



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS DEPARTMENT OF HUMAN SERVICES

**Financial Audit
 For the Year Ended June 30, 2016**

Release Date: February 16, 2017

FINDINGS THIS AUDIT: 5				AGING SCHEDULE OF REPEATED FINDINGS			
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	3	3	2015	4, 5	2	
Category 2:	1	1	2	2009	1		
Category 3:	0	0	0				
TOTAL	1	4	5				

FINDINGS LAST AUDIT (Government Auditing Standards Findings only): 8

SYNOPSIS

- **(16-001)** The Department’s year-end financial reporting process contained significant deficiencies that would have resulted in material misstatements if not noted and corrected.
- **(16-003)** Reconciliations between the Department’s accounting system and several interface systems are not being performed on a regular basis.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Expenditures and Activity Measures are summarized on next page.}

**DEPARTMENT OF HUMAN SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2016**

FINANCIAL INFORMATION - Governmental Funds (in thousands)	FY 2016	FY 2015
REVENUES		
Program revenue: charges for service.....	\$ 50,911	\$ 48,028
Program revenue: operating grants.....	5,016,800	5,241,047
General revenue: taxes, interest and other.....	19,539	305,007
Total revenue.....	5,087,250	5,594,082
EXPENDITURES		
Health and social services.....	8,697,516	9,030,595
Debt service - principle.....	254	333
Debt service - interest.....	230	124
Capital outlays	8,770	8,343
Total expenditures.....	8,706,770	9,039,395
OTHER SOURCES (USES)		
Appropriations from State resources.....	3,914,553	3,831,177
Transfers in.....	122,452	110,999
Transfers out.....	(93,651)	(122,881)
Receipts collected & transmitted to the State treasury.....	(117,796)	(118,891)
Lapsed appropriation.....	(387,292)	(107,473)
Other.....	(117,397)	(31,291)
Total other sources (uses).....	3,320,869	3,561,640
Increase in fund balance.....	(298,651)	116,327
Fund balance, July 1.....	238,732	122,122
(Decrease) for changes in inventories.....	(276)	283
Fund balance, June 30.....	\$ (60,195)	\$ 238,732
SELECTED ACCOUNT BALANCES - June 30,		
Governmental Funds (in thousands)	FY 2016	FY 2015
ASSETS		
Cash and cash equivalents & investments.....	\$ 330,006	\$ 334,551
Due from other governments - federal & local.....	224,148	188,437
Loans, taxes and other receivables, net.....	161,741	215,549
Due from other Department and State funds.....	23,695	78,995
Inventories.....	7,044	7,320
Unexpended appropriations.....	207,655	369,314
Total assets.....	\$ 954,289	\$ 1,194,166
LIABILITIES		
Accounts payable and other liabilities.....	\$ 647,002	\$ 565,814
Unearned revenue.....	20,246	21,282
Due to other funds - State, federal, local & Department.....	189,007	151,850
Total Liabilities.....	856,255	738,946
DEFERRED INFLOWS OF RESOURCES - Unavailable Revenue.....	158,229	216,488
FUND BALANCE.....	(60,195)	238,732
TOTAL LIABILITIES AND FUND BALANCE.....	\$ 954,289	\$ 1,194,166
SECRETARY		
Current Secretary: Mr. James T. Dimas (Designate 5/18/15 thru present)		

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**WEAKNESSES IN PREPARATION OF YEAR-END
DEPARTMENT FINANCIAL STATEMENTS**

The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) contained inaccurate information. The Department does not have a complete general ledger or adequate controls over the completeness and accuracy of monthly and year-end annual financial reporting which resulted in errors in the GAAP basis financial statements, GAAP schedules prepared for the State Comptroller's Office, and additional supporting schedules and analysis.

Department does not perform a sufficient supervisory review of amounts recorded in its financial statements

The Department does not perform a sufficient supervisory review of all amounts recorded in its GAAP packages and financial statements. Following are some of the issues identified with the year-end financial reporting process:

An expenditure or liability of \$38.7 million not recorded

- The Department did not record an expenditure/expense or liability to be paid to the federal government of \$38.7 million until it was identified by the auditors. Additionally, SNAP debts that are collected through the Federal Offset program estimated at \$25 million were not considered in the Department's original determination of the allowance for doubtful accounts.

A \$16.7 million liability was overstated by approximately \$12 million

- The Department has recorded a \$50.7 million estimated liability for program costs that will be paid out of a future year appropriation. Based on the testing performed, it was concluded that for one program, Early Intervention, the liability reported at \$16.7 million was overstated by approximately \$12 million.
- Monthly fund receipt reconciliations were not completed or reviewed in a timely manner and some reconciliations lacked documentation of proper review. During our testing, we obtained 16 reconciliations and noted that 2 did not document the date prepared, thirteen were not prepared within 30 days of month-end and ranged from 11 to 214 days late, and 8 did not contain documentation of the date reviewed. For one reconciliation, which did not document the prepared date, the review was documented as occurring 171 days after the respective month-end.
- During our testing of a sample of 35 overpayment accounts receivable balances, we noted two cases that were not reported at the proper amount. With one of

**Deceased client receivable
erroneously assigned to wrong client**

the case files, we noted the Department improperly included medical amounts in the total account receivable balance as of June 30, 2016. As a result, the receivable balance was overstated by \$20,133. With the second case, one of the case recipients died over 10 years ago and the receivable balance was not properly written off. The Department was not aware of the death and assigned the receivable balance to the wrong client as a result of the case ID number being reused by the local office. As a result, the receivable balance was overstated by \$11,046.

