



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

Financial Audit
 For the Year Ended June 30, 2022

Release Date: August 15, 2023

FINDINGS THIS AUDIT: 9	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	3	5	8	2019	2	9	
Category 2:	0	1	1	2018	3, 4		
Category 3:	0	0	0	2017	1		
TOTAL	3	6	9	2015	5		
FINDINGS LAST AUDIT: 8							

SYNOPSIS

- (22-01) The Departments (HFS and DHS) had weaknesses in the general information technology (IT) controls over the Integrated Eligibility System (IES).
- (22-07) The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) contained weaknesses and inaccuracies.
- (22-08) The Department did not have adequate internal controls to ensure all eligible expenditures initiated by other State agencies were included in its Medicaid federal financial participation (FFP) reimbursement claims.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).

Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.

Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2022

FINANCIAL INFORMATION - Governmental Funds (in thousands)	FY 2022	FY 2021
REVENUES		
Program revenue: charges for service.....	\$ 92,424	\$ 95,937
Program revenue: operating grants.....	18,252,712	18,039,797
General revenue: taxes, interest and other.....	3,452,146	3,668,222
Total revenue.....	<u>21,797,282</u>	<u>21,803,956</u>
EXPENDITURES		
Health and social services.....	26,461,601	25,535,325
Debt service - principal.....	656	266
Debt service - interest.....	21	27
Capital outlays	34,919	10,697
Total expenditures.....	<u>26,497,197</u>	<u>25,546,315</u>
OTHER SOURCES (USES)		
Appropriations from State resources.....	8,494,035	9,296,184
Transfers in.....	35,600	31,245
Transfers out.....	(75,600)	(71,070)
Receipts collected & transmitted to the State Treasury.....	(4,618,390)	(4,492,503)
Lapsed appropriation.....	754,844	(454,163)
Other.....	45,000	45,291
Total other sources (uses).....	<u>4,635,489</u>	<u>4,354,984</u>
Increase in fund balance.....	(64,426)	612,625
Fund balance, July 1.....	247,422	(365,203)
Fund balance, June 30.....	<u>\$ 182,996</u>	<u>\$ 247,422</u>
SELECTED ACCOUNT BALANCES - June 30,		
Governmental Funds (in thousands)	FY 2022	FY 2021
ASSETS		
Cash and cash equivalents & investments.....	\$ 1,302,190	\$ 996,387
Due from other governments - federal & local.....	1,869,926	1,563,188
Loans, taxes and other receivables, net.....	1,873,183	1,316,529
Due from other Department and State funds.....	18,261	137,948
Total assets.....	<u>\$ 5,063,560</u>	<u>\$ 4,014,052</u>
LIABILITIES		
Accounts payable and other liabilities.....	\$ 688,083	\$ 1,153,055
Unearned revenue.....	98,949	237,396
Obligations under securities lending of State Treasurer.....	189,010	255,905
Due to other gov and funds - State, federal, local & Department.....	2,375,071	1,205,331
Total Liabilities.....	<u>3,351,113</u>	<u>2,851,687</u>
DEFERRED INFLOWS OF RESOURCES	1,529,451	914,943
FUND BALANCE.....	182,996	247,422
TOTAL LIABILITIES AND FUND BALANCE.....	<u>\$ 5,063,560</u>	<u>\$ 4,014,052</u>
DIRECTOR		
During Audit Period and Currently: Ms. Theresa Eagleson		

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE GENERAL INFORMATION TECHNOLOGY (IT) CONTROLS OVER IES

Weaknesses over IES general IT controls

The Department of Healthcare and Family Services and the Department of Human Services (collectively, the “Departments”) had weaknesses in the general information technology (IT) controls over the Integrated Eligibility Systems (IES).

Management of the Departments have a shared responsibility for various human service programs in the State and for internal controls over the manual and automated processes relating to eligibility for these programs. The Departments’ IES is the automated system used by the Departments to intake, process (with the assistance of caseworkers), and approve assistance applications, maintenance items, and redeterminations of eligibility as well as to make payments for the State’s human service programs.

