



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, 2012

Release Date: April 25, 2013

Summary of Findings:

Total this audit: 2

Total last audit: 4

Repeated from last audit: 2

INTRODUCTION

This report covers our financial audit of the Department of Healthcare and Family Services (Department) for the year ended June 30, 2012. A State compliance examination covering the two years ended June 30, 2013 will be performed next year.

SYNOPSIS

- The Department's year-end financial reporting 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, 2012

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GENERAL FUND (amounts expressed in thousands)	FISCAL YEAR 2012	FISCAL YEAR 2011
REVENUES		
Operating grants - federal.....	\$ 7,117,238	\$ 8,333,726
Other taxes.....	1,213,075	1,135,453
Other revenues.....	1,052,646	966,913
Total revenue.....	9,382,959	10,436,092
EXPENDITURES		
Health and social services.....	14,091,557	12,647,490
Other expenditures.....	967,214	1,095,072
Total expenditures.....	15,058,771	13,742,562
OTHER SOURCES (USES) OF FINANCIAL RESOURCES		
Net Transfers in / Transfers Out.....	76,476	(27,124)
Other.....	4,328,344	2,613,934
Net other sources (uses) of financial resources.....	4,404,820	2,586,810
Net changes in fund balance.....	(1,270,992)	(719,660)
Fund balance July 1.....	(588,940)	130,720
Fund balance June 30.....	\$ (1,859,932)	\$ (588,940)

BALANCE SHEET GENERAL FUNDS (amounts expressed in thousands)	FISCAL YEAR 2012	FISCAL YEAR 2011
ASSETS		
Cash and cash equivalents.....	\$ 499,438	\$ 495,160
Due from other governments - federal & local.....	2,103,981	870,191
Other assets.....	1,778,339	1,192,066
Total assets.....	\$ 4,381,758	\$ 2,557,417
LIABILITIES		
Accounts payable and other liabilities.....	\$ 3,273,418	\$ 1,007,485
Unavailable revenue.....	1,386,358	516,504
Other liabilities.....	1,581,914	1,622,368
Total liabilities.....	6,241,690	3,146,357
FUND BALANCE (DEFICIT)	\$ (1,859,932)	\$ (588,940)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS HEALTH INSURANCE RESERVE FUND (amounts expressed in thousands)	FISCAL YEAR 2012	FISCAL YEAR 2011
OPERATING REVENUES (Charges for sales and services and other).....	\$ 2,377,596	\$ 2,228,816
OPERATING EXPENSES (Benefit payments and other).....	2,415,999	2,264,665
NONOPERATING REVENUES (EXPENSES) / OTHER SOURCES.....	38,403	35,849
Changes in net assets / Net Assets June 30.....	-	-

STATEMENT OF NET ASSETS HEALTH INSURANCE RESERVE FUND (amounts expressed in thousands)	FISCAL YEAR 2012	FISCAL YEAR 2011
ASSETS		
Cash and cash equivalents.....	\$ 167,588	\$ 73,238
Due from other funds.....	1,208,486	1,242,145
Other assets.....	148,456	80,448
Total assets.....	\$ 1,524,530	\$ 1,395,831
LIABILITIES		
Accounts payable and other liabilities.....	\$ 1,437,564	\$ 1,375,076
Other liabilities.....	86,966	20,755
Total liabilities.....	1,524,530	1,395,831
NET ASSETS	\$ -	\$ -

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

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NEED TO IMPROVE FINANCIAL STATEMENT PREPARATION

Weaknesses and inaccuracies in year-end financial reporting

The Department's year-end 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:

June 30, 2011 Net Other Postemployment Benefit Obligations restated \$102.332 million

- An adjustment identified by management totaling \$102.332 million was made to restate the Net Other Postemployment Benefit Obligation as of June 30, 2011 due to an error in the calculation of "Benefits paid during the year" for the year ended June 30, 2011.

Federal government revenues and health and social service expenditures understated \$67.443 million

- The Department did not recognize revenues and expenditures for the Department's May and June 2011 Medicare A and B Premiums that were processed in Fiscal Year 2012, totaling \$67.443 million. In regard to Medicare A and B Premiums, the Federal Government reduces the Department's federal draws instead of having the Department submit an actual payment, as a result, these premiums must be recognized as an increase to federal revenues and expenditures in the financial statements. As a result, federal government revenues and health and social services expenditures were understated by \$67.443 million.

Prompt pay liability understated \$16.051 million

- The Department incorrectly calculated the prompt pay interest due from the Health Insurance Reserve Fund. The prompt pay liability was understated by \$16.051 million.

Other errors in the preparation of financial statements noted

Also, during our review, we noted other errors in the preparation of the Department's financial statements. The errors included calculating and classifying liabilities incorrectly, understating revenues and expenditures, double counting liabilities, misclassifying revenues and calculating receivables incorrectly. While the Department's internal control process did not identify all of the errors noted, the errors were not material to the Department's financial statements taken as a whole. (Finding 1, pages 57-58) **This finding was first reported in 2009.**

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

Department agrees with auditors

Department officials accepted the recommendation and stated that they have and will continue to assess the financial reporting process and related procedures and implement necessary internal control changes to improve the accuracy of the financial statements. *(For the previous Department response, see Digest Footnote #1.)*

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).

The one individual who was aware of the rate-setting methodology left the agency

We noted that only one individual was involved in calculating the insurance rates and there was no written rate-setting methodology of how this individual calculates the TRIP insurance rates. This individual left the agency near the end of the fiscal year and the Department did not have any other employees aware of how the previous individual calculated the rates. Additionally, there was no formal process for a documented review of the insurance rate calculation.

No methodology submitted to Teachers' Retirement System

Further, auditors noted that during fiscal year 2012, the Department did provide information used to determine health care premiums; however, there was no rate-setting methodology provided to the Teachers' Retirement System of the State of Illinois explaining where the information was obtained from and how the information was used to determine the premium rates. (Finding 2, pages 59-60) **This finding was first reported in 2010.**

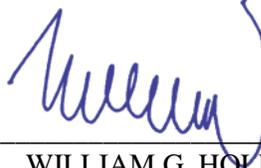
We recommended a formal written rate-setting methodology be developed as required by the State Employees Group Insurance Act. We also recommended all submission requirements of the State Employees Group Insurance Act be complied with.

Executive Order 12-01 transferred responsibility to Central Management Services

Department officials stated that Executive Order 12-01 transferred the Office of Healthcare Purchasing from HFS back to CMS effective July 1, 2012. The functions associated with State Healthcare Purchasing and the development of a formal written rate-setting methodology are now the responsibility of CMS. *(For the previous Department response, see Digest Footnote #2.)*

AUDITORS' OPINION

Our auditors stated the Department's financial statements as of and for the year ended June 30, 2012 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

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AUDITORS ASSIGNED

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

DIGEST FOOTNOTES

#1 - NEED TO IMPROVE FINANCIAL STATEMENT PREPARATION – Previous Department Response

2011: The Department accepts the recommendation. The Department is continually assessing the financial reporting process and implementing procedures to improve upon timeliness and accuracy.

#2 - LACK OF WRITTEN RATE-SETTING METHODOLOGY – Previous Department Response

2011: The Department accepts the recommendation. 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.