



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**DEPARTMENT OF HUMAN SERVICES**

**Financial Audit  
 For the Year Ended June 30, 2017**

**Release Date: March 20, 2018**

FINDINGS THIS AUDIT: 11	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
<b>Category 1:</b>	<b>8</b>	<b>1</b>	<b>9</b>	2016		6	
Category 2:	0	2	2	2015		9	
Category 3:	0	0	0	2009	1		
<b>TOTAL</b>	<b>8</b>	<b>3</b>	<b>11</b>				
FINDINGS LAST AUDIT: 5							

**SYNOPSIS**

- **(17-01)** The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) contained inaccurate information.
- **(17-02)** The Department does not have an adequate understanding of the internal controls in place over all data recorded in its financial statements and does not sufficiently review transactions initiated by other State agencies and recorded in the Department's financial statements.
- **(17-07)** The Department and the Department of Healthcare and Family Services did not maintain adequate controls to ensure applications for human service programs were reviewed and approved or denied within the mandated 45-day timeframe.
- **(17-08)** The Department and the Department of Healthcare and Family Services did not conduct timely redeterminations of eligibility for Medicaid recipients.

**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.

{Financial data is summarized on next page.}

**DEPARTMENT OF HUMAN SERVICES  
FINANCIAL AUDIT  
For the Year Ended June 30, 2017**

<b>FINANCIAL INFORMATION - Governmental Funds (in thousands)</b>	<b>FY 2017</b>	<b>FY 2016</b>
<b>REVENUES</b>		
Program revenue: charges for service.....	\$ 49,470	\$ 50,911
Program revenue: operating grants.....	4,783,580	5,016,800
General revenue: taxes, interest and other.....	9,593	19,539
Total revenue.....	<u>4,842,643</u>	<u>5,087,250</u>
<b>EXPENDITURES</b>		
Health and social services.....	8,420,456	8,697,516
Debt service - principle.....	277	254
Debt service - interest.....	170	230
Capital outlays .....	8,720	8,770
Total expenditures.....	<u>8,429,623</u>	<u>8,706,770</u>
<b>OTHER SOURCES (USES)</b>		
Appropriations from State resources.....	4,469,396	3,914,553
Transfers in.....	179,178	122,452
Transfers out.....	(150,738)	(93,651)
Receipts collected & transmitted to the State treasury.....	(175,935)	(117,796)
Lapsed appropriation.....	(519,204)	(387,292)
Other.....	(26,046)	(117,397)
Total other sources (uses).....	<u>3,776,651</u>	<u>3,320,869</u>
<b>Increase in fund balance.....</b>	<b>189,671</b>	<b>(298,651)</b>
<b>Fund balance, July 1.....</b>	<b>(60,195)</b>	<b>238,732</b>
(Decrease) for changes in inventories.....	482	(276)
<b>Fund balance, June 30.....</b>	<b>\$ 129,958</b>	<b>\$ (60,195)</b>
<b>SELECTED ACCOUNT BALANCES - June 30,</b>		
<b>Governmental Funds (in thousands)</b>	<b>FY 2017</b>	<b>FY 2016</b>
<b>ASSETS</b>		
Cash and cash equivalents & investments.....	\$ 357,259	\$ 330,006
Due from other governments - federal & local.....	141,291	224,148
Loans, taxes and other receivables, net.....	190,303	161,741
Due from other Department and State funds.....	129,031	23,695
Inventories.....	7,526	7,044
Unexpended appropriations.....	439,337	207,655
Total assets.....	<u>\$ 1,264,747</u>	<u>\$ 954,289</u>
<b>LIABILITIES</b>		
Accounts payable and other liabilities.....	\$ 577,712	\$ 647,002
Unearned revenue.....	21,075	20,246
Due to other funds - State, federal, local & Department.....	356,884	189,007
Total Liabilities.....	<u>955,671</u>	<u>856,255</u>
<b>DEFERRED INFLOWS OF RESOURCES - Unavailable Revenue.....</b>	<b>179,118</b>	<b>158,229</b>
<b>FUND BALANCE.....</b>	<b>129,958</b>	<b>(60,195)</b>
<b>TOTAL LIABILITIES AND FUND BALANCE.....</b>	<b>\$ 1,264,747</b>	<b>\$ 954,289</b>
<b>SECRETARY</b>		
During Audit Period: Mr. James T. Dimas		
Current Secretary: Mr. James T. Dimas		

**FINDINGS, CONCLUSIONS, AND**  
**RECOMMENDATIONS**

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

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

The Department of Human Services' (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.

