

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE  
AND FAMILY SERVICES

FINANCIAL AUDIT

For the Year Ended June 30, 2014

Performed as Special Assistant Auditors  
for the Auditor General, State of Illinois

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

FINANCIAL AUDIT  
For the Year Ended June 30, 2014

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STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

FINANCIAL AUDIT  
For the Year Ended June 30, 2014

AGENCY OFFICIALS

Director	Julie Hamos
Assistant Director	Sharron Matthews
Deputy Directors	
Community Outreach	Peter F. Vina
Administrative Operations	Vacant (Through 1/12/14)
	Kai Tao (1/13/14 – Current)
Human Resources	Richard Foxman
Strategic Planning	Michael Koetting
General Counsel	Jeanette Badrov
Inspector General	Bradley Hart
Administrators	
Division of Child Support Services	Pamela Lowry
Division of Finance	Michael Casey
Division of Medical Programs	Theresa Eagleson
Division of Personnel and Administrative Services	Theresa Bietsch
Chiefs	
Office of Legislative Affairs	Selma D’Souza (Through 2/17/14)
	Jeannine Boucree (2/18/14 – Current)
Office of Fiscal Management	Jack Dodds
Office of Information Services	Stephen DePooter

Department administrative offices are located at:

201 South Grand Avenue East  
Springfield, IL 62763

2200 Churchill Road  
Springfield, IL 62702

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

FINANCIAL AUDIT  
For the Year Ended June 30, 2014

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying financial statements of the State of Illinois, Department of Healthcare and Family Services (Department) was performed by Sikich LLP.

Based on their audit, the auditors expressed an unmodified opinion on the Department's basic financial statements.

**SUMMARY OF FINDINGS**

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 38-45 of this report as items 2014-001, (Financial statement preparation), 2014-002, (Medical assistance records not updated timely for deceased individuals), and 2014-003, (Duplication of medical assistance enrollees).

**EXIT CONFERENCE**

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on December 17, 2014.

Attending were:

**Department of Healthcare and Family Services**

Amy Lyons, Audit Liaison

Jamie Nardulli, Chief Internal Auditor

Jack Dodds, Chief Fiscal Officer

Jim Behrensmeyer, Acting Bureau Chief Fiscal Operations

Jim Parker, Acting Division Administrator, Medical Programs

Avery Dale, SPSA

Jacqui Ellinger, Administrator, Policy Coordination

**Office of the Auditor General**

Janis Van Durme, Audit Manager

Sarah Cors, Manager

Scott Wahlbrink, Manager

Sara Cunningham, Audit Staff

Sikich LLP  
Tom Leach, Partner  
Meredith Angel, Supervisor

The responses to the recommendations were provided by Julie Hamos, Director, in correspondence dated December 24, 2014.

## INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

### **Report on the Financial Statements**

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Illinois, Department of Healthcare and Family Services' basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we

express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information for the State of Illinois, Department of Healthcare and Family Services, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 2, the financial statements of the State of Illinois, Department of Healthcare and Family Services, are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the State of Illinois, Department of Healthcare and Family Services. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2014, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2, the State of Illinois, Department of Healthcare and Family Services adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities* during the year ended June 30, 2014. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Management has omitted management's discussion and analysis and budgetary comparison information for the General Fund that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Department of Healthcare and Family Services' basic financial statements. The accompanying combining general, nonmajor and agency funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining General Fund schedules and nonmajor and agency funds financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying combining General Fund, nonmajor and agency funds financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2014 on our consideration of the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting and compliance.

#### **Restricted Use of this Auditor's Report**

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and Department management and is not intended to be and should not be used by anyone other than these specified parties.

The image shows a handwritten signature in black ink that reads "Sikich LLP". The signature is written in a cursive, flowing style.

Decatur, Illinois  
December 24, 2014



State of Illinois  
Department of Healthcare and Family Services

Statement of Net Position and Governmental Funds Balance Sheet

June 30, 2014 (Expressed in Thousands)

	General Fund	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Position
<b>ASSETS</b>					
Unexpended appropriations	\$ 533,068	\$ 24,907	\$ 557,975	\$ -	\$ 557,975
Cash equity with State Treasurer	302,673	33,868	336,541	-	336,541
Cash and cash equivalents	15,096	-	15,096	-	15,096
Securities lending collateral equity with State Treasurer	151,287	92	151,379	-	151,379
Due from other government - federal	1,658,502	57,171	1,715,673	-	1,715,673
Due from other government - local	60,179	-	60,179	-	60,179
Taxes receivable, net	46,149	-	46,149	-	46,149
Other receivables, net	302,421	12,292	314,713	-	314,713
Due from other Department funds	16,092	1,674	17,766	(17,766)	-
Due from other State funds	36,966	-	36,966	-	36,966
Due from State of Illinois component units	15,952	-	15,952	-	15,952
Prepaid expenses	-	-	-	607	607
Capital assets not being depreciated	-	-	-	14,079	14,079
Capital assets being depreciated, net	-	-	-	4,119	4,119
<b>Total assets</b>	<b>\$ 3,138,385</b>	<b>\$ 130,004</b>	<b>\$ 3,268,389</b>	<b>1,039</b>	<b>\$ 3,269,428</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 1,434,647	\$ 29,108	\$ 1,463,755	\$ -	\$ 1,463,755
Due to other government - federal	68,175	7,462	75,637	-	75,637
Due to other government - local	284,274	5,463	289,737	-	289,737
Due to other State fiduciary funds	508	980	1,488	-	1,488
Due to other Department funds	1,674	16,092	17,766	(17,766)	-
Due to other State funds	14,614	5,977	20,591	-	20,591
Due to State of Illinois component units	147,178	810	147,988	-	147,988
Obligations under securities lending of State Treasurer	151,287	92	151,379	-	151,379
Long-term obligations:					
Due within one year	-	-	-	1,277	1,277
Due subsequent to one year	-	-	-	10,599	10,599
<b>Total liabilities</b>	<b>2,102,357</b>	<b>65,984</b>	<b>2,168,341</b>	<b>(5,890)</b>	<b>2,162,451</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue - Federal operating grants	762,728	10,005	772,733	(772,733)	-
Unavailable revenue - License and fees	721	351	1,072	(1,072)	-
Unavailable revenue - Medicaid provider assessment tax	15,342	-	15,342	(15,342)	-
Unavailable revenue - Other revenues	117,087	-	117,087	(117,087)	-
<b>Total deferred inflows of resources</b>	<b>895,878</b>	<b>10,356</b>	<b>906,234</b>	<b>(906,234)</b>	<b>-</b>
<b>FUND BALANCES (DEFICITS)/NET POSITION</b>					
Restricted for health and social services	513	-	513	(513)	-
Committed for health and social services	1,009,397	53,664	1,063,061	(1,063,061)	-
Unassigned	(869,760)	-	(869,760)	869,760	-
Net investment in capital assets	-	-	-	18,135	18,135
Restricted net position	-	-	-	513	513
Unrestricted net position	-	-	-	1,088,329	1,088,329
<b>Total fund balances (deficits)/net position</b>	<b>140,150</b>	<b>53,664</b>	<b>193,814</b>	<b>\$ 913,163</b>	<b>\$ 1,106,977</b>
<b>Total liabilities, deferred inflows of resources and fund balances (deficits)</b>	<b>\$ 3,138,385</b>	<b>\$ 130,004</b>	<b>\$ 3,268,389</b>	<b>\$ -</b>	<b>\$ -</b>

The accompanying notes to the financial statements are an integral part of this statement.

**State of Illinois**  
**Department of Healthcare and Family Services**  
**Reconciliation of Governmental Funds Balance Sheet**  
**to Statement of Net Position**  
**June 30, 2014**  
**(Expressed in Thousands)**

<b>Total fund balances (deficits)-governmental funds</b>	\$	193,814
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		18,198
Prepaid expenses for governmental activities are current uses of financial resources for funds.		607
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		906,234
Some liabilities reported in the Statement of Net Position do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These activities consist of:		
Capital Lease Obligations		(63)
Compensated absences		(11,813)
		(11,813)
<b>Net position of governmental activities</b>	<b>\$</b>	<b>1,106,977</b>
		<b>1,106,977</b>

The accompanying notes to the financial statements are an integral part of this statement.

