



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, 2011

Compliance Examination

For the Two Years Ended: June 30, 2011

Summary of Findings:

Total this audit: 12

Total last audit: 13

Repeated from last audit: 3

Release Date: May 2, 2012

INTRODUCTION

This report covers our financial audit for the year ended June 30, 2011 and compliance examination for the two years ended June 30, 2011 of the Department of Healthcare and Family Services. At June 30, 2011, the Health Insurance Reserve Fund was owed \$1,275,439,000 from other State funds and component units to fund current costs for State employee's health insurance.

As of June 30, 2011, the "Other Postemployment Benefit Plan" has a financial liability of \$5,716,357,000. The Actuary's Report estimated the liability for "Other Postemployment Benefits" as of June 30, 2011. The Unfunded Actuarial Accrued Liability was estimated to be \$33,295,354,000. Current financial reporting standards do not require the entire actuarial liability amount be reported on the face of the financial statements; however, the information is disclosed in Note 9 of the financial statements.

SYNOPSIS

- The Department's year-end financial reporting was not timely completed and contained weaknesses and inaccuracies.
- The Department had inadequate controls for hospital rates that are reimbursed to the University of Illinois Hospital and Clinics.
- The Department failed to have a documented written rate-setting methodology for the calculation of the Teachers' Retirement Insurance Program premiums.
- The Department had inadequate controls over the County Hospital Services Fund.
- The Department did not perform KidCare premium receipt reconciliations timely.

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

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year(s) Ended June 30, 2011

EXPENDITURE STATISTICS (expressed in thousands)	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009
Total Expenditures.....	\$ 17,806,416	\$ 17,495,661	\$ 18,373,958
OPERATIONS TOTAL.....	\$ 5,708,952	\$ 5,875,540	\$ 4,099,658
% of Total Expenditures.....	32.06%	33.58%	22.31%
AWARDS AND GRANTS.....	\$ 12,097,464	\$ 11,620,121	\$ 14,274,300
% of Total Expenditures.....	67.94%	66.42%	77.69%
Total Receipts.....	\$ 13,996,877	\$ 13,128,801	\$ 12,651,741
Average Number of Employees.....	2,280	2,343	2,462

SCHEDULE OF FUNDING PROGRESS OTHER POSTEMPLOYMENT BENEFIT PLAN ACTUARIAL LIABILITY (expressed in thousands)	June 30, 2011	June 30, 2009	June 30, 2007
Actuarial Value of Assets.....	\$ -	\$ -	\$ -
Actuarial Accrued Liability - Projected Unit.....	\$ 33,295,354	\$ 27,124,061	\$ 23,890,383
Unfunded Actuarial Accrued Liability.....	\$ 33,295,354	\$ 27,124,061	\$ 23,890,383
Funded Ratio.....	0.00%	0.00%	0.00%

SELECTED ACTIVITY MEASURES	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009
Adjudication Processing Time Elapsing in Calendar Days - General Fund (unaudited).....	21.3 days	23.6 days	40.6 Days
Accounts Payable and Accrued Liabilities - General Fund (in thousands).....	\$ 1,007,485	\$ 1,802,837	\$ 2,004,545

AGENCY DIRECTOR
During Examination Period: Mr. Barry S. Maram (7/1/09 - 4/15/10), Ms. Julie Hamos (4/16/10 - current)
Currently: Ms. Julie Hamos

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NEED TO IMPROVE FINANCIAL STATEMENT PREPARATION

Weaknesses and inaccuracies in year-end financial reporting

Financial reporting not timely

July 1, 2010 net asset balance restated \$325.778 million

\$33.451 million of intergovernmental payments classified incorrectly

\$9.970 million of health insurance liability allocated to incorrect funds

Medical accrual liabilities understated \$25.518 million

\$157.018 million of fund balance not classified correctly

\$1.613 million of vouchers in transit recorded twice

Financial statements and actuarial valuations provided to auditors seven months after year end

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. In addition, financial reporting was not timely.