In addition to the conditions noted below, related IES issues over the lack of a detailed interagency agreement are noted in Finding 2022-009, and issues over disaster recovery controls are noted in Finding 2022-002.

Environment

The IES application and data reside on the Department of Innovation and Technology (DoIT) environment. In this regard, DoIT is a service provider (SP) to the Department.

Significant threats over DoIT’s general IT environment were identified

During the Departments’ internal security review, completed as part of its Plan of Actions and Milestones (2022) report to the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (Federal CMS), significant threats over DoIT’s general IT environment, which hosts IES, were identified.

Two security breaches were identified subsequent to June 30, 2022

Further, during our fieldwork it was noted the Departments experienced two security breaches related to the IES system; the first breach occurred in August 2022, and the second breach was discovered in March 2023. Information about both breaches is disclosed in the notes to the financial statements as subsequent events.

Change Control

IES Application Changes - Policies and Procedures

The Departments indicated there were no updates to the change control policies and procedures during fiscal year 2022. Our review of the April 20, 2020 IES Change Management Plan (Plan) noted the Plan did not:

- Define the requirements for the prioritization or classification of changes,

IES Change Management Plan lack important definitions

- Define the numerical grading for determining impact,
- Define the detailed documentation requirements for test scripts and results, impact analysis, design documentation, or other required documentation, and
- Define when changes were required to include a specific requirement, who was to review the various steps and when and by whom approvals were required.

Additionally, we noted backout plans to return the system to a previous functional version in the event a change moved into production caused undesired results had not been prepared for individual infrastructure changes.

User Access

IES User Access Policies and Procedures

The Departments indicated there were no updates to IES user access policies and procedures during fiscal year 2022. During our testing of the Departments' access provisioning policies, we noted the policies did not define the time-period in which the Departments were required to disable a terminated individual's system access. Also, there was no systemic record of the date when the access was removed, or a management-defined definition of timeliness. Therefore, we were unable to determine whether user access was removed timely when a user was transferred or terminated. (Finding 1, pages 56-59)

No system record of when access to IES is removed

We recommended management of both Departments work together to strengthen controls over the IES environment by addressing all significant threats identified in the Plan of Actions and Milestones (2022) report to the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, strengthen controls in the IES Change Management Plan by including the items noted above, and enhance internal control over IES user access by adopting a formal written policy or procedure which includes a definition of "timely" for disabling an individual's access to the IES system, and a process for tracking whether access was revoked timely based on the definition.

HFS accepted the recommendation

HFS accepted the recommendation and stated it will work with the DHS and the DoIT to implement the recommendation.

FINANCIAL STATEMENT PREPARATION WEAKNESSES

The Department of Healthcare and Family Services' (Department) year-end financial reporting in accordance with generally accepted accounting principles (GAAP) contained inaccuracies and omitted amounts affecting balances.

Adjustments to Financial Statements

Errors brought to Department's attention

During our audit of the Department's financial statements, we brought errors to the Department's attention which included items such as the following:

- "Accounts payable & accrued liabilities" in the Public Aid Recoveries Trust Fund (0421) was overstated by \$6.2 million and "Other charges for services" was understated by the same amount.
- Footnote 17, Restatement: The implementation of GASB Statement No. 87, Leases table originally disclosed incorrect balances for the lease obligations line. The net deficit amount was originally reported as \$422 thousand and should have been \$785 thousand.

Lease Footnote disclosed incorrect lease obligations, understated by \$363 thousand

The Department subsequently corrected these errors.

Ineffective communication between program and fiscal areas cause errors

Further, the Department lacked effective communication between its program and fiscal areas which resulted in additional errors. These errors were identified after updated detailed information was provided to the financial reporting area, and additional analysis was performed both internally and with other affected State Departments to identify accurate financial revisions. As a result of the further analysis subsequently performed by the Department, management provided us with multiple revisions to its draft financial statements which contained many modifications, with the final revision provided on July 17, 2023. Several of the modifications were individually inconsequential to the overall fairness of the presentation of its financial statements. However, the modifications also included the following material adjustments:

Final, draft FY22 financial statements not provided until July 17, 2023 – 382 days after year end