*State of Illinois  
Department of Healthcare and Family Services*

**Statement of Activities and Governmental Revenues,  
Expenditures, and Changes in Fund Balances**

For the Year Ended June 30, 2014 (Expressed in Thousands)

	General Fund	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
Expenditures/expenses:					
Health and social services	\$ 14,936,599	\$ 372,416	\$ 15,309,015	\$ 2,113	\$ 15,311,128
Debt service principal	6	3	9	(9)	-
Debt service interest	19	9	28	-	28
Capital outlays	33,681	73	33,754	(33,754)	-
<b>Total expenditures/expenses</b>	<u>14,970,305</u>	<u>372,501</u>	<u>15,342,806</u>	<u>(31,650)</u>	<u>15,311,156</u>
Program revenues:					
Charges for services:					
Licenses and fees	15,917	1,242	17,159	475	17,634
Other	-	16,682	16,682	-	16,682
Total charges for services	<u>15,917</u>	<u>17,924</u>	<u>33,841</u>	<u>475</u>	<u>34,316</u>
Operating grant revenue:					
Federal	9,038,445	195,891	9,234,336	(58,320)	9,176,016
Other	956,229	-	956,229	(17,375)	938,854
Total operating grant revenue	<u>9,994,674</u>	<u>195,891</u>	<u>10,190,565</u>	<u>(75,695)</u>	<u>10,114,870</u>
<b>Net program revenues (expenses)</b>	<u>(4,959,714)</u>	<u>(158,686)</u>	<u>(5,118,400)</u>	<u>(43,570)</u>	<u>(5,161,970)</u>
General revenues:					
Interest and investment income	1,289	3	1,292	-	1,292
Medical provider assessment tax	1,677,667	-	1,677,667	(4,880)	1,672,787
Other taxes	314,960	-	314,960	44,837	359,797
Other	267,701	-	267,701	16,000	283,701
<b>Total general revenues</b>	<u>2,261,617</u>	<u>3</u>	<u>2,261,620</u>	<u>55,957</u>	<u>2,317,577</u>
Other sources (uses):					
Appropriations from State resources	7,654,758	200,600	7,855,358	-	7,855,358
Lapsed appropriations	(479,871)	(21,032)	(500,903)	-	(500,903)
Receipts collected and transmitted to State Treasury	(4,080,347)	(43,588)	(4,123,935)	-	(4,123,935)
Capital transfers to other State agencies	-	-	-	(58,307)	(58,307)
Amount of SAMS transfers-in	(80,000)	-	(80,000)	-	(80,000)
Amount of SAMS transfers-out	505,000	-	505,000	-	505,000
Transfers-in	7,761	31,613	39,374	(31,613)	7,761
Transfers-out	(75,650)	-	(75,650)	31,613	(44,037)
Capital lease financing	54	12	66	(66)	-
<b>Total other sources (uses)</b>	<u>3,451,705</u>	<u>167,605</u>	<u>3,619,310</u>	<u>(58,373)</u>	<u>3,560,937</u>
Change in fund balances/net position	753,608	8,922	762,530	(45,986)	716,544
Fund balances (deficits)/net position, July 1, 2013	(613,458)	44,742	(568,716)	959,149	390,433
Fund balances (deficits)/net position, June 30, 2014	<u>\$ 140,150</u>	<u>\$ 53,664</u>	<u>\$ 193,814</u>	<u>\$ 913,163</u>	<u>\$ 1,106,977</u>

The accompanying notes to the financial statements are an integral part of this statement.

**State of Illinois**  
**Department of Healthcare and Family Services**  
**Reconciliation of Statement of Revenues, Expenditures and Changes in**  
**Fund Balances of Governmental Funds to Statement of Activities**  
**For the Year Ended June 30, 2014**  
**(Expressed in Thousands)**

<b>Net change in fund balances - governmental funds</b>	\$	762,530
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		32,792
<p>Some capital assets were transferred out to other State agencies and, therefore, were transferred at no cost.</p>		(58,307)
<p>Prepaid expenses in the Statement of Activities are not reported as expenses in governmental funds.</p>		(935)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		(19,263)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These include:</p>		
<p>Increase in compensated absences obligation</p>		(216)
<p>Increase in capital lease obligation</p>		(57)
		(273)
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b>716,544</b>

The accompanying notes to the financial statements are an integral part of this statement.

*State of Illinois*  
*Department of Healthcare and Family Services*

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**Statement of Fiduciary Net Position**

June 30, 2014 (Expressed in Thousands)

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash equity with State Treasurer	\$ 14,832
Cash and cash equivalents	1,809
Other receivables, net	<u>202,056</u>
<b>Total assets</b>	<u><u>\$ 218,697</u></u>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	\$ 16,696
Other liabilities	<u>202,001</u>
<b>Total liabilities</b>	<u><u>\$ 218,697</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**STATE OF ILLINOIS**  
**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2014

**(1) Organization**

The Department of Healthcare and Family Services (Department) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review by the Illinois General Assembly. The Department operates under a budget approved by the General Assembly in which resources primarily from the State's General Revenue Fund are appropriated for the use of the Department. Activities of the Department are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, with the exception of the Child Support Enforcement Trust Fund – SDU.

The Department is organized to provide for the improvement of the lives of Illinois' families through healthcare coverage and child support enforcement.

**(2) Summary of Significant Accounting Policies**

The financial statements of the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

**(a) Financial Reporting Entity**

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependence on the primary government and the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the required criteria, the Department has no component units and is not a component unit of any other entity. However, because the Department is not legally separate from the State of Illinois, the financial statements of the Department are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

**(b) Basis of Presentation**

The financial statements of the State of Illinois, Department of Healthcare and Family Services, are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, major fund, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2014, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial activities of the Department, which consist only of governmental activities, are reported under the health and social services function in the State of Illinois' Comprehensive Annual Financial Report. For reporting purposes, the Department has combined the fund and government-wide financial statements using a columnar format that reconciles individual line items of the fund financial data to government-wide data in a

**STATE OF ILLINOIS**  
**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2014

separate column. A brief description of the Department's government-wide and fund financial statements is as follows:

**Government-wide Statements.** The government-wide statement of net position and statement of activities report the overall financial activity of the Department, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the Department. The financial activities of the Department consist of governmental activities, which are generally financed through taxes and intergovernmental revenues.

The statement of net position presents the assets and liabilities of the Department's governmental activities with the difference being reported as net position. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components – the amount due within one year and the amount due in more than one year.

The statement of activities presents a comparison between direct expenses and program revenues for the functions of the Department's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements.** The fund financial statements provide information about the Department's funds, including fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis on fund financial statements is the major governmental fund, which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Department administers the following major governmental fund (or portions thereof in the case of shared funds – see note 2 (d)) of the State:

**General** – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the Department and accounted for in the General Fund include, among others, promoting access to quality healthcare and child support. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements. The Department's portion of the General Fund is composed of seven primary sub-accounts (General Revenue, U of I Hospital Services, County Provider Trust, Long-Term Care Provider, Hospital Provider, Drug Rebate and Healthcare Provider Relief) and nine secondary sub-accounts.

Additionally, the Department reports the following fund types:

**Governmental Fund Types:**

**Special Revenue** – These funds account for transactions related to resources obtained from specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects.

**Fiduciary Fund Types:**

**Agency** – These funds account for transactions related to assets collected by the Department, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

**(c) Measurement Focus and Basis of Accounting**

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus (except for agency funds which do not have a measurement of focus) and the accrual basis

**STATE OF ILLINOIS**  
**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2014

of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include nursing home assessments, hospital assessments and intergovernmental grants. On an accrual basis, revenues from the nursing home assessments are recognized in the fiscal year in which the underlying exchange transaction occurs. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on formal debt issues, claims and judgments, and compensated absences are recorded only when the payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include the nursing home assessment, hospital assessments, federal matching revenues, drug rebates, intergovernmental transfer agreement revenues, and child support. Other miscellaneous revenue sources are considered to be measurable and available only when cash is received.

***(d) Shared Fund Presentation***

The financial statement presentation for the General Revenue, Care Provider for Persons with Developmental Disabilities, and Trauma Center Accounts of the General Fund, the Department of Corrections Reimbursement and Education Fund, and the Tobacco Settlement Recovery Fund, nonmajor governmental funds, represent only the portion of the shared fund that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Department's portion of shared funds:

Unexpended Appropriations

This "asset" account represents lapse period warrants issued between July and September for fiscal year 2014, in accordance with the Statewide Accounting Management System (SAMS) records, plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

Appropriations from State Resources

The "other financing source" account represents the final legally adopted appropriation according to SAMS records.

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records. Lapsed appropriations for certain Medicaid expenditures are the legally adopted appropriations less net warrants issued for the 16 month period from July to October of the following year.



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Receipts Collected and Transmitted to State Treasury

This “other financing use” account represents all cash receipts received during the fiscal year from SAMS records.

Amount of SAMS Transfers-In

This “other financing use” account represents cash transfers made by the Office of the Comptroller in accordance with statutory provisions to the corresponding fund during the fiscal year per SAMS records in which the Department did not make a deposit into the State Treasury.

Amount of SAMS Transfers-Out

This “other financing source” account represents cash transfers made by the Office of the Comptroller in accordance with statutory provision from the corresponding fund during the fiscal year per SAMS records in which a legally adopted appropriation was not charged.

**(e) Eliminations**

Eliminations have been made in the government-wide statement of net position to minimize the “grossing-up” effect on assets and liabilities within the governmental activities column of the Department. As a result, amounts reported in the governmental funds balance sheet as interdepartmental interfund receivables and payables have been eliminated in the government-wide statement of net position. Amounts reported in the governmental funds balance sheet as receivable from or payable to fiduciary funds have been included in the government-wide statement of net position as receivable from and payable to external parties, rather than as internal balances.

**(f) Cash and Cash Equivalents**

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at the time of purchase. Cash and cash equivalents include cash on hand and cash in banks for locally held funds.

**(g) Investments**

Investments are reported at fair value.

**(h) Interfund Transactions and Transactions with State of Illinois Component Units**

The Department has the following types of interfund transactions between Department funds and funds of other State Agencies:

**Services provided and used** – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the governmental funds balance sheet and the government-wide statement of net position.

**Reimbursements** – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

**Transfers** – flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

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The Department also has activity with the University of Illinois, a State of Illinois component unit, for medical programs and intergovernmental transfer agreements administered by the University.

**(i) Capital Assets**

Capital assets, which includes property, plant, and equipment and intangible assets, are reported at cost or estimated historical cost based on appraisals. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated and amortized using the straight-line method. Intangible assets (purchased computer software and internally generated computer software) are assets that do not have a physical existence, are nonfinancial in nature, are not in a monetary form, and have a useful life of over one year.

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Equipment	\$ 5,000	3-10
Purchased Computer Software	\$ 25,000	3-5
Internally Generated Computer Software	\$ 1,000,000	5-20

**(j) Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenues in governmental funds include receivables not "available" to finance the current period.

