through their own database.

CONTRACT OVERPAYMENTS TO VENDOR NOT RESOLVED IN A TIMELY MANNER

The Department has been in the process of converting from grant based payments to fee-for-service payments

The Department has been in the process of converting from grant based payments to fee-for-service payments to providers of mental health services with the aid of an Administrative Service Organization (ASO). During testing, auditors noted overpayments to the ASO were not resolved in a timely manner.

Final contract payments were processed prior to a final review of performance measurements and overpayments, resulting in an overpayment of $1,785,185

The final contract payments to the ASO for fiscal year 2008, 2009, and 2010 were processed prior to performing a final review of performance measurements and overpayments. The Department subsequently noted it overpaid the ASO $1,785,185 for fiscal year 2008. The Department notified the ASO of the overpayment on September 25, 2008 and that the overpayment would be applied toward fiscal year 2009 contract payments. However, only part of the overpayment was recovered in 2009 and 2010. Efforts were made in fiscal year 2011 to recoup the overpayments; however, since the ASO did not incur actual costs equivalent to the original contract amount plus change orders, an overpayment remains.

At June 30, 2011 auditors noted there was still a net overpayment from the Department to the ASO of $1,366,259

Based on an analysis of over/under payments and contract adjustments over the previous four fiscal years, the ASO has received net overpayments from the Department totaling $1,366,259 as of June 30, 2011. As a result, the ASO remains prepaid for services.

Auditors noted errors in current and prior year contract computations

Auditors noted in the previous report the Department made errors when deducting performance penalty amounts from payments. Auditors also noted the Department made additional errors in calculations for fiscal year 2011. Department officials stated the failure to properly monitor the ASO contract was due to the lack of trained personnel. (Finding 11-8, pages 37-38)

We recommended the Department strengthen their controls and review all contract expenditure reports and performance measures to ensure all payments are in accordance with the contact and any overpayments have been properly offset or recouped.

Department agrees with auditors

Department officials agreed with the recommendation and indicated they will strengthen its controls and review all contract expenditure reports and performance measures to ensure all payments are made in accordance with the contract and recoup any overpayments.

INADEQUATE COMPLIANCE WITH PROCEDURES FOR DISPOSAL OF CONFIDENTIAL INFORMATION

Department personnel were not always following procedures for properly disposing of confidential information

The Department regularly collects and maintains confidential and personal identifiable information necessary for fulfilling its mission. Although the Department has established several administrative directives regarding the disposal of confidential information, procedures for properly disposing of confidential information were not always being followed by Department employees. Some examples of issues noted are as follows:

Confidential information was found in trash, recycle and unlocked shred bins

- During walkthroughs at the Department's Central Office, auditors found unlocked shred bins in open areas that were clearly marked as shred. Auditors also found multiple boxes of documents that contained confidential information in the Fiscal Operations area.
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Instances of confidential information not being secured were identified at Department facilities

- While performing testing at certain Department facilities several documents containing confidential information were found in wastebaskets, trash bags to be discarded and unsecured recycle bins.

- Some facilities were not maintaining confidential information in secured areas. Confidential information was found in various rooms not adequately secured from unauthorized individuals.

Department personnel stated the lack of employee oversight contributed to noncompliance

Department personnel stated the lack of employee oversight contributed to noncompliance with Department policy. Failure by the Department to enforce compliance with its procedures to protect and timely dispose of confidential information can lead to such information being compromised. (Finding 11-10, pages 41-42) **This finding was first reported in 2005.**

We recommended the Department ensure confidential information is adequately protected. The Department should effectively communicate and enforce its procedures for safeguarding, retention, and subsequent disposal of all confidential information to all Department personnel, including facilities.

Department agrees with auditors

Department officials agreed with the recommendation and noted they will ensure confidential information is adequately protected and that procedures for safeguarding, retention and subsequent disposal of all confidential information should be effectively communicated to all Department personnel, including facilities. (For the previous Department response, see Digest Footnote #4.)

INTERNAL CONTROL WEAKNESSES IN THE HOME SERVICES PROGRAM

Internal control weaknesses from prior engagement remain uncorrected

During testing, numerous internal control weaknesses were identified in the Department's Home Services Program (HSP). These weaknesses were also noted in a Department management review performed in 2005. HSP allows individuals with disabilities who are at risk of placement in a nursing home to remain in their homes. The auditors noted the following weaknesses were still prevalent during the current engagement period:

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Inconsistencies throughout the local offices in the supervisor's monitoring of the counselors' activities

- There were inconsistencies throughout the local offices in the supervisor's monitoring of the counselors' activities. Several supervisors utilize GroupWise calendars, scheduling boards, and frequent interaction with the counselors to ensure they are performing their job duties.