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:

- An adjustment identified by management totaling \$325.778 million was made to restate receivables as of July 1, 2010 due to an inaccurate estimate of the Department's drug rebate receivable.
- The Department classified \$33.451 million of intergovernmental payments as expenditures instead of transfers-out.
- The Department did not correctly compute the allocation amount for the Health Insurance Reserve Fund Liability. As a result, \$9.970 million was incorrectly allocated to the Road Fund instead of the General Revenue Fund.
- Liabilities related to medical accrual were incorrectly calculated resulting in accounts payable and health and social service expenditures to be understated by \$25.518 million.
- The Department incorrectly classified Fund Balance as Unassigned instead of Committed in two funds totaling \$39.805 million and as Restricted instead of Committed in one fund totaling \$117.213 million.
- Accounts payable totaling \$1.613 million was overstated due to the Department recording vouchers that were in transit to the Office of the Comptroller twice.

Also, a complete set of the Department's financial statements were not provided to the auditors until February 6, 2012, seven 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. 45 of the Governmental Accounting Standards Board (GASB). The draft actuarial valuation was not available to the auditors until January 27, 2012 and the final actuarial valuation was not provided until February 27, 2012. (Finding 1, pages 12-14 of the Compliance Report)

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 the Department is continually assessing the financial reporting process and implementing procedures to improve upon timeliness and accuracy.

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 and Clinics (Hospital) for services provided to individuals.

During our review of the University of Illinois Hospital Services Fund, which included a review of the Interagency Agreement between the Board of Trustees of the University of Illinois and the Department and testing of reimbursement rates that are determined by the Department, we noted the following:

- The Department did not calculate the Fiscal Year 2011 inpatient and outpatient rates in a timely manner. The Department did not notify the Hospital of the rates until October 1, 2010, three months after the beginning of the Fiscal Year. Thus, the Department was forced to utilize the Fiscal Year 2010 inpatient and outpatient rates for the first three months of Fiscal Year 2011.
- The Department did not make an adjustment to re-price the Fiscal Year 2011 inpatient and outpatient claims from Fiscal Year 2010 rates to Fiscal Year 2011 rates in a timely manner.
- The Department's calculation of the Fiscal Year 2011 inpatient rate was incorrect. Two of the amounts used by the Department to calculate the rate did not agree with the data provided by the Hospital. The Fiscal Year 2011 inpatient rate calculated by the Department was approximately \$140 less than what the rate should have been.

Inpatient and outpatient rates not calculated timely

Adjustments for re-pricing not made timely

Incorrect Hospital data used to calculate inpatient rates

The Department did not make these adjustments until February 2012 which is eight months after the fiscal year end. Due to the

\$5.053 million was owed to the Hospital due to the untimely and incorrect calculation of rates

errors noted above, the Hospital was underpaid a total of \$5.053 million. (Finding 2, pages 15-16 of the Compliance Report)

We recommended the Department timely calculate inpatient and outpatient rates, timely make necessary adjustments, and use correct data to calculate inpatient rates.

Department agrees with auditors

Department officials concurred with our recommendation and stated that the Department has streamlined the process for calculating rates for the U of I. Effective July 1, 2012, the Division of Finance, Bureau of Rate Development and Analysis will have a complete procedures manual which will include timelines and calculations as they pertain to the respective Administrative Rules.

LACK OF 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).

During our testing we noted the following:

Only one individual responsible for the calculation of insurance rates

- 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.
- During fiscal year 2010, 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 how the information was used to determine the premium rates. During fiscal year 2011, the Department did not provide any information relating to the health care premiums, historical and projected data, or methodology to the Teachers' Retirement System of the State of Illinois. (Finding 3, pages 17-18 of the Compliance Report)

Fiscal year 2011 health care premium information not provided to the Teachers' Retirement System

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

comply with all submission requirements of 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 and comply with all submission requirements as required by the State Employees Group Insurance Act.

INADEQUATE CONTROLS OVER COUNTY HOSPITAL SERVICES FUND

The Department did not have adequate controls over the County Hospital Services Fund.

During our review of the County Hospital Services Fund, which included a review of the Interagency Agreement between the Cook County Health and Hospitals System, the Cook County Board of Commissioners and the Department and testing of reimbursement rates that are determined by the Department, we noted the following:

- The Department's calculations of the Fiscal Year 2011 outpatient rates for two Cook County hospitals were incorrect. The incorrect outpatient rates were the result of the Department using the incorrect "Medicare Adjustment Factor" when determining the outpatient rates for these two hospitals. When calculating the outpatient rates for these hospitals, the same "Medicare Adjustment Factor" was used for all three hospitals instead of different "Medicare Adjustment Factors" for each hospital.
- The Department was unable to provide documentation to support its calculation of the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 Disproportionate Share Hospital Adjustment Payments (BIPA DSH) for Fiscal Year 2011. Furthermore, based on the auditor's calculation of the Fiscal Year 2011 BIPA DSH payment allocation to the Cook County hospitals, it appears the Department used the total Medicaid inpatient days from Fiscal Year 2004 instead of the total Medicaid inpatient days from Fiscal Year 2008, which would be the appropriate determination year for Fiscal Year 2011. Due to the Department's failure to provide the total Medicaid inpatient days from Fiscal Year 2008, the proper allocation of the BIPA DSH payments could not be determined.