**(k) Compensated Absences**

The liability for compensated absences reported in the government-wide statement of net position consists of unpaid, accumulated vacation and sick leave balances for Department employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related cost (e.g., Social Security and Medicare taxes).

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

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**(l) Fund Balances**

In the fund financial statements, governmental funds report fund balances in the following categories:

***Nonspendable-*** This consists of amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

***Restricted-*** This consists of amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

***Committed-*** This consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Department's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Department removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Department's highest level of decision-making authority rests with the Illinois State legislature and the Governor. The State passes "Public Acts" to commit their fund balances.

***Assigned-*** This consists of net amounts that are constrained by the Department's intent to be used for specific purposes, but that are neither restricted nor committed.

***Unassigned-*** This consists of residual fund balance that has not been restricted, committed, or assigned within the general fund and deficit fund balances of other governmental funds.

In the general fund, it is the Department's policy to consider restricted resources to have been spent first when an expenditure is incurred for which both restricted and unrestricted (i.e. committed, assigned or unassigned) fund balances are available, followed by committed and then assigned fund balances. Unassigned amounts are used only after the other resources have been used.

In other governmental funds (special revenue), it is the Department's policy to consider restricted resources to have been spent last. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Department first utilizes any assigned amounts, followed by committed and then restricted amounts.

**(m) Net Position**

In the government-wide statement of net position, net position is displayed in three components as follows:

***Net investment in capital assets*** – This consists of capital assets, net of accumulated depreciation less the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

***Restricted*** – This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

***Unrestricted*** – This consists of net position that does not meet the definition of "restricted" or "Net investment in capital assets."

**(n) Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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**(o) Current and Future Adoption of GASB Statements**

Effective for the year ending June 30, 2014, the Department adopted the following GASB statements:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The effect of adopting this accounting principle was to reclassify unavailable revenue from a liability to a deferred inflow of resources, which did not impact the fund balances.
- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The implementation of this statement had no significant impact on the Department's financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which for defined benefit pension plans, establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan about which information is required to be presented. The implementation of this statement had no significant impact on the Department's financial statements.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The statement requires a government that extends a nonexchange financial guarantee to recognize a liability when it is more likely than not that the government will be required to make a payment on the guarantee. Additionally, the statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The implementation of this statement had no significant impact on the Department's financial statements.

Effective for the year ending June 30, 2015, the Department will adopt the following GASB statements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which was established to set standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, expenses and expenditures. The statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Department has not yet determined the impact on its financial statements as a result of adopting this statement.
- GASB Statement No. 69, *Government Combinations and Disposals of Governmental Operations*, which is to improve accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The new standard provides guidance for:
  - Determining whether a specific government combination is a government merger, a government acquisition, or a transfer of operations;

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- Using carrying values (generally, the amounts recognized in the pre-combination financial statements of the combining governments or operations) to measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources combined in a government merger or transfer of operation;
- Measuring acquired assets, deferred outflows of resources, liabilities, and deferred inflows of resources based upon their acquisition values in a government acquisition; and
- Reporting the disposal of government operations that have been transferred or sold.

The Department has not yet determined the impact on the Department's financial statements as a result of adopting this statement.

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which is to address an issue regarding application of the transition provisions of GASB Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provision of Statement No. 68. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this statement.

**(3) Deposits and Investments**

**(a) Deposits**

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these deposits and investments are available within the State of Illinois' Comprehensive Annual Financial Report.

Cash on deposit for locally held funds of fiduciary activities had carrying amounts and bank balances of \$5,654 thousand at June 30, 2014. Balances in excess of FDIC depository insurance were covered by collateral held by an agent in the Department's name.

**(b) Investments**

Section 2 of the Public Funds Investment Act limits the State's investments outside the State Treasury to securities of the U.S. government or its agencies, short-term obligations of domestic corporations exceeding \$500 million in assets that are rated in the three highest categories by at least two nationally recognized statistical ratings organizations not to exceed ten percent of the domestic corporations outstanding obligations, money market mutual funds invested in the U.S. government and/or its agencies, and repurchase agreements securities of the U.S. government or its agencies or money market mutual funds invested in the U.S. government or its agencies. Investments of public funds in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act are also permitted.

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As of June 30, 2014, the Department had the following investments outside of the State Treasury:

	<b>Fair Value (Thousands)</b>	<b>Weighted Average Maturity (Years)</b>
<b><i>Governmental Activities</i></b>		
Illinois Public Treasurer's Investment Pool	\$ 15,096	0.090
Total fixed income investments	\$ 15,096	
<b><i>Fiduciary Funds</i></b>		
Repurchase Agreements	\$ 8,293	0.003
Total fixed income investments	\$ 8,293	

**Interest Rate Risk:** The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk:** The Department does not have a formal investment policy that limits investment choices. The Illinois Public Treasurers' Investment Pool were rated AAAM by Standard & Poor's.

**(c) Reconciliation to Statement of Net Position and Statement of Fiduciary Net Position**

The Statement of Net Position and the Statement of Fiduciary Net Position account cash and cash equivalents contains certain short-term investments (included as investments above) to reflect their liquidity. A reconciliation (amounts expressed in thousands) follows:

	<b>Deposits</b>	<b>Investments</b>
<b><i>Governmental Activities</i></b>		
Amount Per Note	\$ -	\$ 15,096
Cash Equivalents	15,096	(15,096)
<b>Amounts per Statement of Net Position</b>	\$ 15,096	\$ -
<b><i>Fiduciary Funds</i></b>		
Amount Per Note	\$ -	\$ 8,293
Cash on Deposit	5,654	0
Cash Equivalents	8,293	(8,293)
Outstanding checks	(12,138)	-
<b>Amounts per Statement of Fiduciary Net Position</b>	\$ 1,809	\$ -

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**(4) Accounts Receivable**

**(a) Taxes Receivable**

Taxes receivable (amounts expressed in thousands) at June 30, 2014 are as follows:

	<b>General Fund</b>
Taxes receivable	\$ 47,607
Less: allowance for uncollectible taxes	(1,458)
<b>Taxes receivable, net</b>	<b>\$ 46,149</b>

**(b) Other Receivables**

Other receivables (amounts expressed in thousands) at June 30, 2014 are as follows:

	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Fiduciary Funds</b>
Other receivables	\$ 409,583	\$ 758,391	\$ 4,568,381
Less: allowance for uncollectible accounts	(107,162)	(746,099)	(4,366,325)
<b>Other receivables, net</b>	<b>\$ 302,421</b>	<b>\$ 12,292</b>	<b>\$ 202,056</b>

**(5) Interfund Balances and Activity**

**(a) Balances due to/from Other Funds**

The following balances (amounts expressed in thousands) at June 30, 2014 represent amounts due from Department funds and other State funds.

	<b>Due from</b>		
<b>Fund</b>	<b>Other Department Funds</b>	<b>Other State Funds</b>	<b>Description/Purpose</b>
General	\$ 16,092	\$ 36,966	Due from other State funds for subgrants received.
Nonmajor governmental funds	1,674	-	Due from other Department funds for subgrants received.
	<b>\$ 17,766</b>	<b>\$ 36,966</b>	

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The following balances (amounts expressed in thousands) at June 30, 2014 represent amounts due to Department funds, other State funds and other State fiduciary funds for purchases of services.

<u>Fund</u>	<u>Due to</u>		
	<u>Other Department Funds</u>	<u>Other State Funds</u>	<u>Other State Fiduciary Funds</u>
General	\$ 1,674	\$ 14,614	\$ 508
Nonmajor governmental funds	16,092	5,977	980
	<u>\$ 17,766</u>	<u>\$ 20,591</u>	<u>\$ 1,488</u>

**(b) Transfers to/from Other Funds**

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2014 were as follows:

<u>Fund</u>	<u>Transfers in from</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
General	\$ -	\$ 7,761	Transfer from other state agencies' General Fund.
Nonmajor governmental funds	31,613	-	Transfer from General Fund per State appropriation.
	<u>\$ 31,613</u>	<u>\$ 7,761</u>	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2014, were as follows:

<u>Fund</u>	<u>Transfers out to</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
General	\$ 31,613	\$ 44,037	Transfers to Department nonmajor governmental funds and other State agencies' funds per State appropriation.
	<u>\$ 31,613</u>	<u>\$ 44,037</u>	

**(c) Balances Due to/from State of Illinois Component Units**

The following balances (amounts expressed in thousands) at June 30, 2014 represent amounts due from State of Illinois Component Units to the General Fund for intergovernmental agreement reimbursements.

<u>Component Unit</u>	<u>Due From General Fund</u>
Southern Illinois University	\$ 4,415
University of Illinois	11,537
	<u>\$ 15,952</u>



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The following balances (amounts expressed in thousands) at June 30, 2014 represent amounts due to State of Illinois Component Units for medical reimbursements.