Insufficient monitoring of case files, each supervisor was responsible for approximately 890 case files

- There was insufficient monitoring of case files to ensure program objectives were being met. There is only one supervisor at each of the 41 local offices to monitor HSP activities. On average, each supervisor was responsible for approximately 890 case files during fiscal years 2010 and 2011. During the previous audit report period, management indicated the statewide average responsibility per supervisor was approximately 680 case files.

Insufficient controls in the payroll system

- Auditors noted insufficient controls in the payroll system used for processing personal assistants' payroll.

Similar exceptions were identified in previous reports

In response to the previous finding, the Department made efforts to decrease the average caseload per counselor. They were successful in decreasing the overall average caseload per counselor from 610 to 222 in the current year. However, many local offices continue to have caseloads of 300-400 per counselor. Department officials stated the discrepancies noted were due to lack of oversight and continuing staff shortages. (Finding 11-12, pages 45-46) **This finding was first reported in 2005.**

We recommended the Department implement procedures to strengthen internal controls over the Home Services Program.

Department agrees with auditors

Department officials agreed with the recommendation and indicated they will implement additional controls regarding timekeeping accuracy and reducing the caseload per counselor. (For the previous Department response, see Digest Footnote #5.)

FAILURE TO COMPLY WITH MEDICARE AND MEDICAID CERTIFICATION REQUIREMENTS

One facility remained decertified as an eligible Medicare and Medicaid provider

One of the Department's facilities, Tinley Park Mental Health Center (Tinley) continued to remain decertified as an eligible Medicare and Medicaid service provider during the engagement period.

Tinley Park Mental Health Center was decertified on February 23, 2007

Tinley, which was decertified on February 23, 2007, had applied for its recertification. A three day certification survey was completed on September 16, 2009 and on October 21, 2009 a report was issued ruling that Tinley remained out of compliance with "Special Conditions of Participation" and that the facility remain decertified. The Department disagreed with the report and filed an appeal which was denied. A request for a hearing was submitted which was also denied. As a result, the Department must initiate a new application for certification.

Tinley closure was announced prior to new application for certification being completed

Department personnel stated a new application had been prepared to begin the certification process. Before the application process was complete, it was announced Tinley would close with a tentative closure date of July 2012. After the closure was announced, the Department did not move forward with the application for certification.

Medicaid / Medicare patients that would have been housed at Tinley Park are sent to other State facilities

As of June 30, 2011, Tinley did not maintain housing for any Medicare/Medicaid patients. Therefore, the Department stated there was no revenue lost as a result of the decertification during fiscal year 2011. Due to the decertification at Tinley, a screening process was implemented at another Department facility to identify patients with Medicaid or Medicare eligibility. These patients were sent to State hospitals with Medicare/Medicaid certification, increasing the burden to provide care at those locations. (Finding 11-16, pages 53-54) **This finding was first reported in 2007.**

We recommended the Department comply with laws and provisions regarding Medicare and Medicaid certification if it is determined to keep Tinley Park Mental Health Center open.

Department agrees with auditors

Department officials agreed with the recommendation indicating they will not pursue re-certification due to scheduled closure on July 3, 2012. (For the previous Department response, see Digest Footnote #6.)

FAILURE TO TIMELY DETERMINE THE DISPOSITION OF UNSPENT GRANT FUNDS

Final disposition of unspent program funds not determined by Department

Auditor testing identified 13 programs with unspent grant funds of which the Department had not determined the final disposition. Several programs noted had concluded in previous years with balances in the deferred revenue and unearned deferred revenue accounts that would indicate unspent balances due to grantor agencies. Some of the specific programs with unspent grant funds were as follows:

$360,000 in deferred revenue from grant period that ended in fiscal year 2002

- The Policy Research and Evaluation Grants reported deferred revenue totaling $360,000. The grant period ended in fiscal year 2002, with the last receipt coming in June 2002.

- The AmeriCorps program reported deferred revenue totaling $79,000. The grant period ended in fiscal year 2005, with the last receipt coming in February 2003.

- The Ten State Performance Indicator Pilot Project Program reported deferred revenue totaling $72,000. The grant period ended in fiscal year 2005, with the last receipt coming in May 2005.

