

# REPORT DIGEST

## ILLINOIS DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

### FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

For the Year Ended:  
June 30, 2009

#### Summary of Findings:

Total this audit: 13

Total last audit: 17

Repeated from last audit: 8

Release Date:

May 11, 2010



State of Illinois  
Office of the Auditor General  
**WILLIAM G. HOLLAND**  
AUDITOR GENERAL

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## SYNOPSIS

- The Department did not provide requested documentation to the auditors in a timely manner.
- The Department's year-end financial reporting was not timely completed and contained weaknesses and inaccuracies.
- The Department did not have adequate controls for hospital rates that are reimbursed to the University of Illinois Hospital and Clinics for services provided to individuals.
- The Department did not charge the correct health insurance premium rates for the Teachers' Retirement Insurance Program.
- The Department did not contract with an Illinois based entity to provide external peer-based quality assurance reviews for the managed health care programs administered by the Department.

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

**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**  
**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**  
**For the Period Ended June 30, 2009**

EXPENDITURE STATISTICS (in thousands)	FY 2009	FY 2008
• <b>Total Expenditures</b> .....	<b>\$18,373,958</b>	<b>\$17,145,662</b>
<u>OPERATIONS TOTAL</u> .....	\$637,504	\$588,978
% of <b>Total Expenditures</b> .....	3.47%	3.44%
Personal Services .....	\$123,706	\$119,082
% of Operations Expenditures.....	19.41%	20.22%
Average No. of Employees (whole numbers).....	2,462	2,413
Other Payroll Costs (FICA, Retirement, Group Ins.).....	\$50,903	\$43,798
% of Operations Expenditures.....	7.98%	7.44%
Contractual Services.....	\$93,351	\$88,236
% of Operations Expenditures.....	14.64%	14.98%
All Other Operations Items.....	\$369,544	\$337,862
% of Operations Expenditures.....	57.97%	57.36%
<u>GROUP INSURANCE &amp; HEALTHCARE COVERAGE</u> ...	\$3,462,154	\$3,449,911
% of <b>Total Expenditures</b> .....	18.84%	20.12%
<u>AWARDS AND GRANTS</u> .....	\$14,274,300	\$13,106,773
% of <b>Total Expenditures</b> .....	77.69%	76.44%
• <b>Cost of Property and Equipment</b> .....	<b>\$24,480</b>	<b>\$27,874</b>

SELECTED ACTIVITY MEASURES	FY 2009	FY 2008
Adjudication Processing Time Elapsing in Calendar Days - General Fund (unaudited).....	40.6 Days	43.6 Days
Accounts Payable and Accrued Liabilities (General Fund) (in thousands).....	\$2,004,545	\$2,120,473

AGENCY DIRECTOR
During Audit Period: Mr. Barry S. Maram (7/1/08 through 4/15/10) Currently: Ms. Julie Hamos (4/16/10 through current)

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**FAILURE TO PROVIDE REQUESTED  
ENGAGEMENT DOCUMENTATION IN A TIMELY  
MANNER**

The Department did not provide requested documentation to the auditors in a timely manner.

During the compliance examination and financial audit, the auditors made numerous requests from the Department during fieldwork. The auditors provided to the Department 277 specific written requests for documentation to perform our testing. These specific written requests could have had multiple items within the requests such as samples of vouchers and receipts.

As requested by the Department, all of the documentation requests were to be routed through an audit liaison. It was established at the beginning of the audit engagement that a two week turn around period would be acceptable for most document requests.

Of the 277 requests, 128 (46%) requests were not fully completed by the Department within the two week time frame. Of the 128 requests that were not fully completed within the two week time frame, we received partial information for 17 (13%) requests within the two week time frame. (Finding 1, pages 13-15)

We recommended the Department ensure audit documentation is provided to the auditors in a timely manner as required by the Illinois State Auditing Act.

Department officials disagreed with our finding and recommendation and stated that the auditors have shown no evidence that items provided after the two week time frame caused any delay in completing their audit timely. In addition, the Department stated that the auditor's chart of "days received after the due date of request" is misleading.

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**128 of 277 requests were not provided to auditors within two-week time frame established by the Department**

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**Department disagrees with auditors**

Department officials continued to state that they take the audit process very seriously and provide information to the auditors as quickly as possible, and they will continue to strive to meet the two week turn around when feasible and will continue to communicate with the auditors when they cannot meet the two week time frame.

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**Auditor's comment**

In an auditor's comment, we noted that the Department's response is absurd. The Department is not in a position to evaluate the effect the Department's delays may impose on an audit. The auditors concluded the Department did not provide timely information to the auditors, which is noncompliance with the Illinois State Auditing Act. The facts in the finding clearly demonstrate this noncompliance. Audit schedules are established on the premise that information requests will be completed in a reasonable time period. For the Department's audit, a two week timeframe was established to complete audit requests. This is a generous time frame for a routine post audit.

As noted in the finding and the Department's response, the Department exceeded this two week time frame for 128 requests. Obviously, delays in receiving requested documents will cause a delay in audit completion.