Component Unit	Due To	
	General Fund	Nonmajor Governmental Funds
Illinois State University	\$ 12	\$ -
Northern Illinois University	405	-
Southern Illinois University	7,811	-
University of Illinois	138,950	810
	\$ 147,178	\$ 810

**(6) Capital Assets**

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2014 is as follows:

	Balance July 1, 2013	Additions	Deletions	Net Transfers	Balance June 30, 2014
<b>Governmental Activities:</b>					
Capital assets not being depreciated/amortized:					
Internally generated intangible assets in development	\$ 39,302	\$ 33,084	\$ -	\$ (58,307)	\$ 14,079
Total capital assets not being depreciated/amortized:	39,302	33,084	-	(58,307)	14,079
Capital assets being depreciated:					
Equipment	6,242	508	1,046	-	5,704
Non-internally generated software	2,716	162	-	-	2,878
Less accumulated depreciation:					
Equipment	4,432	413	1,046	-	3,799
Non-internally generated software	115	549	-	-	664
Total capital assets being depreciated, net	4,411	(292)	-	-	4,119
Governmental activity capital assets, net	\$ 43,713	\$ 32,792	\$ -	\$ (58,307)	\$ 18,198

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2014 was charged as follows:

Health and social services	\$ 962
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**(7) Long-Term Obligations**

**Changes in Long-Term Obligations**

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2014 was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
<b>Governmental Activities:</b>					
Compensated absences	\$ 11,597	\$ 12,140	\$ 11,924	\$ 11,813	\$ 1,266
Capital leases:	6	66	9	63	20
<b>Total governmental activities</b>	<u>\$ 11,603</u>	<u>\$ 12,206</u>	<u>\$ 11,933</u>	<u>\$ 11,876</u>	<u>\$ 1,286</u>

Compensated absences have been liquidated by the applicable governmental funds that account for the salaries and wages of the related employees.

**Capital Leases**

The Department has acquired certain office equipment through capital lease arrangements. Future debt service requirements under capital leases (amounts expressed in thousands) at June 30, 2014 were as follows:

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 20	\$ 29	\$ 49
2016	32	16	48
2017	11	1	12
	<u>\$ 63</u>	<u>\$ 46</u>	<u>\$ 109</u>

**(8) Pension Plan**

Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2014 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2014. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Department pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2014, the employer contribution rate was 40.312%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Department) with employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

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**(9) Postemployment Benefits**

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for these other postemployment benefits ("OPEB") if they eventually become annuitants of one of the State sponsored pension plans.

The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with the limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Annuitants may be required to contribute towards health, dental and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employees Retirement System do not contribute towards health, dental and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental and vision benefits. The State also provides life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time the benefit amount becomes \$5,000.

Public Act 97-0695, effective July 1, 2012, altered the contributions to be paid by the State, annuitants, survivors, and retired employees under the State Employees Group Insurance Act ("Act"). This Act requires the Director of Central Management Services to, on an annual basis, determine the amount the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. These costs were to be assessed beginning July 1, 2013. However, four putative class actions were filed challenging the validity of this legislation under, among other things, the pension protection clause of the Illinois Constitution of 1970. The four class actions were consolidated in the circuit court of Sangamon County. The circuit court dismissed each of them for failure to state a cause of action, without certifying any classes. The Illinois Supreme Court allowed direct appeal. On July 3, 2014, the Illinois Supreme Court issued an opinion in the retirement health insurance case. The Illinois Supreme Court disagreed with the circuit court and determined the circuit court should not have dismissed the case. The Supreme Court sent the case back to the circuit court for reconsideration. As a result the Sangamon Country Circuit Court has directed SERS to discontinue withholding, as soon as possible, the retiree and survivor health insurance premiums that have been in effect since July 2013. The refunding of premiums paid since July 2013 is unresolved and will be decided by the courts.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefits provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, 715 Stratton Building, 401 South Spring Street, Springfield, Illinois, 62606-4100.

**(10) Risk Management**

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e. self insured) for these risks except computer equipment insurance purchased by the Department.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claims

**STATE OF ILLINOIS**  
**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES**

Notes to the Financial Statements

June 30, 2014

liabilities are based upon the estimated ultimate cost of settling the claims including specific, incremental claim adjustment expenses, salvage, and subrogation and considering the effects of inflation and recent claim settlement trends including frequency and amount of payouts and other economic and social factors.

The Department's risk management activities for self-insurance, unemployment insurance and workers' compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Department, and accordingly, have not been reported in the Department's financial statements for the year ended June 30, 2014.

**(11) Commitments and Contingencies**

**(a) Operating Leases**

The Department leases equipment, buildings and office space under terms of noncancelable operating lease agreements not extending past the end of the fiscal year, that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$6.059 million for the year ended June 30, 2014.

**(b) Federal Funding**

The Department receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2014, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Department believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

**(c) Litigation**

A class action lawsuit existed at June 30, 2014, consisting of all past, present, and future participants in the Medically Fragile and Technology Dependent (MFTD) Medicaid Waiver for Children. The suit seeks to not have the individual's services reduced solely because the individual "ages-out" of the waiver at twenty-one upon being referred to a program with different service levels than the MFTD.

A class action lawsuit remains pending on June 30, 2014. This is a class action brought on behalf of Medicaid-eligible individuals with disabilities who allegedly want to live in the community, but claim they are required to reside in skilled nursing facilities in Cook County as a condition of receiving services. Among other things, Plaintiffs seek that Defendants provide long term care services and support in the community rather than in institutional settings. Fiscal responsibility has been transferred to the Department of Aging as of July 1, 2014.

A lawsuit existed at June 30, 2014. This lawsuit seeks class certification for "all recipients of Medicaid in the State of Illinois with behavioral or emotional disorders under the age of twenty-one who are not receiving medically necessary home and community-based services to treat or ameliorate their disorders, and are currently segregated, or who have been segregated or at risk of segregation for the purpose of receiving treatment and services and who would not oppose community services." The Plaintiffs explicitly seek to require the provision of appropriate services and support to qualified persons in the community. It may also seek to require residential treatment of children in Psychiatric Residential Treatment Facilities (PRTFs) under EPSDT.

**(12) Securities Lending Transactions**

The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

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June 30, 2014

During fiscal year 2014, Deutsche Bank AG lent U.S. Treasury and U.S. Agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregated fair market value of the loaned securities. Loans are marked to market daily. If the fair market value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair market value to 100%.

The State Treasurer did not impose any restrictions during the fiscal year 2014 on the amount of the loans available or the eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. Deutsche Bank AG is obligated to indemnify the State Treasurer if the Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. Moreover, there were no losses during the fiscal year 2014 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2014, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2014 arising from securities lending agreements to the various funds of the State. The total allocated to the Department at June 30, 2014 was \$151,379 thousand for governmental activities.

**State of Illinois**  
**Department of Healthcare and Family Services**  
**Combining Schedule of Accounts -**  
**General Fund**

June 30, 2014 (Expressed in Thousands)

	General Revenue 0001	U of I Hospital Services 0136	County Provider Trust 0329	Care Provider for Persons with DD 0344	Long-Term Care Provider 0345	Hospital Provider 0346	Special Education Medicaid Matching 0355	Trauma Center 0397	Public Aid Recoveries Trust 0421
<b>ASSETS</b>									
Unexpended appropriations	\$ 530,529	\$ -	\$ -	7	\$ -	\$ -	\$ -	2,532	\$ -
Cash equity with State Treasurer	737	38	1,018	754	17,507	122,656	-	-	107,730
Cash and cash equivalents	15,096	-	-	-	-	-	-	-	-
Securities lending collateral with State Treasurer	-	1,955	862	-	6,089	68,291	-	-	-
Due from other government - federal	734,623	71,715	78,457	868	74,913	558	61,945	1,266	68,690
Due from other government - local	-	-	60,159	-	10	-	10	-	-
Taxes receivable, net	-	-	-	316	41,906	2,320	-	-	-
Other receivables, net	46,989	1	1	-	4	50	-	-	239,258
Due from other Department funds	18,539	-	-	-	-	-	3	-	4,500
Due from other State funds	39	-	-	-	31	-	-	-	-
Due from State of Illinois component units	-	11,537	-	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 1,346,552</b>	<b>\$ 85,246</b>	<b>\$ 140,497</b>	<b>\$ 1,945</b>	<b>\$ 140,460</b>	<b>\$ 193,875</b>	<b>\$ 61,958</b>	<b>\$ 3,798</b>	<b>\$ 420,178</b>
<b>LIABILITIES</b>									
Accounts payable and accrued liabilities	\$ 512,262	\$ -	\$ 145	4	\$ 131,091	\$ -	\$ -	2,390	\$ 13,171
Due to other government - federal	66,759	-	10	-	3	-	-	-	77
Due to other government - local	3,535	-	139,375	-	2,945	-	61,958	142	67,301
Due to other State fiduciary funds	-	-	59	2	15	-	-	-	422
Due to other Department funds	1,025,249	-	-	-	296	-	-	-	285,805
Due to other State funds	6,096	-	46	1	21	-	-	-	1,914
Due to State of Illinois component units	44,826	90,685	-	-	-	-	-	-	1,760
Obligations under securities lending of State Treasurer	-	1,955	862	-	6,089	68,291	-	-	-
<b>Total liabilities</b>	<b>1,658,727</b>	<b>92,640</b>	<b>140,497</b>	<b>7</b>	<b>140,460</b>	<b>68,291</b>	<b>61,958</b>	<b>2,532</b>	<b>370,450</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>									
Unavailable revenue - Federal operating grants	386,490	47,612	45,377	845	50,538	-	24,736	-	57,155
Unavailable revenue - License and fees	718	-	-	-	-	-	-	-	-
Unavailable revenue - Medicaid provider assessment tax	-	-	-	65	15,277	-	-	-	-
Unavailable revenue - Other revenues	45,398	9,069	42,205	-	-	-	-	-	-
<b>Total deferred inflows of resources</b>	<b>432,606</b>	<b>56,681</b>	<b>87,582</b>	<b>910</b>	<b>65,815</b>	<b>-</b>	<b>24,736</b>	<b>-</b>	<b>57,155</b>
<b>FUND BALANCES (DEFICITS)</b>									
Restricted for health and social services	-	-	-	-	-	-	-	-	-
Committed for health and social services	-	-	-	1,028	-	-	-	1,266	-
Unassigned	(744,781)	(64,075)	(87,582)	-	(65,815)	125,584	(24,736)	-	(7,427)
Total fund balances (deficits)	(744,781)	(64,075)	(87,582)	1,028	(65,815)	125,584	(24,736)	1,266	(7,427)
<b>Total liabilities, deferred inflows of resources and fund balances (deficits)</b>	<b>\$ 1,346,552</b>	<b>\$ 85,246</b>	<b>\$ 140,497</b>	<b>\$ 1,945</b>	<b>\$ 140,460</b>	<b>\$ 193,875</b>	<b>\$ 61,958</b>	<b>\$ 3,798</b>	<b>\$ 420,178</b>