$146,000 in deferred revenue from grant period that ended in fiscal year 2008

- The Enforcing Underage Drinking Laws Program reported deferred revenue totaling $146,000. The grant period ended in fiscal year 2008, with the last receipt coming in January 2006.

$1,033,000 in deferred revenue from grant period that ended in fiscal year 2004

Auditors also identified the Abstinence Education Program had unspent grant funds of which the Department had not determined the final disposition. The Abstinence Education Program reported deferred revenue totaling $1,033,000. The grant period ended in fiscal year 2004 with the last receipt coming in fiscal year 2010.

Department noted final disposition was not made due to staffing shortages

If a program concludes with unspent grant funds, Department personnel should follow the guidance in the program/grant documents and determine if any excess grant funds should be returned or used for other programs as allowed by the grantor. Department officials stated the final disposition was not determined timely due to staffing shortages; however, the Department is continuing to review and reconcile the funds. (Finding 11-19, pages 63-65) **This finding was first reported in 2007.**

We recommended the Department determine the availability of these funds for expenditure or return them after proper consultation with the respective grantor.

Department agrees with auditors

Department officials agreed with the recommendation noting they will review and determine the availability of these funds for expenditure or return them after proper consultation with the respective grantor. (For the previous Department response, see Digest Footnote #7.)

INADEQUATE ADMINISTRATION OF LOCALLY HELD FUNDS

Auditors noted exceptions in testing the Department's locally held funds (bank accounts)

Auditors noted exceptions regarding the administration, accounting, reconciliation, reporting, receipt and disbursement of locally held funds (bank accounts) at the Central Office and facilities during the audit period. Some of the weaknesses noted during testing are as follows:

Six of 21 facilities tested did not properly perform monthly reconciliations

- Six of 21 facilities tested did not properly perform monthly reconciliations of their locally held funds. Exceptions included: reconciliations not being performed timely or at all, reconciliations not signed off as being reviewed, lack of segregation in preparation of reconciliations and mathematical inaccuracies.

Exceptions were identified in testing locally held fund disbursements at 4 facilities

- Exceptions were identified in testing locally held fund disbursements at 4 of 21 facilities. Auditors noted a variety of errors at these facilities, including: posting the wrong check number, incorrectly fixing an error of posting the wrong check number, and not posting disbursements timely. In addition, disbursements did not always trace from the bank statement to the system ledger and from the system ledger to the bank statement.

Five facilities did not properly record locally held fund receipts

- Five of 21 facilities did not properly record locally held fund receipts. Exceptions included: receipts did not trace from the bank statement to the system ledger, receipts lacked supporting documentation, the dates recorded on the general ledger did not agree with the computerized accounting system dates and cash receipts were not deposited timely.

Department officials stated a lack of oversight contributed to the discrepancies noted

Department officials stated a lack of oversight by the fund reconciliation staff and late receipt of a bank statement contributed to the discrepancies noted. (Finding 11-23, pages 75-80)

We recommend the Department remind facility staff of the requirements set forth within the statutes, the Comptroller's SAMS Manual and Department policies and procedures related to the operation and maintenance of the locally held funds.

Department agrees with auditors

Department officials agreed with the recommendation and noted they will ensure that facility personnel are reminded of the requirements set forth within the statutes, the Comptroller's SAMS Manual and Department policies and procedures related to the operation and maintenance of the locally held funds.

VOUCHER PROCESSING, APPROVAL AND PAYMENT

The Department did not maintain adequate controls over the processing, approval and payment of vouchers

The Department did not maintain adequate controls over the processing, approval and payment of vouchers as required by the Illinois Administrative Code and Department policy. As a result of testing random samples of invoice vouchers processed at the Central Office during the engagement period, some of the exceptions noted by the auditors were as follows:

Thirty-two invoice vouchers did not include adequate supporting documentation

- Thirty-two of 328 invoice vouchers totaling $4,415,328 did not include adequate supporting documentation. For thirty-one of the invoice vouchers, auditors were not provided supporting vendor invoices. For one invoice voucher, auditors were provided an email and screenprints from the accounting system. However, a vendor invoice was not provided.

Four invoice vouchers were not approved within 30 days after receipt of the vendor invoice

- Four of 180 invoice vouchers totaling $180,080 were not approved within 30 days after receipt of the vendor invoice. The invoice vouchers were approved for payment from 19 to 92 days late.

- Two of 120 invoice vouchers totaling $103,120 contained errors during processing. One invoice voucher showed an approval date in the accounting system three months before the vendor invoice was received. The other invoice voucher was supported by a vendor invoice marked as paid the day before the invoice voucher was marked as approved for payment.