The auditors disagree with the Department's conclusion that the auditors' chart, as presented in the finding, is misleading. The Department has simply taken the same data and displayed it in arbitrary increments of days in its response. The auditors reported that 46% of the documents were not provided within a two week period. Therefore, the Department did complete 54% of the requests within two weeks. The auditors' chart indicates that the Department completed 82 of 277 (30%) of the requests two weeks after the due date (one **month** from the original request). As reflected in both the auditors' chart and the Department's chart, it took three weeks to three additional **months** after the two week time frame had expired for the Department to complete the remaining 46 (16%) audit requests.

Both the finding and the Department's response demonstrate the difficulty the auditors experienced in obtaining timely information and cooperation during this post audit.

## FINANCIAL STATEMENT PREPARATION

The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Illinois Office of the Comptroller contained weaknesses and inaccuracies. In addition, financial reporting was not timely.

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### Significant errors noted

Several errors were identified during the audit of the Department's draft financial statements. Some of the more significant adjustments were as follows:

- Payments to the federal government totaling \$16.970 million were classified as accounts payable instead of due to federal government.
- Payments to the State's internal service funds totaling \$5.850 million were classified as accounts payable instead of due to other funds.
- Receivables totaling \$3.207 million were recognized as revenues instead of deferred revenue. The receipts were not collected within the available period of 60 days.
- Revenues from expenditures that qualify for federal reimbursement totaling \$1.701 million were not recorded in the financial statements as a due from federal government and federal operating grants.
- Cash transactions were not calculated correctly resulting in the Cash Flows Statement for the two proprietary funds to be incorrect.
- The financial accounting for, and reporting of, revenue and expense accounts for the Pension (and Other Employee Benefit) Trust Funds were incorrect. Specifically, the Department incorrectly classified employer contributions and member contributions resulting in an adjustment totaling \$8.531 million. The Department also did not correctly calculate revenues and expenses resulting in an overall adjustment totaling \$2.815 million to reduce revenues and expenses.

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**47% of all GAAP Reporting Packages submitted to the Comptroller late**

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**Financial statements not provided to auditors until eight months after year-end**

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**GASB 43 and 45 actuarial valuations not available to auditors until January 8, 2010**

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**Department agrees with auditors**

Also, we noted 15 of 32 (47%) GAAP Reporting Packages were not submitted to the Office of the Comptroller in a timely manner. The GAAP Reporting Packages were submitted to the Comptroller 6 to 35 days late. In addition, the Comptroller submitted to the Department review comments for the GAAP Reporting Packages on September 28, 2009 and October 13, 2009; however, the Department did not provide a response to those review comments until October 23, 2009. Further, a complete set of the Department's financial statements **was not** provided to the auditors **until** February 26, 2010, eight months **after** the year end. To complete the Department's financial statements, the Department was required to obtain and include in the Department's financial statements actuarial valuations for purposes of complying with the requirements of Statement No. 43 and 45 of the Governmental Accounting Standards Board. These actuarial valuations were not available to the auditors until January 8, 2010. (Finding 2, pages 16-17)

We recommended the Department implement additional internal control procedures to ensure GAAP Reporting Packages are prepared in an accurate and timely manner.

Department officials concurred with our recommendation and stated that they are continually assessing the financial reporting process and implementing procedures to improve upon timeliness and accuracy. As an ongoing effort the Department continues to strive to meet the mandated deadlines, which resulted in the GAAP Reporting Packages being submitted in a more timely manner than in prior years.

## **INSUFFICIENT CONTROLS OVER THE UNIVERSITY OF ILLINOIS HOSPITAL SERVICES FUND**

The Department did not have adequate controls for hospital rates that are reimbursed to the University of Illinois Hospital for services provided to individuals.

During our testing, we noted the Department did not recalculate the total per diem rate or the Hospital inpatient

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**2008 per diem rates used during 2009**

payment rate for rate year 2009 (October 1, 2008 through September 30, 2009). During the 2009 fiscal year, the Department utilized the rates that were used during rate year 2008. The 2009 rates should have been updated by October 1, 2008.

On December 4, 2008, the Department received approval from the Centers for Medicare and Medicaid Services for an amendment to the Medicaid State Plan, which changed the methodology for reimbursing the Hospital and was retro-active as of July 1, 2008.

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**New methodology to reimburse U of I Hospital not implemented timely**

The Department did not update the methodology for reimbursing the Hospital to agree with the Medicaid State Plan amendment until fiscal year 2010. Throughout fiscal year 2009, the Department continued to reimburse the Hospital using the total per diem rate and the Hospital inpatient payment rate used during rate year 2008. Due to the Department using 2008 rates, the Hospital was overpaid \$5,600,000 during fiscal year 2009. In addition, the Department failed to amend the Interagency Agreement to reflect the new methodology for reimbursing the Hospital. (Finding 3, pages 18-19)

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**Additional \$5,600,000 paid to Hospital due to incorrect per diem rates being used**

We recommended the Department implement additional internal control procedures to ensure that correct reimbursement rates are used and updated in a timely manner.