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:

- During testing of amounts owed to other State funds, we noted the Department did not record certain invoice/vouchers for Central Management Services (CMS) which amounted to approximately \$54 million, or associated unapplied credits of approximately \$33 million, which netted to a \$21 million unrecorded liability in the General Fund.
- The automated control within the Consolidated Accounting Reporting System (CARS) that restricts the same individual from initiating a journal entry and approving that same entry is not being used. CARS does have the ability to restrict approvals to only approved employees that did not initiate the entry. However, this security setting for processing journal entries has never been enacted.
- Amounts reported on the SCO 563 form for cash basis federal expenditures for Fund 0081 (CFDA 84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States) were overstated by approximately \$9.7 million. Additionally, the related receivable, Due from Federal Government, was overstated by \$7.5 million on the form and in the financial statements. (Finding 1, pages 68-71) **This finding was first reported in 2009.**

**Federal expenditures overstated by approximately \$9.7 million**

We recommended management increase the level and quality of supervisory review of year-end financial reporting. Specifically, some of those recommendations included the following: determine through analytical procedures and

inquiry whether there are any unrecorded expenditures/liabilities, instruct its Management Information Services (MIS) division to activate the automated control in CARS which prevents an employee from preparing and approving the same journal entry, and ensure amounts recorded in CARS reconcile to amounts reported by the Federal Financial Reporting division.

**Department accepted recommendation**

The Department accepted the recommendation. (*For the previous Department response, see Digest Footnote #1.*)

**MEDICAL ASSISTANCE PROGRAM FINANCIAL INFORMATION**

The Department of Human Services (Department) does not have an adequate understanding of the internal controls in place over all data recorded in its financial statements and the Department does not sufficiently review transactions initiated by other State agencies and recorded in the Department's financial statements.

**Department does not perform a sufficient review of transactions initiated by other State agencies**

During our testing of the financial statements we noted the following:

- The Department could not provide documentation of its preparation or review of expenditure reconciliations for the Federal Medical Assistance Program (MAP) funds (Funds 0120, 0142, 0365, 0502, 0718) between amounts reported in the Department's Consolidated Accounting and Reporting System (CARS), and amounts reported in the Illinois Office of the Comptroller's Grant / Contract Analysis Forms (SCO 563) which support the receivable calculation for financial reporting. The amount per the SCO 563 Forms (totaling approximately \$425 million) is a computed amount (a formula), which is the amount needed to achieve the reported receivable balance provided by the Department of Healthcare and Family Services (HFS), a separate State agency. The Department does not retain a reconciliation between amounts reported on the SCO 563 Form (claimable expenditures) and amounts recorded within CARS (all expenditures) for each fund. Additionally, there is no documentation maintained by the Department to support the calculation and methodology used by HFS in preparing the federal receivable amount.
- During testing of expenditures and liabilities payable from future year appropriations, we determined that the Department is not monitoring or reviewing the payments submitted by HFS, or the liabilities calculated by HFS on behalf of the Department. Although HFS is a separate State agency, certain

activities and balances are recorded within the Department's financial statements. Currently, the Department receives summarized information from HFS and records the transactions into CARS and the GAAP packages without performing sufficient procedures to determine the accuracy of the information.

**\$42 million overstatement of deferred inflows of resources**

- The Community Developmental Disability Services Medicaid Trust Fund (Fund 142) is the designated recipient of federal funds received in accordance with the Mental Health and Developmental Disabilities Administrative Act (Act) (20 ILCS 1705/18.5). These eligible amounts were drawn from the federal government by HFS, received by HFS and deposited in the HFS General Fund; however, on the draft financial statements the amounts were reported in Department's Fund 142 as an asset "due from the federal government". The amount should have been reported as "due from other State agency funds". The misclassification of the receivable also resulted in a \$42 million overstatement of deferred inflows of resources (unavailable revenue). (Finding 2, pages 72-74)

We recommended the Department assume more responsibility for the transactions and balances reported in its financial statements that are initiated/estimated by other State agencies, including the following: working with management of HFS to gain a better understanding of the internal control system established over Department transactions, enter into an interagency agreement with HFS that details the responsibilities of each agency and how this will be monitored, reconcile CARS to expenditure amounts provided by HFS in connection with year-end reporting of Federal MAP receivables, and analyze federal receivables not received during the lapse period to see if they have been properly recorded as it is not typical for these types of balances to be unpaid for more than 60 days.