Two invoice vouchers contained errors during processing

In addition to testing invoice vouchers processed at the Central Office, auditors also tested invoice vouchers processed at Department facilities during the engagement period. Some of the exceptions noted are as follows:

$3,272 of prompt payment interest was not paid to vendors

- Eight of 123 contractual services invoice vouchers tested totaling $145,419 did not remit required prompt payment interest to vendors which totaled $3,272.

Thirteen invoice vouchers were not approved within 30 days after receipt of the vendor invoice

- Thirteen of 123 contractual services invoice vouchers totaling $230,204 were not approved within 30 days after receipt of the vendor invoice. The invoice vouchers were approved for payment from 2 to 180 days late. Additionally, seven of the 123 invoice vouchers totaling $69,080 did not contain a date stamp indicating the date the vendor invoice was received. Auditors were unable to determine if these invoice vouchers were approved timely.

Staff shortages and changes contributed to the deficiencies noted

Department officials stated a lack of staff oversight, staff shortages and staffing changes contributed to the deficiencies noted**.** (Finding 11-24, pages 81-83)

We recommended the Department devote adequate resources and follow established policies to ensure invoice vouchers are processed, approved and paid in a timely manner to limit interest penalties.

Department agrees with auditors

Department officials agreed with the recommendation and indicated they will devote adequate resources and follow established policies to ensure invoice vouchers are processed, approved and paid in a timely manner to limit interest penalties.

WEAKNESSES IN CONDUCTING ANNUAL ELIGIBILITY REDETERMINATIONS FOR KIDCARE (ALL KIDS)

Auditors identified 5 ALL KIDS case files where an annual redetermination was not performed as required

The Department failed to make annual redeterminations of eligibility for KidCare (now known as ALL KIDS) services in compliance with the Children's Health Insurance Program Act (Act). The Department is responsible for eligibility determinations and redeterminations for the ALL KIDS Program. The Department of Healthcare and Family Services (HFS) is responsible for overall Program administration.

During testing of 30 ALL KIDS case files, auditors identified 5 (17%) case files where an annual redetermination was not performed as required.

Department uses passive redeterminations in certain instances to determine continued eligibility

Auditors also noted the Department was using a passive redetermination process to redetermine eligibility. The passive redetermination process includes sending a form to the client annually which is required to be completed only upon changes to the client's income. The Department assumes there are no changes if a response is not received. Passive redeterminations are utilized for cases that involve families where the only benefits received by the children are medical benefits. Although the sample tested did not include instances of passive redeterminations, auditors noted the Department is still utilizing this process.

Passive redeterminations do not provide information to determine continued eligibility in accordance with State statute

The Department cannot redetermine eligibility in accordance with the Act utilizing a passive redetermination process as no information is received to reassess eligibility. Due to the need by clients for additional services for which the Department does complete annual redeterminations, more medical redeterminations are being performed actively. Department personnel stated the passive redetermination was implemented in response to the federal Children's Health Insurance Program Reauthorization Act of 2009 (Public Law 111-3) effective April 1, 2009. (Finding 11-43, pages 117-118) **This finding was first reported in 2005.**

We recommended the Department implement an active eligibility redetermination process and require eligibility redeterminations be completed on an annual basis in compliance with the Act.

Department agrees with auditors

Department officials agreed with the recommendation and noted they are currently working with HFS (the state Medicaid Agency responsible for revising the medical redetermination process) to implement an active eligibility redetermination process and require eligibility redeterminations be completed on an annual basis in compliance with the Act; involving electronically verifying eligibility through automated sources, effective July 2012. The MIS request that eliminates the passive redetermination process, and implements the newly developed electronic renewal process has been submitted. (For the previous Department response, see Digest Footnote #8.)

OTHER FINDINGS

The remaining findings are reportedly being given attention by the Department. We will review the Department's progress towards the implementation of our recommendations in our next engagement.

AUDITORS' OPINION

The auditors stated the Department's financial statements as of June 30, 2011 and for the year then ended were presented fairly in all material respects.

A compliance examination of the Department was also conducted as required by the Illinois State Auditing Act. The Accountant's Report noted the Department did not comply in all material respects with requirements regarding applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations as well as requirements regarding obligating, expending, receiving and using public funds of the State.

WILLIAM G. HOLLAND
Auditor General

WGH:RPU:rt

SPECIAL ASSISTANT AUDITORS

Sikich LLP were our Special Assistant Auditors for this engagement.