**State of Illinois**  
**Department of Healthcare and Family Services**  
**Combining Schedule of Accounts -**  
**General Fund**

June 30, 2014 (Expressed in Thousands)

	Electronic Health Record Incentive 0503	Juvenile Rehab Services Medicaid Matching 0575	Medical Interagency Program 0720	Drug Rebate 0728	Medicaid Buy-in Program Revolving 0740	Healthcare Provider Relief 0793	Medical Special Purposes Trust 0808	Eliminations	Total
<b>ASSETS</b>									
Unexpended appropriations	-	-	-	-	-	-	-	-	533,068
Cash equity with State Treasurer	200	-	2,576	24,645	1,975	19,234	3,603	-	302,673
Cash and cash equivalents	-	-	-	-	-	-	-	-	15,096
Securities lending collateral with State Treasurer	-	-	2,247	5,176	978	65,689	-	-	151,287
Due from other government - federal	2,533	78	8,379	254	-	544,729	9,494	-	1,658,502
Due from other government - local	-	-	-	-	-	-	-	-	60,179
Taxes receivable, net	-	-	-	-	-	1,607	-	-	46,149
Other receivables, net	-	-	2	4	64	16,048	-	-	302,421
Due from other Department funds	-	-	29,191	267,267	-	1,006,268	-	(1,309,676)	16,092
Due from other State funds	-	-	4,191	-	-	25,253	7,452	-	36,966
Due from State of Illinois component units	-	-	4,415	-	-	-	-	-	15,952
<b>Total assets</b>	\$ 2,733	\$ 78	\$ 51,001	\$ 297,346	\$ 3,017	\$ 1,678,828	\$ 20,549	\$ (1,309,676)	\$ 3,138,385

<b>LIABILITIES</b>									
Accounts payable and accrued liabilities	\$ 2,726	-	\$ 14,987	\$ 508	\$ -	\$ 746,620	\$ 10,743	\$ -	\$ 1,434,647
Due to other government - federal	-	-	-	1,323	-	1	2	-	68,175
Due to other government - local	7	78	516	-	-	8,417	-	-	284,274
Due to other State fiduciary funds	-	-	-	-	-	3	7	-	508
Due to other Department funds	-	-	-	-	-	-	-	(1,309,676)	1,674
Due to other State funds	-	-	-	-	-	6,335	201	-	14,614
Due to State of Illinois component units	-	-	7,636	-	-	2,265	6	-	147,178
Obligations under securities lending of State Treasurer	-	-	2,247	5,176	978	65,689	-	-	151,287
<b>Total liabilities</b>	2,733	78	25,386	7,007	978	829,330	10,959	(1,309,676)	2,102,357

<b>DEFERRED INFLOWS OF RESOURCES</b>									
Unavailable revenue - Federal operating grants	874	54	6,659	-	-	141,329	1,059	-	762,728
Unavailable revenue - License and fees	-	-	-	-	3	-	-	-	721
Unavailable revenue - Medicaid provider assessment tax	-	-	-	-	-	-	-	-	15,342
Unavailable revenue - Other revenues	-	-	4,415	-	-	16,000	-	-	117,087
<b>Total deferred inflows of resources</b>	874	54	11,074	-	3	157,329	1,059	-	895,878

<b>FUND BALANCES (DEFICITS)</b>									
Restricted for health and social services	-	-	-	-	-	-	-	-	513
Committed for health and social services	-	-	14,541	290,339	2,036	692,169	8,018	-	1,009,397
Unassigned	(874)	(54)	-	-	-	-	-	-	(869,760)
Total fund balances (deficits)	(874)	(54)	14,541	290,339	2,036	692,169	8,531	-	140,150
<b>Total liabilities, deferred inflows of resources and fund balances (deficits)</b>	\$ 2,733	\$ 78	\$ 51,001	\$ 297,346	\$ 3,017	\$ 1,678,828	\$ 20,549	\$ (1,309,676)	\$ 3,138,385

State of Illinois  
Department of Healthcare and Family Services

Combining Schedule of Revenues,  
Expenditures and Changes in Fund Balance -  
General Fund

For the Year Ended June 30, 2014 (Expressed in Thousands)

	General Revenue 0001	U of I Hospital Services 0136	County Provider Trust 0329	Care Persons with DD 0344	Long-Term Care Provider 0345	Hospital Provider 0346	Special Education Medicaid Matching 0355	Trauma Center 0397	Public Aid Recoveries Trust 0421
<b>REVENUES</b>									
Operating grants - federal	\$ 4,009,862	\$ 157,833	\$ 1,158,648	\$ 15,547	\$ 232,186	\$ 1,260,944	\$ 143,547	\$ 5,051	\$ 74,843
Other operating grants	-	73,903	870,073	-	-	-	-	-	-
Licenses and fees	15,248	-	-	-	-	-	-	-	-
Other charges for services	-	-	-	-	-	-	-	-	116,563
Interest and other investment income	1	3	20	-	76	663	-	-	-
Medical provider assessment tax	-	-	-	19,118	170,325	1,488,224	-	-	-
Other taxes	-	-	-	-	18,118	-	-	-	-
Other	265,233	2,468	-	-	-	-	-	-	-
<b>Total revenues</b>	<b>4,290,344</b>	<b>234,207</b>	<b>2,028,741</b>	<b>34,665</b>	<b>420,705</b>	<b>2,749,831</b>	<b>143,547</b>	<b>5,051</b>	<b>191,406</b>
<b>EXPENDITURES</b>									
Health and social services	6,675,936	244,782	1,995,530	229	416,332	2,528,302	156,807	10,102	202,621
Debt service principal	4	-	-	-	-	-	-	-	-
Debt service interest	13	-	-	-	-	-	-	-	-
Capital outlays	367	-	-	-	-	-	-	-	212
<b>Total expenditures</b>	<b>6,676,320</b>	<b>244,782</b>	<b>1,995,530</b>	<b>229</b>	<b>416,332</b>	<b>2,528,302</b>	<b>156,807</b>	<b>10,102</b>	<b>202,833</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(2,385,976)</b>	<b>(10,575)</b>	<b>33,211</b>	<b>34,436</b>	<b>4,373</b>	<b>221,529</b>	<b>(13,260)</b>	<b>(5,051)</b>	<b>(11,427)</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>									
Appropriations from State resources	7,638,553	-	-	1,205	-	-	-	15,000	-
Lapsed appropriations	(473,926)	-	-	(1,047)	-	-	-	(4,898)	-
Receipts collected and transmitted to State Treasury	(4,041,206)	-	-	(33,998)	-	-	-	(5,143)	-
Amount of SAMS transfers-in	(80,000)	-	-	-	-	-	-	-	-
Amount of SAMS transfers-out	505,000	-	-	-	-	-	-	-	-
Transfers-in	80,000	45,000	-	-	30,000	-	-	-	4,500
Transfers-out	(1,369,147)	-	-	-	(20,000)	(232,870)	-	-	(500)
Capital lease financing	36	-	-	-	-	-	-	-	-
<b>Net other sources (uses) of financial resources</b>	<b>2,259,310</b>	<b>45,000</b>	<b>-</b>	<b>(33,840)</b>	<b>10,000</b>	<b>(232,870)</b>	<b>-</b>	<b>4,959</b>	<b>4,000</b>
<b>Net change in fund balances</b>	<b>(126,666)</b>	<b>34,425</b>	<b>33,211</b>	<b>596</b>	<b>14,373</b>	<b>(11,341)</b>	<b>(13,260)</b>	<b>(92)</b>	<b>(7,427)</b>
Fund balances (deficits), July 1, 2013	(618,115)	(98,500)	(120,793)	432	(80,188)	136,925	(11,476)	1,358	-
<b>FUND BALANCES (DEFICITS), JUNE 30, 2014</b>	<b>\$ (744,781)</b>	<b>\$ (64,075)</b>	<b>\$ (87,582)</b>	<b>\$ 1,028</b>	<b>\$ (65,815)</b>	<b>\$ 125,584</b>	<b>\$ (24,736)</b>	<b>\$ 1,266</b>	<b>\$ (7,427)</b>



State of Illinois  
Department of Healthcare and Family Services

Combining Schedule of Revenues,  
Expenditures and Changes in Fund Balance -  
General Fund

For the Year Ended June 30, 2014 (Expressed in Thousands)

