



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

**Financial Audit
For the Year Ended: June 30, 2010**

Release Date: May 12, 2011

Summary of Findings:

Total this audit:	2
Total last audit:	4
Repeated from last audit:	1

INTRODUCTION

This report covers our financial audit of the Department of Healthcare and Family Services for the year ended June 30, 2010. A State compliance examination covering the two years ended June 30, 2011 will be performed next year.

SYNOPSIS

- The Department's year-end financial reporting was not timely completed and contained weaknesses and inaccuracies.
- The Department failed to have a documented written rate-setting methodology for the calculation of the Teachers' Retirement Insurance Program premiums.

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

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2010

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GENERAL FUND (amounts expressed in thousands)	FISCAL YEAR 2010	FISCAL YEAR 2009
REVENUES		
Operating grants - federal.....	\$ 8,705,864	\$ 7,291,835
Other taxes.....	1,120,475	1,147,729
Other revenues.....	960,498	1,098,724
Total revenue.....	10,786,837	9,538,288
EXPENDITURES		
Health and social services.....	12,519,458	12,488,989
Other expenditures.....	930,619	880,603
Total expenditures.....	13,450,077	13,369,592
OTHER SOURCES (USES) OF FINANCIAL RESOURCES		
Monies received from general obligation bonds.....	249,998	-
Net Transfers in / Transfers Out.....	(30,905)	(44,837)
Other.....	2,600,319	4,370,543
Net other sources (uses) of financial resources.....	2,819,412	4,325,706
Net changes in fund balance.....	156,172	494,402
Fund balance July 1.....	(351,230)	(1,370,569)
Fund balance June 30.....	\$ (195,058)	\$ (876,167)

NOTE: FY09 Ending Fund Balance was restated.

BALANCE SHEET GENERAL FUNDS (amounts expressed in thousands)	FISCAL YEAR 2010	FISCAL YEAR 2009
ASSETS		
Cash and cash equivalents.....	\$ 336,493	\$ 306,544
Due from other governments - federal & local.....	1,640,416	1,582,365
Other assets.....	1,217,364	617,184
Total assets.....	\$ 3,194,273	\$ 2,506,093
LIABILITIES		
Accounts payable and other liabilities.....	\$ 1,802,837	\$ 2,004,545
Unavailable revenue.....	616,250	820,996
Other liabilities.....	970,244	556,719
Total liabilities.....	3,389,331	3,382,260
FUND BALANCE (DEFICIT)	\$ (195,058)	\$ (876,167)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS HEALTH INSURANCE RESERVE FUND (amounts expressed in thousands)	FISCAL YEAR 2010	FISCAL YEAR 2009
OPERATING REVENUES (Charges for sales and services)	\$ 1,986,540	\$ 1,957,224
OPERATING EXPENSES (Benefit payments and other)	2,024,852	1,990,050
NONOPERATING REVENUES (EXPENSES) / OTHER SOURCES	38,312	32,826
Changes in net assets / Net Assets June 30.....	-	-

STATEMENT OF NET ASSETS HEALTH INSURANCE RESERVE FUND (amounts expressed in thousands)	FISCAL YEAR 2010	FISCAL YEAR 2009
ASSETS		
Cash and cash equivalents.....	\$ 66,847	\$ 39,301
Due from other funds.....	881,971	491,190
Other assets.....	81,391	34,773
Total assets.....	\$ 1,030,209	\$ 565,264
LIABILITIES		
Accounts payable and other liabilities.....	\$ 1,008,738	\$ 559,751
Other liabilities.....	21,471	5,513
Total liabilities.....	1,030,209	565,264
NET ASSETS	\$ -	\$ -

DIRECTOR

During Audit Period: Ms. Julie Hamos
Currently: Ms. Julie Hamos

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

FINANCIAL STATEMENT PREPARATION

**Weaknesses and inaccuracies in
year-end financial reporting**

The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) submitted to the Illinois Office of the Comptroller (Comptroller) contained weaknesses and inaccuracies.

Several errors were identified during the audit of the Department's draft financial statements. The Department's financial statements were adjusted for the following reporting errors:

**July 1, 2009 net asset balance
restated \$524.937 million.**

- An adjustment identified by management totaling \$524.937 million was made to restate accounts payable as of July 1, 2009 due to an inaccurate estimate of the Department's medical accrual liability.

**Revenues and expenditures
understated \$336.547 million**

- An adjustment identified by management totaling \$336.547 million was made to recognize Medicare Part A and B expenditures that were owed to the federal government. Instead of the Department paying the federal government with a warrant, the federal government reduced the Department's receipts from federal reimbursement. As a result, expenditures and federal receipts were increased \$336.547 million to reflect these transactions.

