



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

William G. Holland, Auditor General

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**SUMMARY REPORT DIGEST**

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**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

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

**Release Date: May 12, 2011**

**Summary of Findings:**

<b>Total this audit:</b>	<b>2</b>
<b>Total last audit:</b>	<b>4</b>
<b>Repeated from last audit:</b>	<b>1</b>

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

NOTE: FY09 Ending Fund Balance was restated.

BALANCE SHEET GENERAL FUNDS (amounts expressed in thousands)	FISCAL YEAR 2010	FISCAL YEAR 2009
<b>ASSETS</b>		
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
<b>Total assets.....</b>	<b>\$ 3,194,273</b>	<b>\$ 2,506,093</b>
<b>LIABILITIES</b>		
Accounts payable and other liabilities.....	\$ 1,802,837	\$ 2,004,545
Unavailable revenue.....	616,250	820,996
Other liabilities.....	970,244	556,719
<b>Total liabilities.....</b>	<b>3,389,331</b>	<b>3,382,260</b>
<b>FUND BALANCE (DEFICIT)</b>	<b>\$ (195,058)</b>	<b>\$ (876,167)</b>

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

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

**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 15<sup>th</sup> 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.

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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.