- "Due from other State funds" in the Healthcare Provider Relief Fund (0793) was understated by \$4.5 million and "Federal operating grants" was understated by the same amount for Supplemental Nutrition Assistance Program (SNAP) expenditures paid by another state agency.
- "Federal operating grants" in the Healthcare Provider Relief Fund (0793) was understated by \$59.4 million. "Due to other government – federal" was understated by \$13.6 million, and "Due to other State funds" was understated by \$45.8 million. The Department subsequently identified these changes after further analysis of the financial reporting for the Home and Community Based Services (HCBS) expenditures and revenues.
- "Due from other Government - Federal" in the General Revenue Fund (0001) was understated by \$601 million. "Federal operating grants" was understated by \$529 million and the prior period net position was understated by \$72 million at the government-wide level due to the Department's inability to timely submit a federal reimbursement claim for HCBS developmental disabilities (DD) waiver program

HCBS revenues and related liabilities understated by \$45.8 million

GRF receivables understated by \$601 million

expenditures paid by another state agency. The details regarding what contributed to this issue are more fully described in Finding 2022-008 (Insufficient controls over administration of Medicaid claims).

Timeliness of Disclosures to Auditors

Failure to timely disclose significant issues to the auditors

Two of the issues described above were brought to the attention of the auditors' months after the end of the fiscal year. For the further analysis of the financial reporting for the Home and Community Based Services (HCBS) expenditures and revenues item noted above, we were provided information in March 2023 about additional HCBS receivables for which management became aware of in December 2022. Additionally, the under reporting of reimbursable DD program expenditures for Medicaid funded waiver programs described above was not communicated to auditors until June 2023, despite management becoming aware of the issue in January 2023. (Finding 7, pages 73-75)

We recommended the Department strengthen its internal controls to ensure its financial reporting is complete and accurate and in accordance with GAAP. Additionally, we recommended Department management promptly disclose known events, conditions, and transactions of the Department which could impact either an ongoing audit or previously released audit performed by the Office of the Auditor General, even if the full ramifications of the matter are not yet known.

Department accepted recommendation

The Department accepted the recommendation and stated it will strive to improve financial reporting preparation and review processes and will engage in conversations with the auditors concerning their expectations relative to when less than fully vetted issues should be brought to their attention.

INSUFFICIENT CONTROLS OVER ADMINISTRATION OF MEDICAID CLAIMS

Inadequate controls to ensure eligible Medicaid expenditures were included in FFP reimbursement claims

The Department of Healthcare and Family Services (Department) did not have adequate internal controls to ensure all eligible expenditures initiated by other State agencies were included in its Medicaid federal financial participation (FFP) reimbursement claims.

On June 12, 2023, nearly one year from the June 30, 2022, financial statements date, Department management notified us that it did not include certain other agency waiver Medicaid expenditures, made by the Department of Human Services (DHS), in its quarterly FFP claims during the fiscal year ended June 30, 2022. The impact of this issue on the Department's financial statements and any associated adjustments are more fully described in Finding 2022-007 (Financial statement preparation weaknesses).

As part of its operational responsibilities, DHS administers Home and Community Based Services (HCBS) developmental disabilities (DD) waiver programs. Weekly, DHS sends the Department, via an automated file transfer, its DD expenditure information. After each automated file transfer of expenditure data occurs, an acceptance/rejection report is generated and automatically sent from the Department to DHS for them to review and notify the Department of any discrepancies. On a quarterly basis, the Department also generates a federal revenue summary report which is provided to DHS that reflects the funds it expended on programs for which Medicaid FFP is claimed. The summary report includes the total claimed for FFP related to DHS expenditures for the most recent quarter, as well as the preceding quarters of the fiscal year. DHS is expected to review the summary report and notify the Department of any discrepancies. The Department, as the lead agency for the State's Medicaid program, submits quarterly FFP claims to the U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services (Federal CMS) for reimbursement according to the applicable Medicaid FFP percentage.