**\$16.533 million of transfers and
expenditures recorded twice**

- The Department and the Comptroller recorded a total of \$11.001 million of transfers to other funds and \$5.533 million of health and social service expenditures due to the Department reporting payments that were processed by the Department prior to June 30, 2010 but had not been paid by the Comptroller after June 30, 2010.

**\$24.199 million of expenditures not
allocated correctly**

- The Department allocated the incorrect amount of current spending paid from the General Revenue Fund for the State Employees Health Insurance Plan. As a result, \$24.199 million was not reclassified from the health and social services expenditures to the appropriate expenditure functions.

**Receivables overstated \$16.830
million**

- Receivables totaling \$16.830 million were overstated due to the Department not recognizing a cash payment that was received by the Department prior to June 30, 2010.

**\$38.466 million of revenues from
federal expenditures not recorded**

- Revenues from expenditures that qualify for federal reimbursement totaling \$38.466 million were not recorded in the financial statements as a due from

federal government and unavailable revenue. The receipts were not collected within the available period of 60 days.

Medical accrual liabilities understated \$10.658 million

- Liabilities related to medical accrual were incorrectly calculated resulting in accounts payable and health and social service expenditures to be understated \$10.658 million.
- Receivables totaling \$4.585 million were recognized as revenues instead of deferred revenue. The receipts were not collected within the available period of 60 days.
- Payments to local governments totaling \$2.160 million were classified as accounts payable instead of due to other governments – local.

39% of all GAAP Reporting Packages submitted to the Comptroller late

Also, we noted 13 of 33 (39%) GAAP Reporting Packages were not submitted to the Comptroller in a timely manner. The GAAP Reporting Packages were submitted to the Comptroller 3 to 19 days late. Further, a complete set of the Department’s financial statements were not provided to the auditors until November 30, 2010, 15 days after the required due date. (Finding 1, pages 56-58 of the Financial Report)

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

Department agrees with auditors

Department officials concurred with our recommendation and stated that the Department is continually assessing the financial reporting process and implementing procedures to improve upon timeliness and accuracy. This is an ongoing effort and the Department continues to strive to meet the mandated deadlines.

LACK OF WRITTEN RATE-SETTING METHODOLOGY

Department had no written rate-setting methodology

The Department did not have a documented written rate-setting methodology to calculate the insurance rates that are used to determine the premium rates charged to participants for the Teachers’ Retirement Insurance Program (TRIP).

Auditors met with Department personnel to discuss the process of calculating insurance rates that are used to determine premium rates. During this discussion, the Department walked the auditors through a series of spreadsheets containing historical and current insurance costs, revenues and cash flow information for TRIP. The Department calculates insurance rates, which are based on, but

No exceptions relating to incorrect premium rates being charged

not limited to costs, cash flows, and utilization levels. The Department then develops the premium rates that are charged for TRIP based on the calculated insurance rates and statutory limitations on the maximum premium rates that can be charged in a fiscal year. Auditors did not have any exceptions relating to incorrect premium rates being charged to participants for TRIP.

Only one individual responsible for the calculation of insurance rates

However, we noted that only one individual is involved in calculating the insurance rates and there was no written rate-setting methodology of how this individual calculates the TRIP insurance rates. Additionally, there was no formal process for a documented review of the insurance rate calculation.

Further, auditors noted that the Department did provide the Teachers' Retirement System of the State of Illinois by April 15th with historical and projected data on enrollment, utilization, and costs of TRIP information which is used to determine the amount of health care premiums charged to participants in TRIP; however, there was no rate-setting methodology provided explaining where the information was obtained from and what information was used to determine the premium rates. (Finding 2, pages 59-60 of the Financial Report)

We recommended the Department develop a formal written rate-setting methodology as required by the State Employees Group Insurance Act.

Department agrees with auditors

Department officials concurred with our recommendation and stated that the Department will develop a formal written rate-setting methodology used to determine the premium rates for the Teachers' Retirement Insurance Program.

AUDITORS' OPINION

Our auditors stated the Department's financial statements as of and for the year ended June 30, 2010 are fairly presented in all material respects.

A handwritten signature in blue ink, appearing to read 'William G. Holland', with a stylized flourish extending upwards and to the right. A small number '2' is written at the bottom right of the signature.

WILLIAM G. HOLLAND
Auditor General

WGH:tld

AUDITORS ASSIGNED

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