

REPORT DIGEST

DEPARTMENT OF HUMAN SERVICES CENTRAL OFFICE

FINANCIAL AUDIT

For the Year Ended
June 30, 2009

COMPLIANCE EXAMINATION

For the Two Years Ended
June 30, 2009

Summary of Findings:

Total this report: 39

Total last report: 31

Repeated findings: 20

Release Date:

June 29, 2010



State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

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SYNOPSIS

- The Department's year-end financial reporting to the Illinois Office of the Comptroller was not timely and contained numerous inaccuracies and errors.
- The Department had various internal control weaknesses over commodities inventories at several locations.
- Two of the Department's Centers remained decertified as eligible Medicare or Medicaid service providers.
- The Department failed to update their allowance for uncollectible accounts receivable in a consistent manner.
- Auditors matched the addresses of child care providers with the addresses of sex offenders contained in the Illinois Sex Offender Registry and noted several instances where the addresses were the same.
- Auditors noted numerous weaknesses in the Department's conversion process from grant based payments to fee-for-service payments to providers of mental health services.
- The Department entered into agreements with the University of Illinois. The purpose appeared to be to avoid the requirements to competitively procure those types of services and hire former Department employees.
- The Department did not follow procedures for safeguarding and disposal of documents containing confidential and sensitive information.
- The Department had numerous internal control weaknesses in the Home Services Program.
- The Department did not follow the Grant Funds Recovery Act by returning recovered grant funds.
- The Department's fiscal year 2009 annual financial reporting forms for its Federal Projects Fund included programs with unspent grant funds of which the Department had not determined the final disposition.
- Department transferred monies to the fiscal FY09 Budget Relief Fund which violated the restricted purpose for which the funds were designated.
- The Department failed to make annual redeterminations of eligibility for KidCare (now known as ALL KIDS) in compliance with statutory requirements.

DEPARTMENT OF HUMAN SERVICES - CENTRAL OFFICE
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

For The Two Years Ended June 30, 2009

EXPENDITURE STATISTICS (expressed in thousands)	FY 2009	FY 2008	FY 2007
• Total Expenditures (All Funds)	\$ 4,897,854	\$ 4,697,858	\$ 4,518,071
OPERATIONS TOTAL	\$ 879,538	\$ 841,691	\$ 755,444
% of Total Expenditures	17.9%	17.9%	16.7%
Personal Services	\$ 297,060	\$ 301,286	\$ 296,827
% of Operations Expenditures	33.8%	35.9%	39.2%
Average Number of Employees	*13,788	*14,350	*14,318
Other Payroll Costs (FICA, Retirement)	\$ 100,252	\$ 88,653	\$ 72,167
% of Operations Expenditures	11.4%	10.5%	9.6%
Contractual Services	\$ 121,622	\$ 121,778	\$ 120,649
% of Operations Expenditures	13.8%	14.5%	16.0%
Commodities	\$ 23,113	\$ 21,898	\$ 23,509
% of Operations Expenditures	2.6%	2.6%	3.1%
Telecommunications	\$ 8,645	\$ 9,354	\$ 10,165
% of Operations Expenditures	1.0%	1.1%	1.3%
Medical Preparation and Food Supplies	\$ 244,486	\$ 225,976	\$ 187,732
% of Operations Expenditures	27.8%	26.8%	24.9%
Lump Sums	\$ 60,270	\$ 49,627	\$ 20,300
% of Operations Expenditures	6.9%	5.9%	2.7%
All Other Items	\$ 24,090	\$ 23,119	\$ 24,095
% of Operations Expenditures	2.7%	2.7%	3.2%
GRANTS TOTAL	\$ 4,014,125	\$ 3,850,988	\$ 3,755,657
% of Total Expenditures	82.0%	82.0%	83.2%
PERMANENT IMPROVEMENTS TOTAL	\$ 739	\$ 835	\$ 1,837
% of Total Expenditures	0.0%	0.0%	0.0%
REFUNDS TOTAL	\$ 3,452	\$ 4,344	\$ 5,133
% of Total Expenditures	0.1%	0.1%	0.1%
Cost of Property and Equipment	\$85,049,570	\$92,777,684	\$92,517,015
SELECTED ACTIVITY MEASURES (unaudited)	FY 2009	FY 2008	FY 2007
Office of Mental Health and Developmental Disabilities:			
Average cost per day – Mental Health	\$**	\$671	\$599
Residents in State facilities – Mental Health.....	1,299	1,343	1,373
Average cost per day – Developmental Disabilities	\$**	\$487	\$424
Residents in State facilities – Developmental Disabilities	2,218	2,373	2,539
Staff to resident ratio – Developmental Disabilities.....	2.0	1.9	1.80
Human Capital Development:			
Average number of TANF families engaged each month.....	1,796	2,550	6,566
Average number of children served – Child Care, per month.....	174,500	172,852	175,359
Average Child Care cost per child, per month.....	\$324	\$305	\$269
Home Services:			
Persons receiving in-home services to prevent institutionalization.....	34,309	38,093	36,858
Average monthly cost of in-home service, per client.....	\$1,104	\$1,183	\$1,144
Alcohol and Substance Abuse:			
Number of unduplicated patients served.....	82,874	84,167	88,947
Vocational Rehabilitation:			
Persons in supported employment.....	2,636	2,476	2,506
DEPARTMENT SECRETARY			
During Audit Period: Carol L. Adams, Ph.D. (through 10/31/09)			
Currently: Michelle R. B. Saddler (effective 10/11/09)			