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**Department agrees with auditors**

Department officials concurred with our recommendation and stated that they will move to update its processes and implement sufficient controls to ensure timely updating and notification of rates to the provider. The uncertain nature of the rate methodology and timing shift that occurred with approval of State Plans 08-06 and 08-07 created what is expected to be a one-time delay in implementation. Since the Department adjusted the University's rates to be consistent with the State Plan requirements, federal funding was not affected.

## **INCORRECT HEALTH INSURANCE PREMIUM RATES CHARGED**

The Department did not charge the correct health insurance premium rates for the Teacher's Retirement Insurance Program.

The Department set the fiscal year 2009 health insurance premium rates for Teachers' Retirement System benefit recipient and dependent beneficiaries by increasing the prior year rate by 5%. The Department did not take into account the percentage that was to be paid by the Teacher Health Insurance Security Fund. As a result, we noted that the Department did not have an adequate rate-setting methodology used to determine the amount of the health care premiums to be charged. In addition, the Department did not present the rate-setting methodology (included but not limited to utilization levels and costs) used to determine health care premiums to the Teachers' Retirement System by April 15<sup>th</sup> as required.

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### **Health care premium rate-setting methodology not adequate**

We also noted the following 2009 premium rates of Teachers' Retirement Insurance Program health insurance were not in compliance with parameters established in State statute.

- The monthly health insurance premium rate charged to a Teachers' Retirement System benefit recipient for ages twenty-three through sixty-four selecting the medical coverage program was \$206.77; however, the health insurance premium rate should have only been \$205.12. The benefit recipients were overcharged a total of \$19,744 during fiscal year 2009.
- The monthly health insurance premium rate charged to a Teachers' Retirement System benefit recipient for ages sixty-five and over selecting the medical coverage program was \$310.97; however, the health insurance premium rate should have only been \$307.38. The benefit recipients were overcharged a total of \$6,570 during fiscal year 2009.

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**Teacher Retirement System  
benefit recipients  
overcharged a total of  
\$885,034**

- The monthly health insurance premium rate charged to a Teachers' Retirement System benefit recipient for ages twenty-three through sixty-four selecting the major medical coverage program was \$413.53; however, the health insurance premium rate should have only been \$410.25. The benefit recipients were overcharged a total of \$297,703 during fiscal year 2009.
- The monthly health insurance premium rate charged to a Teachers' Retirement System benefit recipient for ages sixty-five and over selecting the major medical coverage program was \$621.93; however, the health insurance premium rate should have only been \$614.76. The benefit recipients were overcharged a total of \$61,103 during fiscal year 2009.
- The monthly health insurance premium rate charged to a Teachers' Retirement System dependent beneficiary who is Medicare primary was \$252.09; however, the health insurance premium rate should have only been \$232.43. The benefit recipients were overcharged a total of \$499,914 during fiscal year 2009. (Finding 4, pages 20-23)

We recommended the Department ensure health insurance premium rates are set for the Teachers' Health Insurance Program as required by the State Employees Group Insurance Act of 1971. We also recommended the Department ensure adequate rate setting methodologies are established and make annual required reports to the Teachers' Retirement System.

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**Department agrees with  
auditors**

Department officials concurred with our recommendation and stated that they will ensure health insurance premium rates are set for the Teachers' Retirement Insurance Program as required by the statute. Furthermore, the Department will submit the rate-setting methodology (including but not limited to utilization levels and costs) used to determine the amount of the health care premiums to the Teachers Retirement System by April 15, 2010.

## **EXTERNAL PEER-BASED QUALITY ASSURANCE CONTRACTOR NOT LOCATED IN ILLINOIS**

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### **Illinois physicians not involved in external peer-based quality assurance reviews**

The Department contracted with an entity to provide external peer-based quality assurance reviews for the managed health care programs administered by the Department; however, the entity did not have offices in Illinois, nor did the entity have Illinois physicians involved in the review process. (Finding 8, page 30)

We recommended the Department comply with the Illinois Public Aid Code by ensuring the entity contracted to provide external peer-based quality assurance reviews is representative of physicians licensed to practice medicine in Illinois and has statewide geographic representation in all specialties of medical care that are provided in managed health care programs administered by the Department. In addition, we recommended the review process be developed and conducted by Illinois licensed physicians.

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### **Department agrees with auditors**

Department officials concurred with our recommendation and stated that although the current contractor to provide external peer-based quality assurance reviews for the managed health care programs meets federal requirements, the Department will seek another vendor that complies with the statute to review the one Managed Care Community Network operating in the State.

## **OTHER FINDINGS**

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

**AUDITORS' OPINION**

Based on their audit of the Department's financial statements for the year ended June 30, 2009, the auditors expressed unqualified opinions on the Department's financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

**STATE COMPLIANCE EXAMINATION –  
ACCOUNTANTS' REPORT**

The auditors qualified their report on State Compliance for findings 09-1 and 09-2. Except for the noncompliance described in these findings, the auditors state the Department complied, in all material respects, with the requirements described in the report.

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WILLIAM G. HOLLAND, Auditor General

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**AUDITORS ASSIGNED**

This audit was performed by the Office of the Auditor General's staff.