	Electronic Health Record Incentive 0503	Juvenile Rehab Services Medicaid Matching 0575	Medical Interagency Program 0720	Drug Rebate 0728	Medicaid Buy- in Program Revolving 0740	Healthcare Provider Relief 0793	Medical Special Purposes Trust 0808	Eliminations	Total
<b>REVENUES</b>									
Operating grants - federal	\$ 149,322	\$ 85	\$ 24,811	\$ 254	\$ -	\$ 1,755,317	\$ 50,195	\$ -	\$ 9,038,445
Other operating grants	-	-	12,128	-	-	-	125	-	956,229
Licenses and fees	-	-	-	-	669	-	-	-	15,917
Other charges for services	-	-	-	-	-	-	-	(116,563)	-
Interest and other investment income	-	-	58	213	7	248	-	-	1,289
Medical provider assessment tax	-	-	-	-	-	-	-	-	1,677,667
Other taxes	-	-	-	-	-	296,842	-	-	314,960
Other	-	-	-	-	-	-	-	-	267,701
<b>Total revenues</b>	<b>149,322</b>	<b>85</b>	<b>36,997</b>	<b>467</b>	<b>676</b>	<b>2,052,407</b>	<b>50,320</b>	<b>(116,563)</b>	<b>12,272,208</b>
<b>EXPENDITURES</b>									
Health and social services	135,996	(14)	53,096	46,591	461	2,563,674	22,717	(116,563)	14,936,599
Debt service principal	-	-	-	-	-	2	-	-	6
Debt service interest	-	-	-	-	-	6	-	-	19
Capital outlays	-	-	-	-	-	18	33,084	-	33,681
<b>Total expenditures</b>	<b>135,996</b>	<b>(14)</b>	<b>53,096</b>	<b>46,591</b>	<b>461</b>	<b>2,563,700</b>	<b>55,801</b>	<b>(116,563)</b>	<b>14,970,305</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>13,326</b>	<b>99</b>	<b>(16,099)</b>	<b>(46,124)</b>	<b>215</b>	<b>(511,293)</b>	<b>(5,481)</b>	<b>-</b>	<b>(2,698,097)</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>									
Appropriations from State resources	-	-	-	-	-	-	-	-	7,654,758
Lapsed appropriations	-	-	-	-	-	-	-	-	(479,871)
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-	(4,080,347)
Amount of SAMS transfers-in	-	-	-	-	-	-	-	-	(80,000)
Amount of SAMS transfers-out	-	-	-	-	-	-	-	-	505,000
Transfers-in	-	-	30,562	-	-	1,368,103	500	(1,550,904)	7,761
Transfers-out	-	-	-	-	-	-	(4,037)	1,550,904	(75,650)
Capital lease financing	-	-	-	-	-	18	-	-	54
<b>Net other sources (uses) of financial resources</b>	<b>-</b>	<b>-</b>	<b>30,562</b>	<b>-</b>	<b>-</b>	<b>1,368,121</b>	<b>(3,537)</b>	<b>-</b>	<b>3,451,705</b>
<b>Net change in fund balances</b>	<b>13,326</b>	<b>99</b>	<b>14,463</b>	<b>(46,124)</b>	<b>215</b>	<b>856,828</b>	<b>(9,018)</b>	<b>-</b>	<b>753,608</b>
Fund balances (deficits), July 1, 2013	(14,200)	(153)	78	336,463	1,821	(164,659)	17,549	-	(613,458)
<b>FUND BALANCES (DEFICITS), JUNE 30, 2014</b>	<b>\$(874)</b>	<b>\$(54)</b>	<b>\$14,541</b>	<b>\$290,339</b>	<b>\$2,036</b>	<b>\$692,169</b>	<b>\$8,531</b>	<b>-\$</b>	<b>140,150</b>

State of Illinois  
Department of Healthcare and Family Services

Combining Balance Sheet -  
Nonmajor Governmental Funds

June 30, 2014 (Expressed in Thousands)

	Special Revenue						Total
	Provider Inquiry Trust 0341	Money Follows the Person Budget Transfer 0522	Department of Corrections Reimbursement and Education 0523	Tobacco Settlement Recovery 0733	Child Support Administrative 0757		
<b>ASSETS</b>							
Unexpended appropriations	\$ -	\$ -	\$ -	\$ 24,907	\$ -	\$ 24,907	
Cash equity with State Treasurer	2,412	179	-	-	31,277	33,868	
Securities lending collateral equity with State Treasurer	-	92	-	-	-	92	
Due from other government - federal	-	1,275	36	40,842	15,018	57,171	
Other receivables, net	404	-	-	-	11,888	12,292	
Due from other Department funds	-	750	-	-	924	1,674	
<b>Total assets</b>	<b>\$ 2,816</b>	<b>\$ 2,296</b>	<b>\$ 36</b>	<b>\$ 65,749</b>	<b>\$ 59,107</b>	<b>\$ 130,004</b>	
<b>LIABILITIES</b>							
Accounts payable and accrued liabilities	\$ -	\$ 33	\$ -	\$ 24,569	\$ 4,506	\$ 29,108	
Due to other government - federal	-	-	-	-	7,462	7,462	
Due to other government - local	-	97	-	1	5,365	5,463	
Due to other State fiduciary funds	-	-	-	-	980	980	
Due to other Department funds	-	-	-	16,091	1	16,092	
Due to other State funds	909	-	-	-	5,068	5,977	
Due to State of Illinois component units	-	473	-	337	-	810	
Obligations under securities lending of State Treasurer	-	92	-	-	-	92	
<b>Total liabilities</b>	<b>909</b>	<b>695</b>	<b>-</b>	<b>40,998</b>	<b>23,382</b>	<b>65,984</b>	
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable revenue - Federal operating grants	-	376	30	7,806	1,793	10,005	
Unavailable revenue - License and fees	351	-	-	-	-	351	
Unavailable revenue - Medicaid provider assessment tax	-	-	-	-	-	-	
Unavailable revenue - Other revenues	-	-	-	-	-	-	
<b>Total deferred inflows of resources</b>	<b>351</b>	<b>376</b>	<b>30</b>	<b>7,806</b>	<b>1,793</b>	<b>10,356</b>	
<b>FUND BALANCES (DEFICITS)</b>							
Committed for health and social services	1,556	1,225	6	16,945	33,932	53,664	
Unassigned	-	-	-	-	-	-	
Total fund balances (deficits)	1,556	1,225	6	16,945	33,932	53,664	
<b>Total liabilities, deferred inflows of resources and fund balances (deficits)</b>	<b>\$ 2,816</b>	<b>\$ 2,296</b>	<b>\$ 36</b>	<b>\$ 65,749</b>	<b>\$ 59,107</b>	<b>\$ 130,004</b>	

*State of Illinois  
Department of Healthcare and Family Services*

**Combining Statement of Revenues,  
Expenditures and Changes in Fund Balances -  
Nonmajor Governmental Funds**

For the Year Ended June 30, 2014 (Expressed in Thousands)

	Special Revenue						Total
	Money Follows the Person Budget Transfer	Department of Corrections Reimbursement and Education	Tobacco Settlement Recovery	Child Support Administrative	0733	0757	
	0341	0522	0523	0733	0757	Total	
<b>REVENUES</b>							
Operating grants - federal	\$ -	\$ 1,851	\$ 107	\$ 71,540	\$ 122,393	\$ 195,891	
License and fees	1,242	-	-	-	-	1,242	
Other charges for services	-	-	-	-	16,682	16,682	
Interest and other investment income	-	3	-	-	-	3	
Medical provider assessment tax	-	-	-	-	-	-	
Other revenues, net	-	-	-	-	-	-	
<b>Total revenues</b>	<b>1,242</b>	<b>1,854</b>	<b>107</b>	<b>71,540</b>	<b>139,075</b>	<b>213,818</b>	
<b>EXPENDITURES</b>							
Health and social services	2,498	2,125	-	195,642	172,151	372,416	
Debt Service Principal	-	-	-	-	3	3	
Debt Service Interest	-	-	-	-	9	9	
Capital outlays	-	-	-	-	73	73	
<b>Total expenditures</b>	<b>2,498</b>	<b>2,125</b>	<b>-</b>	<b>195,642</b>	<b>172,236</b>	<b>372,501</b>	
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(1,256)</b>	<b>(271)</b>	<b>107</b>	<b>(124,102)</b>	<b>(33,161)</b>	<b>(158,683)</b>	
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>							
Appropriations from State resources	-	-	-	200,600	-	200,600	
Lapsed Appropriations	-	-	-	(21,032)	-	(21,032)	
Receipts collected and transmitted to State Treasury	-	-	(134)	(43,454)	-	(43,588)	
Transfers-in	-	750	-	-	30,863	31,613	
Capital lease financing	-	-	-	-	12	12	
<b>Net other sources (uses) of financial resources</b>	<b>-</b>	<b>750</b>	<b>(134)</b>	<b>136,114</b>	<b>30,875</b>	<b>167,605</b>	
<b>Net change in fund balances</b>	<b>(1,256)</b>	<b>479</b>	<b>(27)</b>	<b>12,012</b>	<b>(2,286)</b>	<b>8,922</b>	
Fund balances, July 1, 2013	2,812	746	33	4,933	36,218	44,742	
<b>FUND BALANCES, JUNE 30, 2014</b>	<b>\$ 1,556</b>	<b>\$ 1,225</b>	<b>\$ 6</b>	<b>\$ 16,945</b>	<b>\$ 33,932</b>	<b>\$ 53,664</b>	

*State of Illinois*

*Department of Healthcare and Family Services*

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**Combining Statement of Fiduciary Net Position -  
Agency Funds**

June 30, 2014 (Expressed in Thousands)

	<b>Child Support Enforcement Trust 0957</b>	<b>Child Support Enforcement Trust - SDU 2957</b>	<b>Total</b>
<b>ASSETS</b>			
Cash equity with State Treasurer	\$ 14,832	\$ -	\$ 14,832
Cash and cash equivalents	371	1,438	1,809
Other receivables, net	202,021	35	202,056
<b>Total assets</b>	<b>\$ 217,224</b>	<b>\$ 1,473</b>	<b>\$ 218,697</b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 15,223	\$ 1,473	\$ 16,696
Other liabilities	202,001	-	202,001
<b>Total liabilities</b>	<b>\$ 217,224</b>	<b>\$ 1,473</b>	<b>\$ 218,697</b>