DIGEST FOOTNOTES

#1 - WEAKNESSES IN PREPARATION OF GAAP REPORTING FORMS AND FINANCIAL STATEMENTS – Previous Department Response

2010: The Department agrees with the recommendation. The Department is working with the Department of Central management Services and the Governor's Office of Management and Budget to develop new titles to allow hiring staff with necessary qualifications, including education and experience. In addition, a corrective action plan is being implemented that includes cross-training wherever possible by relocating job duties currently assigned to qualified staff allowing them to concentrate solely on the preparation of financial statements, to mitigate weaknesses.

#2 - INADEQUATE CONTROLS OVER COMMODITIES – Previous Department Response

2010: The Department agreed with the recommendation. The Department will identify strategies to continue strengthening its oversight function related to commodities.

 # 3 - WEAKNESSES OVER QUARTERLY REPORTING OF ACCOUNTS RECEIVABLE – Previous Department Response

2009: The Department accepts the recommendation. The Department is reviewing the Accounts receivable agency wide. Based on the results of the review, we will establish and implement an interim Department wide solution until Statewide is implements.

#4 - INADEQUATE COMPLIANCE WITH PROCEDURES FOR DISPOSAL OF CONFIDENTIAL INFORMATION – Previous Department Response

2009: The Office of HIPPA Compliance has enhanced the Department's procedures for safeguarding, retention and subsequent disposal of all confidential information to ensure compliance with all state and federal requirements.

#5 - INTERNAL CONTROL WEAKNESSES IN THE HOME SERVICES PROGRAM - Previous Department Response

2009: The Department accepts the recommendation. We agree with the need to address these issues and changes are already under development to provide for additional quality checks and thus address the concerns noted.

 # 6 - FAILURE TO COMPLY WITH MEDICARE AND MEDICAID CERTIFICATION REQUIREMENTS - Previous Department Response

2010: The Department agrees with the recommendation. The Department will continue its efforts to recertify Tinley Park Mental Health Center. The facility continues to train, monitor and adjust its process to obtain consistent outcomes for the majority of patients. The facility will apply for CMMS certification by end of fiscal year 2012.

#7 - FAILURE TO TIMELY DETERMINE THE DISPOSITION OF UNSPENT GRANT FUNDS - Previous Department Response

2009: The Department accepts the recommendation. The Department believes that grant funds have been spent appropriately. However, the Department believes that the Bureau of General Accounting must complete a historical review of applicable fund GAAP packages in cooperation with the Bureau of Federal Reporting completing a review of grant expenditures to ensure that grant funds were reported accurately in previous years' fund GAAP packages.

#8 - WEAKNESSES IN CONDUCTING ANNUAL ELIGIBILITY REDETERMINATIONS FOR KIDCARE (ALL KIDS)- Previous Department Response

2009: The Department partially agrees with the recommendation. The Department agrees with the requirement that redeterminations of medical cases be completed annually. The Department has written policy and procedure in support of the annual redetermination requirement. The Department currently utilizes an active form of redetermination in the majority of cases administered. Active redeterminations are required for all cases containing cash and/or food stamp benefits. Administrative renewals are limited to only medical cases fitting the criteria.

Administrative renewal is listed in the Children's health Insurance Program Reauthorization Act of 2009 (CHIPRA) as one of the enrollment and retention provisions states may use to qualify for a performance bonus payment. Illinois received a $9.1 million bonus payment for federal fiscal year 2009. The federal Centers for Medicare and Medicaid Services, which administers both Medicaid and CHIPRA, strongly encourages states to adopt administrative renewal for children.

Also, as the Department of Healthcare and Family Services (HFS) is the single State Medicaid agency that sets all policy for the State's health care programs, the Department does not have the authority to bypass administrative renewal policy for cases that fit the criteria.

AUDITOR'S COMMENT:

The Department in their response has indicated the reasons for utilizing passive redeterminations (referred to as administrative renewals by the Department in their response), but did not address how they would comply with the requirements set forth in the Children's Health Insurance Program Act (Act). Specifically, the Department did not address how they would comply with the requirements for eligible participants to reapply or otherwise establish eligibility at least annually and for redetermining eligibility when no information is provided when passive redeterminations (administrative renewals) are used. The Department's response is directed to the federal law but does not address the requirements in State statute. In addition, the federal law does not prohibit the active redeterminations which include internal controls to maintain accountability over these cases.