* Includes employees for the entire Department of Human Services including individual Mental Health and Developmental Facilities, Centers for Rehabilitation and Education, and Schools for the Deaf and Visually Impaired.

** The fiscal year 2009 information had not been calculated by the Department prior to concluding the engagement.

INTRODUCTION

This report presents our audit of the financial statements of the entire Department of Human Services (Department) for the year ended June 30 2009, and a State compliance examination of the Department's Central Office operations for the two years ended June 30, 2009. Limited scope compliance examinations for the two years ended June 30, 2009 were also performed at 8 Developmental Centers, 8 Mental Health Centers, 2 combination Mental Health / Developmental Centers and 3 Rehabilitation Service Facilities. Separate reports for each of these Centers have also been issued.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

WEAKNESSES IN PREPARATION OF FINANCIAL INFORMATION AND GAAP REPORTING FORMS

During the audit of the June 30, 2009 Department financial statements numerous problems were noted. Some of the conditions identified are as follows:

- Year end accounting reports were not submitted to the State Comptrollers' Office in a timely manner. The purpose of the year end accounting reports is to provide necessary information for financial reporting in accordance with Generally Accepted Accounting Principles (GAAP). The State Comptrollers' Office requires accounting reports to be submitted by agencies. These accounting reports are commonly referred to as GAAP forms and assist the State Comptroller and the Department in preparing the statewide financial statements in accordance with GAAP.
- GAAP reporting forms contained numerous inaccuracies and required corrections which delayed audit testing. As of April 8, 2010, the Department was still communicating corrections to the auditors requiring revisions to the June 30, 2009 financial reporting information.

Financial reporting forms were not submitted timely

Reporting forms contained numerous inaccuracies

\$27 million reconciling item not explained

- The reconciliation for the Vocational Rehabilitation Fund contained a reconciling amount of over \$27 million which was not explained. The auditors received the final version of the reconciliation on March 18, 2010 which reduced the reconciling amount significantly to \$116 thousand.

\$206 million in sub-recipient payments omitted from original reporting

- During testing of the USDA Women, Infants and Children Fund it was noted no sub-recipient amounts were included on the original reporting documents. Sub-recipient payments for the program totaled \$206 million. The Department did not provide the supporting documentation for the sub-recipient amount until April 8, 2010 after which the reporting forms were revised to include the omission.

Department attributed problems to a lack of staff

Department management attributed the noted weaknesses to the lack of sufficient staff in the general accounting unit. The Department contracted with consultants to provide GAAP reporting assistance. Even with utilizing consultants for assistance, delays and errors occurred.

Because of significance of the exceptions this is noted as a material weakness in the Department's internal control

Because of the significance of the weaknesses in preparation of GAAP reporting forms and preparation of year end Department financial statements, this is considered a material weakness in the Department's internal control. 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. (Finding 09-1, pages 19-22)

We recommended the Department implement procedures and cross-training measures to ensure GAAP Reporting Packages are prepared in a timely, accurate and complete manner and ensure GAAP financial information is submitted to the Office of the Comptroller in a timely manner.

Department agrees with auditors

Department officials accepted the recommendation and noted there is a staff shortage in the Bureau of General Accounting. The Department indicated that given the resources available, staff responded to the Illinois Office of the Comptroller review comments in a reasonable and timely fashion. The Department noted they will utilize staffing resources to the best of its ability to complete GAAP packages in a timely and accurate manner.