Outpatient rates not calculated correctly

Documentation to support payment allocations could not be provided by Department

The Department did not make these adjustments until February 2012 which is eight months after the fiscal year end. Due to the

\$40,783 was owed to the Hospital due to the incorrect calculation of rates

\$50,000 was overpaid to the Hospital

Department agrees with auditors

Fiscal year 2010 and 2011 receipt reconciliation performed 11 and 9 months after year end, respectively

errors noted above, Cook County Hospitals were underpaid a total of \$40,783.

In addition, we noted 1 of 4 (25%) Secondary Disproportionate Share Hospital Transfer Payments (Secondary Transfer Payment) was made for an incorrect amount. The Department made the Fiscal Year 2011 2nd quarter Secondary Transfer Payment in the amount of \$56,250,000, which was \$50,000 more than the required payment amount. (Finding 4, pages 19-20 of the Compliance Report)

We recommended the Department use correct data to calculate outpatient rates and BIPA DSH payments, maintain documentation to support the BIPA DSH calculations, and ensure the Secondary Transfer Payments are made for the required amounts.

Department officials concurred with our recommendation and stated that the Department will develop procedures which will identify the correct rates and payments to use when calculating Fiscal Year 2013 Cook County Bureau of Health Services rates. The Department also stated that they will work with Cook County to ensure the necessary documentation needed to support these rates and payments is maintained.

RECEIPT RECONCILIATION NOT PERFORMED TIMELY

The Department did not have adequate internal controls to ensure reconciliations for the KidCare premium receipts were performed in a timely manner.

During our testing, we noted the Department did not timely perform reconciliations of KidCare premium receipts that are deposited into the General Revenue Fund. Specifically, the June 30, 2010 reconciliation was not completed until May 2011 (eleven months after fiscal year end) and the June 30, 2011 reconciliation was not completed until March 2012 (nine months after fiscal year end). (Finding 7, pages 25-26 of the Compliance Report)

We recommended the Department implement additional internal control procedures to ensure the reconciliations are performed in a timely manner.

Department officials concurred with our recommendation and stated that additional staff have been retained and trained to assist in the preparation and review of complex reconciliations and additional systems enhancements have been incorporated to improve upon the data presentation and assist in the reconciliation process.

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 during our next audits.

OTHER POSTEMPLOYMENT BENEFITS

Financial statement liability of \$5,716,357,000

The State Employees Group Insurance Act of 1971 ("Act"), as amended, authorizes the State to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all State and university component unit employees become eligible for these other postemployment benefits ("OPEB") if they eventually become annuitants of one of the State sponsored pension plans. The Department of Healthcare and Family Services and the Department of Central Management Services administer these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (General Assembly Retirement System, Judges Retirement System, State Employees Retirement System, Teachers Retirement System, and the State Universities Retirement System). The portions of the Act related to other postemployment benefits establishes a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation for employees of the State's component unit universities. The plan does not issue a stand-alone financial report.

Unfunded Actuarial Accrued Liability of \$33,295,354,000

The Actuary's Report estimated the liability for "Other Postemployment Benefits" as of June 30, 2011. The Unfunded Actuarial Accrued Liability was estimated to be \$33,295,354,000. Current financial reporting standards do not require the entire actuarial liability amount to be reported on the face of the financial statements; however, the information is disclosed in Note 9 of the financial statements (pages 30-32).

AUDITORS' OPINION

Our auditors stated the Department's financial statements as of and for the year ended June 30, 2011 are fairly presented in all material respects.

STATE COMPLIANCE EXAMINATION –
ACCOUNTANTS' REPORT

The auditors qualified their report on State Compliance for finding 11-1. Except for the noncompliance described in this finding, the auditors state the Department complied, in all material respects, with the requirements described in the report.



WILLIAM G. HOLLAND
• Auditor General

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AUDITORS ASSIGNED

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