- The Department draws \$17.2 million every third month and remits it to the Department of Children and Family Services (DCFS), totaling \$68.8 million for the year. The Department stated that the amount paid was based on the Illinois Public Aid Code (Code) (305 ILCS 5/12-5) which states that eighty percent of the federal financial participation funds received by the Department under the Title IV-A Emergency Assistance program as reimbursement for expenditures made from the DCFS appropriations for the costs of providing services on behalf of DCFS clients shall be deposited into the DCFS Children's Services Fund. However, the Department was not able to provide an analysis or reconciliation to indicate the amount paid complied with the language in the statute.
- The Department could not provide documentation of the preparation or the Department's review of expenditure reconciliations for federal Medical Assistance Program (MAP) funds between amounts reported in the Departments Consolidated Accounting and Reporting System (CARS), and amounts reported in the Comptroller's Grant / Contract Analysis Forms (SCO 563) which support the receivable calculation for financial reporting. Additionally, there is no documentation maintained by the Department to support the calculation and methodology used by HFS in preparing the federal receivable amount.
- The federal grant accounts receivable amount for the DHS Special Purpose Trust Fund (Fund 0408) was understated by \$2 million.

**Receivable understatement of \$2
million**

- During testing of expenditures, the auditors determined that the Department is not monitoring or reviewing the payments submitted by HFS on behalf of the Department. An employee in the Department's Fiscal Services reconciles the payments between CARS and the Comptroller's office before accepting them into CARS; however, the Department has not obtained and documented a detailed understanding of

how its transactions are being processed within HFS, the controls in place over those transaction, monitoring performed by HFS, exceptions noted by HFS through its monitoring activities and how exceptions and control deficiencies are addressed by HFS and communicated to the Department. (Finding 1, pages 66-70) **This finding was first reported in 2009.**

We recommended management perform a thorough assessment of the year-end financial reporting to: determine the significant liability estimates that need to be re-evaluated, evaluate the sufficiency of the allowance for doubtful account methodology, work with management of HFS to gain a better understanding of the internal control system established over DHS transactions, enter into an interagency agreement with HFS and determine if the control system and related monitoring is sufficient to prevent and detect significant errors, to reconcile expenditure amounts provided by HFS in connection with year-end reporting of federal Medical Assistance Program receivables recorded in CARS, reconcile to the Comptroller's accounting system each month in a timely manner, to ensure payments to DCFS are supported by documentation that demonstrates the amount paid complies with the Illinois Public Aid Code, and to make the statutory transfer to the DHS Public Assistance Recoveries Trust Fund or obtain legislative relief.

Department agreed with auditors

Department officials agreed with the recommendation and stated they will perform another assessment of the year-end financial reporting process and continue to make improvements to ensure financial information is reported accurately. The Department further stated they will work with HFS to gain assurance that the data provided is complete and accurate and will continue its efforts to move draft legislation forward addressing statutory requirements. *(For the previous Department response, see Digest Footnote #1)*

NO RECONCILIATIONS PERFORMED FOR SYSTEMS THAT ELECTRONICALLY INTERFACE INTO THE ACCOUNTING SYSTEM

Due to the complexity and variety of the programs the Department administers, the Department's accounting system (CARS) is not designed to capture and record all of the Department's balances and accounting transactions. As a result, various additional systems are used throughout the Department to assist in capturing and recording financial and other information.

Monthly reconciliations between CARS and the Statewide Accounting Management System (SAMS), the Illinois Office of

Reconciliations of interfacing systems not performed

the Comptroller's accounting system, are performed to ensure transactions recorded in CARS are transmitted to SAMS correctly. However, reconciliations between CARS and several interface systems are not being performed on a regular basis. During our audit, we noted at least three systems - Child Care Management System (CCMS), Client Payment System (CPS), and DUI Service Reporting System (DSRS) - for which reconciliations are not performed until requested by the auditors. The Department does not currently perform these reconciliations as part of their system of internal control. (Finding 3, page 73)

We recommended the Department perform reconciliations between CARS and the systems that are interfaced into CARS on a regular basis, no less than annually, with a documented supervisory review and approval.

Department agreed with auditors

Department officials agreed with the recommendation and stated they will review the current reconciliation processes for major system interfacing with CARS and ensure that reconciliations are performed on a regular basis, but at least annually.

OTHER FINDINGS

The remaining findings are reportedly being given attention by Department personnel. We will review progress toward implementation of our recommendations in our next Audit/Examination.

AUDITOR'S OPINION

Our auditors stated the financial statements of the Department of Human Services as of June 30, 2016, and for the year ended are fairly stated in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:ETL

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this audit were RSM US LLP.

DIGEST FOOTNOTES

#1 - Weaknesses in preparation of year-end Department financial statements - Previous Department Response

2015: The Department agrees with the recommendation. The Department will perform a thorough assessment of the year-end financial reporting process and continue to make improvements to ensure accurate GAAP reporting forms and year-end financial statements.