*State of Illinois*

*Department of Healthcare and Family Services*

**Combining Statement of Changes in Assets and Liabilities -  
Agency Funds**

For the Year Ended June 30, 2014 (Expressed in Thousands)

	<b>Balance at July 1, 2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at June 30, 2014</b>
<b>Child Support Enforcement Trust (0957)</b>				
<b>ASSETS</b>				
Cash equity with State Treasurer	\$ 11,930	\$ 160,009	\$ 157,107	\$ 14,832
Cash and cash equivalents	245	79,010	78,884	371
Other receivables, net	213,205	148,825	160,009	202,021
<b>Total assets</b>	<b>\$ 225,380</b>	<b>\$ 387,844</b>	<b>\$ 396,000</b>	<b>\$ 217,224</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 14,040	\$ 14,071	\$ 12,888	\$ 15,223
Other liabilities	211,340	213,764	223,103	202,001
<b>Total liabilities</b>	<b>\$ 225,380</b>	<b>\$ 227,835</b>	<b>\$ 235,991</b>	<b>\$ 217,224</b>
<b>Child Support Enforcement Trust - SDU (2957)</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,961	\$ 1,167,163	\$ 1,169,686	\$ 1,438
Other receivables, net	23	329	317	35
<b>Total assets</b>	<b>\$ 3,984</b>	<b>\$ 1,167,492</b>	<b>\$ 1,170,003</b>	<b>\$ 1,473</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 3,984	\$ 1,167,175	\$ 1,169,686	\$ 1,473
<b>Total liabilities</b>	<b>\$ 3,984</b>	<b>\$ 1,167,175</b>	<b>\$ 1,169,686</b>	<b>\$ 1,473</b>
<b>Total</b>				
<b>ASSETS</b>				
Cash equity with State Treasurer	\$ 11,930	\$ 160,009	\$ 157,107	\$ 14,832
Cash and cash equivalents	4,206	1,246,173	1,248,570	1,809
Other receivables, net	213,228	149,154	160,326	202,056
<b>Total assets</b>	<b>\$ 229,364</b>	<b>\$ 1,555,336</b>	<b>\$ 1,566,003</b>	<b>\$ 218,697</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 18,024	\$ 1,181,246	\$ 1,182,574	\$ 16,696
Other liabilities	211,340	213,764	223,103	202,001
<b>Total liabilities</b>	<b>\$ 229,364</b>	<b>\$ 1,395,010</b>	<b>\$ 1,405,677</b>	<b>\$ 218,697</b>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Healthcare and Family Services, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Illinois, Department of Healthcare and Family Services' basic financial statements, and have issued our report thereon dated December 24, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the State of Illinois, Department of Healthcare and Family Services' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Department of Healthcare and Family Services' internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Healthcare and Family Services' internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant

deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2014-001 through 2014-003 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Healthcare and Family Services' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings as items 2014-002 and 2014-003.

### **State of Illinois, Department of Healthcare and Family Services' Response to Findings**

The State of Illinois, Department of Healthcare and Family Services' responses to the findings identified in our audit are described in the accompanying schedule of findings. The State of Illinois, Department of Healthcare and Family Services' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois, Department of Healthcare and Family Services' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois, Department of Healthcare and Family Services' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Sikich LLP". The signature is written in a cursive, flowing style.

Decatur, Illinois  
December 24, 2014

STATE OF ILLINOIS  
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

SCHEDULE OF FINDINGS

CURRENT FINDINGS  
(GOVERNMENT AUDITING STANDARDS)

2014-001. **FINDING** (Financial statement preparation)

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

In our prior audit we noted computation errors with respect to the Department's computation of uncollectible child support. In our review of the Department's computation of uncollectible child support for fiscal year 2014, we noted the Department had a mathematical error which understated the uncollectible amount by \$40,784,000. The Department made an adjusting entry to its financial statements after this error was brought to its attention.

The following errors described below were also identified during the audit of the Department's draft financial statements. The Department did not correct its financial statements for these errors. However, the errors were deemed immaterial to the financial statements taken as a whole and, therefore, did not result in a modification to our opinion on the Department's financial statements.

- In our prior audit we noted computation errors with respect to the Department's medical accrual computation. In our review of the Department's medical accrual computation for fiscal year 2014, we noted the following problems. The Department entered the incorrect federal participation amount for the Affordable Care Act Medical Accrual in the General Revenue Fund. This error caused the calculation of total medical accrual for the General Revenue Fund to be incorrect. The result was an overstatement in the accounts receivable totaling \$10,231,000, an overstatement of deferred unavailable revenue totaling \$10,224,000 and an overstatement of revenue totaling \$7,000 in the General Revenue Fund as of June 30, 2014.
- As a result of the mathematical error in the Department's computation of uncollectible child support noted above totaling \$40,784,000, the allocation to the Child Support Administrative Fund for uncollectible receivables was overstated \$1,671,000. Therefore, due to other funds was understated \$1,671,000 in the Child Support Enforcement Fund and the due from other funds was understated \$1,671,000 in the Child Support Administrative Fund.

The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) requires State agencies to establish and maintain a system of internal fiscal and administrative controls, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. Good internal control procedures require adequate management oversight and review of accounting policies and procedures as well as an overall review of financial reporting for accuracy and compliance with generally accepted accounting principles.



Department management stated that during the preparation of the Department's computation of the medical accrual, a typographical error was made when transferring an amount from one worksheet to another worksheet. During preparation of the Department's computation of uncollectible child support, an incorrect file was used to link electronic spreadsheets from the prior three quarters to include the last quarter of the year.

Failure to implement appropriate internal control procedures over financial reporting could lead to future misstatements of the Statewide and Department's financial statements. (Finding Code No. 2014-001, 2013-001, 12-1, 11-1, 10-1, 09-2)

### **RECOMMENDATION**

We recommend the Department implement internal control procedures to ensure financial reporting is accurate. Such internal control procedures should include a review of calculations and manual processes from which its financial reporting is derived.

### **DEPARTMENT RESPONSE**

The Department accepts the recommendation. The Department has 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.

2014-002. **FINDING** (Medical assistance records not updated timely for deceased individuals)

The Department of Healthcare and Family Services' (Department) fiscal year 2014 records of individuals eligible for participation in the medical assistance program under Title XIX of the Social Security Act (Title XIX) included individuals who are identified as deceased by either the Illinois Department of Public Health's (IDPH) Vital Records or by the Death Master File from the Social Security Administration.

### **Deceased Individuals in Fiscal Year 2014 Eligibility Data**

We obtained the Department's records of individuals eligible for Title XIX services during FY14 and compared them to the IDPH death records dating back to 1970. We also compared them to over 89 million Social Security Administration (SSA) death records from the SSA Death Master File.

#### **IDPH Vital Records Match**

Our comparison identified 4,933 individuals for which IDPH had a death record, but who were included in the Department's system as being eligible for medical services more than 60 days after their date of death. Of the 4,933 deceased individuals with eligibility, 417 died prior to July 1, 2013. We recognize that the Department does not have instantaneous access to death records, and for the purposes of this finding, the 4,933 total includes only those individuals still included as eligible for medical services more than 60 days after their date of death. The comparison was based on an exact match of name, date of birth, and Social Security Number.

Of the 4,933 individuals, 809 had payments made on their behalf for services that occurred more than 60 days after their date of death totaling \$1,453,193. Similar to last year's finding, managed care accounted for the majority of the payments after the date of death. In FY14, 341 of the 809 recipients had managed care payments more than 60 days after death that totaled \$1,263,179 of the \$1,453,193 (87%). According to the Department, 180 days is a more realistic number of days needed to identify and process recipient death information. We determined that 283 recipients had payments made on their behalf more than 180 days after their date of death. The total paid more than 180 days after the date of death through the end of FY14 for these 283 recipients was \$294,140.

#### **SSA Death Master File Match**

Our comparison with the SSA data identified an additional 983 individuals for which the SSA Death Master File had a death record, but who were included in the Department's system as being eligible for medical services more than 60 days after their date of death. Of the 983 deceased individuals with eligibility, 434 died prior to FY14. The 983 includes only those individuals still listed as eligible for medical services more than 60 days after their date of death. The comparison was based on an exact match between the date of birth and the Social Security Number.

Of the 983, 302 had services paid on their behalf more than 60 days after their date of death totaling \$2,276,142. In FY14, 109 of the 302 recipients had managed care payments more than 60 days after death that totaled \$850,377 of the \$2,276,142 (37%). According to the Department, 180 days is a more realistic number of days needed to identify and process recipient death information. We determined that 234 recipients had payments made on their behalf more than 180 days after their date of death. The total paid more than 180 days after the date of death through the end of FY14 for these 234 recipients was \$1,958,415.

## **Total Payments for Deceased Recipients in FY14**

Between both the IDPH and SSA data, **1,111** recipients had payments made on their behalf for services that occurred more than 60 days after their date of death totaling **\$3,729,335**. Managed care payments accounted for \$2,113,556 (57%) of the total payments. These totals would not include individuals that had a date of death in either May or June 2014, and did not include any payments for services after June 30, 2014 (end of audit period).

### **Recipients Enrolled in Managed Care after Date of Death**

We determined that individuals were signed up for managed care months after their date of death. Using both the IDPH Vital Records and the SSA Death Master File, we identified recipients who were enrolled in managed care and had capitation services paid on their behalf more than 90 days after their date of death. According to the Department these instances were “likely due to requirements that the Department automatically enroll clients who live in mandatory managed care regions into a managed care health plan if they do not actively make a health plan choice themselves.”