**Department accepted recommendation**

The Department accepted the recommendation and stated the Department will work with HFS to gain assurance that the data provided is complete and accurate. In addition, the Department will propose an interagency agreement with HFS.

**BACKLOG OF APPLICATIONS FOR HUMAN SERVICE PROGRAMS**

**Applications were not reviewed and approved or denied within mandated 45-day timeframe**

The Department of Human Services and the Department of Healthcare and Family Services (Departments) did not maintain adequate controls to ensure applications for human service programs were reviewed and approved or denied within the mandated 45-day timeframe.

The Departments' Integrated Eligibility System (IES) takes in applications from individuals in order to determine eligibility and subsequent payments for the State's human service programs.

**Backlog of 74,649 applications as of June 30, 2017**

As of June 30, 2017, the Departments had incurred a backlog of 74,649 applications that were more than 45 days old, with the oldest application dating back to November 19, 2014. As of January 12, 2018, the Departments had worked 1,714 applications for medical services resulting in payments totaling \$209,894 and 676 applications for SNAP (Supplemental Nutrition Assistance Program) and TANF (Temporary Assistance for Needy Families) services resulting in payments totaling \$47,568 incurred during FY2017. (Finding 7, pages 83-84)

We recommended the Department of Human Services work with the Department of Healthcare and Family Services to implement controls to comply with the requirement that applications are reviewed and approved or denied within 45 days.

**Departments accepted recommendation**

The Departments accepted the recommendation and stated the Departments continue to strive to be in compliance with its mandated application disposition timelines.

**UNTIMELY REDETERMINATIONS OF ELIGIBILITY**

**Timely redeterminations of eligibility not conducted**

The Department of Human Services and the Department of Healthcare and Family Services (Departments) did not conduct timely redeterminations of eligibility for Medicaid recipients.

**8,187 individuals' eligibility redeterminations not performed annually**

In order to determine if redeterminations were performed timely, we tested all individuals who received a capitation payment on their behalf to a managed care organization during the audit period and reviewed their redetermination dates. The testing results indicated 8,187 individuals' eligibility redeterminations were not performed within the required 12 month period.

The Departments made payments on behalf of these individuals, totaling \$71,300,077, for medical services during FY2017. (Finding 8, pages 85-86)

We recommended the Department of Human Services work with the Department of Healthcare and Family Services to establish the appropriate controls to monitor eligibility redeterminations, and assign the resources necessary so that redeterminations of eligibility are performed annually as required by the Code of Federal Regulations.

**Departments accepted recommendation**

The Departments accepted the recommendation and stated the redetermination process will be enhanced with the

implementation of the newly updated processing system in IES Phase II, which went live on October 24, 2017.

## **OTHER FINDINGS**

The remaining findings pertain to SNAP overpayment referrals not completed timely, inaccurate methodology used for calculating the allowance for doubtful accounts, service provider controls, system reconciliations not regularly performed, inaccurate determination of eligibility for human service programs, lack of controls over changes to the Integrated Eligibility System, and lack of security controls over the IES computing environment. We will review the Department's progress towards the implementation of our recommendations in our next financial audit.

## **AUDITOR'S OPINIONS**

The auditors stated the financial statements of the Department of Human Services as of and for the year ended June 30, 2017 are fairly stated in all material respects.

This financial audit was performed by RSM US LLP.

**SIGNED ORIGINAL ON FILE**

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JANE CLARK  
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

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## **DIGEST FOOTNOTES**

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

2016: The Department agrees with the recommendation. The Department has made significant progress in refining our process to ensure the accuracy of our financial statements over the past few years. We 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 will work with HFS to gain assurance that the data provided is complete and accurate. In addition, DHS will continue its efforts to move draft legislation forward addressing statutory requirements.