HFS failed to receive expenditure data from January 2021 until January 2023 due to DHS IT programing errors

In January 2021, failures in the automatic transmission of expenditure data from DHS to the Department began occurring, resulting in the Department's inability to claim FFP for DD waiver expenditures. The cause of the data transfer failure from January 2021 through June 2021 is not known. Additionally, in July 2021, DHS moved from its previously used software platform to the State of Illinois' Enterprise Resource Planning (ERP) System. When the software platform change was implemented, a programming error occurred which prevented the automated file transfer from taking place. Because the Department did not receive the expenditure data, federal claiming on these DD expenditures did not occur during the audit period. The programing error continued until January 2023. Further, because the Department did not receive the expenditure information, the acceptance/rejection and federal revenue summary reports noted above did not include such expenditures and DHS staff did not subsequently identify they were missing. The automated file transfer issue impacted only federal claiming and had no effect on DHS' payment to providers.

DD waiver expenditures described herein are paid from DHS' appropriations and reported by DHS, while the revenue from the FFP reimbursements is deposited and reported by the Department in the General Revenue Fund (GRF). Such divergence in the reporting of DD waiver expenditures and resultant revenues inherently increases the risk that errors and omissions in claiming may occur.

As a result of the inadequate internal controls which led to the missing DHS expenditure data for which to claim FFP, DD

As a result of not identifying and fixing the IT programming errors, \$601 million was delayed in being received into the GRF

expenditures were excluded from the Department's Federal CMS quarterly claims for roughly a 24-month period (substantially all of calendar 2021 and 2022). For fiscal year 2022, we noted the Department did not submit approximately \$1.1 billion in DD expenditures to Federal CMS on its quarterly claims report until the quarter ended March 30, 2023. The FFP portion of the \$1.1 billion in DD expenditures equated to approximately \$601 million in federal grant revenue to the State of Illinois which was delayed in being deposited into the State Treasury for up to 21 months. The amount of FFP claimed from expenditures paid after fiscal year 2022 up until the automated file transfer error was identified and resolved was outside the fiscal year 2022 audit period, and therefore, we did not request such information.

Also, as a result of not identifying and fixing the IT programming errors, \$40 million of federal grant revenue into the GRF may be lost to the State

Further, because the Code of Federal Regulations (45 C.F.R § 95.7) states the Department can only claim FFP reimbursement within 2 years after the calendar quarter in which the qualifying expenditure has been paid, the Department was unable to claim FFP on approximately \$80 million of DD expenditures paid by DHS during the quarter ended March 31, 2021, representing approximately \$40 million of federal grant revenue being lost to the State if not granted an exception by the federal government. (Finding 8, pages 76-79)

We recommended the Department implement adequate internal controls over its administration of the Medicaid claims process in order to timely identify any missing expenditure data with which to claim FFP for eligible expenditures initiated by other State agencies. We also recommended the Department coordinate with DHS, and other State agencies where applicable, to prospectively explore affecting a budgeting change whereby the reimbursement revenue of individual programs are deposited and reported by the same agency and within the same fund to increase oversight thereof.

Department accepted the recommendation

The Department accepted the recommendation and stated it will begin conversations with the Governor's Office of Management and Budget and the Illinois Office of the Comptroller to explore options for allowing GRF federal revenue to be reflected in the financial statements of non-Healthcare and Family Services agencies responsible for the administration of Medicaid services. The Department also stated the Department and DHS will reinforce the use of current internal controls and pursue a corrective action plan. Further, regarding the timing of the Department's auditor notification, the Department stated it will engage in conversations with the auditors concerning their expectations relative to when less than fully vetted issues should be brought to their attention.

OTHER FINDINGS

The remaining findings pertain to inadequate disaster recovery controls over the IES, inadequate general information technology controls over IMPACT, insufficient review and documentation of provider enrollment determinations and failure to timely execute interagency agreement, failure to review service providers' internal controls, inadequate general information technology controls, and detail agreement between DHS, HFS, and DoIT over IES not finalized. We will review the Department's progress towards the implementation of our recommendations in our next financial audit.

AUDITOR'S OPINION

The auditors stated the financial statements of the Department of Healthcare and Family Services as of and for the year ended June 30, 2022 are fairly stated in all material respects.

This financial audit was performed by Sikich LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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