### **IDPH Vital Records and SSA Death Master File Match**

During our review, we found instances where the Department was enrolling recipients in managed care after the recipient’s date of death. Of the 809 deceased individuals with payments identified from the IDPH match, 115 were enrolled and had capitation payments more than 90 days after their death totaling \$500,059. The average number of days a recipient was enrolled in managed care after their date of death was 189 days.

Of the 302 deceased individuals with payments identified from the SSA Death Master File match, 65 were enrolled and had capitation payments more than 90 days after their death totaling \$717,399. The average number of days a recipient was enrolled in managed care after their date of death was 1,503 days.

Between both the IDPH and SSA match, **\$1,217,458 out of the \$2,113,556 in total capitation payments were made through the end of FY14 for 180 recipients auto-enrolled in managed care more than 90 days after their date of death.**

### **Recipients with Social Security Numbers of Deceased Individuals**

During our review of the match with the SSA Death Master File, we identified eligible recipients with payments in FY14 whose social security numbers matched with individuals whose social security number was listed as deceased in the SSA Death Master File. Although these social security numbers matched, the names and/or dates of birth for those individuals receiving services did not match the names and dates of birth in the SSA Death Master File. We identified 606 recipients with payments on their behalf more than 60 days after the date of death for an individual with that social security number in the SSA Death Master File. These 606 recipients had services paid totaling \$16.1 million in FY14. The 606 includes some recipients with the same first name, same last name, and same social security number, but different date of birth. It also included recipients that had the same social security number, but neither the first or last name matched.

We randomly sampled 60 of the 606 to determine why the names and dates of birth did not match. We provided the 60 social security numbers to both the Illinois Department of Human Services (DHS) and the Department and they determined that the names did not match in 31

instances due to a data entry error. DHS was unable to obtain hard copy documentation for the other 29 due to time constraints of the audit. Since data matching is used by the Department and DHS to determine continued eligibility, it is important that recipients have the correct social security number, which is used for many of the data matching reviews. Without correct social security numbers the following clearances will not produce accurate results:

- Wire Third Party Query (WTPY) - used to determine citizenship and death date;
- Illinois Secretary of State (SOS) - used to determine Illinois residency;
- State Online Query (SOLQ) - online access to Social Security Administration information used to verify federal benefits as well as recipient name, birth date, and social security number; and
- Illinois Department of Employment Security (IDES) - used for wage verification.

Although the Department routinely identifies instances such as those noted above and recoups such payments from vendors and providers, the results of our testing are indicative that there are weaknesses in the effectiveness and timeliness of such controls and efforts. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that obligations and costs are in compliance with applicable laws, and provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

Department management stated that delays in recording death dates in eligibility records resulted from weaknesses in electronic death matching resulting in an over-reliance on manual entry, delays in receipt of death notifications from DHS' Family Community Resource Centers (FCRCs), as well as requirements to automatically enroll clients into managed care plans. Department management indicated that the Department followed up on our FY13 audit finding and were able to recover almost \$11.9 million as of August 14, 2014, including 99.9 percent of the \$11.4 million of capitation payments identified in the FY13 audit.

By not timely updating its Title XIX eligibility records to reflect deceased individuals' dates of death, the Department has and will continue to pay for ineligible services in non-compliance with State and federal laws. Furthermore, prolonged delays could diminish the Department's ability to recover such payments from vendors and providers. (Finding Code No. 2014-002, 2013-002)

## **RECOMMENDATION**

We recommend the Department improve its system of controls to ensure death dates for current enrollees are entered into its eligibility system, ensure that deceased individuals are not enrolled in managed care, and ensure that recipients have the correct social security numbers within the Department's eligibility data. We also recommend the Department take action to recover the payments it made on behalf of individuals for capitation or fee-for-services related to periods after their date of death.

## **DEPARTMENT RESPONSE**

The Department accepts the recommendation. This Administration has made it a high priority to root out fraud, waste and abuse in the Illinois Medicaid Program. Approximately 24,000 Medicaid clients die each year and reliance on manual entry by caseworkers has contributed to the delay in recording death information for Medicaid clients.

Upon receiving the FY2013 audit findings, the Department began immediate corrective action, and continues to take action, to identify deceased clients enrolled in Medicaid, to work with DHS to record their death dates, and to recoup all improper payments made for those individuals. As of June 30<sup>th</sup>, 2014 the Department has recouped \$11.9 million of the \$12.3 million in payments for deceased clients identified in the FY2013 audit, including 99.9% of the \$11.4 million in capitation payments. The Department will continue to take aggressive action to recover payments made after a client's date of death.

The Department is required to automatically enroll clients living in mandatory managed care regions into managed care health plans if they do not actively choose a plan themselves. The majority of the payments for deceased individuals identified were a result of capitated payments for persons automatically enrolled before their deaths were recorded in the DHS and HFS data systems. This situation began in 2011, when mandatory enrollment into managed care began. The rules governing mandatory enrollment in managed care organizations are codified at 89 Ill Adm Code 140.1010.

Because capitation payments for individuals enrolled in managed care are made prospectively and the Department may not be immediately notified of an individual's death, Department policy provides for recoupment of improper payments for deceased individuals from managed care organizations. As deaths are recorded in Department systems, the information is automatically processed to deduct up to 18 months of overpayments for deceased individuals from future payments. Manual processes allow the Department to recover improper managed care overpayments beyond 18 months as well as any improper fee-for-service payments made to providers. The Department and DHS frequently cancel cases due to death and recoup any capitation or other payments made for dates of service occurring after the date of death. As of December 15, 2014 the Department has cancelled 602 of the 1,111 individuals identified in this audit (54%) and recouped \$1.2 million of the payments (32%). The Department will continue to update its systems to record these individuals as deceased, if they are in fact deceased. The Department and DHS carefully investigate information about a client's death to assure it is valid and to take appropriate action related to the effect that individual's death may have on the eligibility of any other individuals receiving medical benefits on the same case.

The Department is also in the process of implementing additional controls that will improve the timeliness of identifying clients who have died, recording their dates of death, and recouping any improper payments. Programming to suspend payments in the HFS MMIS claims processing system by matching records with monthly IDPH death records is in its final stages. The Department has also collaborated with DHS to increase the efficiency of death processing by automating the cancellation of certain cases in the eligibility data system that match with Social Security death records and will soon implement a similar match for IDPH records as well. The implementation of phase two of the Integrated Eligibility System in the fall of 2015 will provide further opportunity to improve the Department controls by increasing the number of available data sources and the automation of the available data.

The 606 incorrect Social Security numbers are likely caused by human error. Department review of the data indicated that the Social Security numbers appear to have been mistyped in the Department's system. While some of these individuals may be deceased, most of the 606 recipients have inaccurate social security numbers and the payments for those recipients are most likely not improper. The Department will work with DHS to develop a process for correcting the incorrect SSNs.

2014-003. **FINDING** (Duplication of medical assistance enrollees)

The Department of Healthcare and Family Services' (Department) eligibility files included duplicate enrollees for its medical assistance program under Title XIX of the Social Security Act (Title XIX).

We reviewed the Department's fiscal year 2014 Title XIX eligibility data files, noting 19,954 Social Security Numbers (SSN) had been assigned to approximately 40,377 recipient identification numbers. Recipient identification numbers are unique identification numbers (Recipient IDs) that are assigned to enrollees. Specifically, we noted:

- 19,513 SSNs with two different Recipient IDs;
- 415 SSNs with three different Recipient IDs;
- 24 SSNs with four different Recipient IDs; and
- 2 SSNs with five different Recipient IDs.

According to the Department, the number of recipients with multiple Recipient IDs is less if an analysis of multiple recipient IDs is conducted for a given day. The Department provided an analysis of recipients with duplicate ID numbers as of June 30, 2014. The analysis shows:

- 5,534 SSNs with two different Recipient IDs;
- 218 SSNs with three different Recipient IDs;
- 10 SSNs with four different Recipient IDs; and
- 2 SSNs with five different Recipient IDs.

During our analysis of duplicate recipient ID numbers, we also identified overpayments for duplicative capitation and coordinated care fee payments made by the Department totaling \$119,826 in fiscal year 2014. These payments were for individuals that had more than one recipient identification number in the eligibility data.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that obligations and costs are in compliance with applicable laws; and provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriations.

Department management stated that these duplicate IDs were caused primarily by human error.

The assignment of multiple recipient identification numbers to one individual creates the opportunity for abuse and may result in multiple payments for the same service for the same individual. (Finding Code No. 2014-003, 2013-003)

**RECOMMENDATION**

We recommend the Department implement controls to ensure only one recipient identification number is assigned to a social security number/individual.

## **DEPARTMENT RESPONSE**

The Department accepts the recommendation. The Department and DHS work together to ensure each individual is only actively receiving benefits under one recipient identification number, and identify and deactivate duplicate recipient IDs regularly.

These joint efforts have caused the number of duplicate IDs to trend downward. The 19,994 duplicate IDs identified in FY14 are a 33% reduction from the 29,684 identified in the FY13 audit. Additionally, although 19,994 Social Security Numbers were the subject of the audit finding for all of FY2014, as of June 30, 2014, there were 5,764 (0.2%) SSNs with two or more active IDs within the Department's database of 2.7 million SSNs. Duplicate payments for the same individual can only occur when that person has multiple simultaneously active recipient IDs, as opposed to one active ID with other deactivated IDs.

The Department will continue to review and correct duplicate IDs. Additionally, when the Integrated Eligibility System is fully operational in 2015, we can expect improved controls that will minimize the creation of duplicate IDs.