INADEQUATE CONTROLS OVER COMMODITIES

During testing several exceptions and weaknesses were noted in the area of commodity inventories. The exceptions and weaknesses were noted at individual facilities, multiple warehouses, and Central Office locations. Following are some of the inventory problems noted during testing:

Facilities failed to perform complete year end inventories

- Sixteen facilities failed to perform a complete year-end physical inventory count or the count was not conducted in close proximity to the end of the fiscal year.

Segregation of duties issues regarding annual inventory counts were noted

- Weaknesses in segregation of duties for annual inventory counting were noted at four of twenty-two (18%) locations.

Auditors were unable to reconcile inventory counts

- At four facilities, the auditors were not able to reconcile counts to the inventory system.

Several errors noted in forms used to reconcile inventory for financial reporting

- The Department had several errors on the Summary of Commodity Control System and Other Inventories, which was used to reconcile to the inventory balance reported for year end financial reporting purposes.

Similar exceptions have been identified in previous reports

Similar exceptions were identified at the Department in previous reports. The Department stated they have established a centralized oversight for commodities; however, staffing shortages and the outdated system continue to contribute to the weaknesses noted for commodity inventories.

Department expended over \$41.5 million for commodities in FY 2009

Strong internal controls require an improved oversight function related to commodities. This is important considering the Department made commodities expenditures of \$41.52 million during fiscal year 2009. In addition, the Department recorded ending commodities inventories of \$8.59 million at June 30, 2009. (Finding 09-2, pages 23-25) **This finding was first reported in 1999.**

We recommended the Department continue strengthening its oversight function related to commodities to allow for improved internal controls. Additionally the Department should implement a standardized system to perform periodic counts.

Department agrees with auditors

Department officials accepted the recommendation and noted they will continue strengthening their oversight function related to commodities and the process of obtaining a new Asset Management System to allow for improved internal controls. (For the previous Department response, See Digest footnote #1.)

FAILURE TO COMPLY WITH MEDICARE AND MEDICAID CERTIFICATION REQUIREMENTS

Two Centers remain decertified as eligible Medicare and Medicaid providers

Two of the Department's Centers continued to remain decertified as eligible Medicare and Medicaid service providers during the engagement period. As a result, the Department cannot bill and be reimbursed for certain services. There is an immediate and continuing loss of revenue until the centers are recertified. Failure to maintain eligible Medicare and Medicaid status not only results in lost revenue to the State, but is indicative of a diminished level of care for residents of these facilities.

Howe Developmental Center scheduled for closure

Howe Developmental Center (Howe) could not bill or be reimbursed for certain services and has been scheduled for closure with a potential closure date of June 30, 2010. This will mean that nearly 265 patients will need to be transitioned to suitable facilities and 760 employees could potentially lose their jobs or be transferred to a new work location. Department management estimated there is a continuing loss of revenue for this center of approximately \$30 million annually.

Tinley Park continues to remain out of compliance and decertified

Tinley Park Mental Health Center (Tinley Park), which was decertified on February 23, 2007, had applied for its recertification. A three day certification survey was completed on September 16, 2009. On October 21, 2009 a report ruling was issued that Tinley Park remained out of compliance with "Special Conditions of Participation" and the facility remains decertified. The Department disagreed with the report and filed an appeal on December 16, 2009 and is currently awaiting the final review and ruling on the decertification.

Department management estimated there was a loss of revenue during fiscal year 2009 for Tinley Park of approximately \$75 thousand. (Finding 09-5, pages 31-32)

We recommended the Department continue its efforts to recertify Tinley Park Mental Health Center and seek final resolution of issues related to Howe Developmental Center so as to limit the amount of revenue being lost to the State.

Department officials accepted the recommendation and indicated they will continue their efforts to recertify Tinley Park Mental Health Center. As of May 25, 2010, Howe Developmental Center has facilitated 62 community transitions and 170 State Operated Developmental Center transfers to restore lost revenue. The remaining individuals residing at Howe (30) are projected to be transitioned or transferred by June 18, 2010, with an effective closure date of Howe scheduled for June 30, 2010.

Department agrees with auditors

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS RECEIVABLE NOT UPDATED IN A CONSISTENT MANNER

The Department did not update its calculations for uncollectible accounts receivable in a consistent manner for the DHS Recoveries Trust Fund (921 fund). The Department has no standard methodology or written procedures to calculate and report uncollectible accounts receivable. As a result, uncollectible accounts receivable calculations varied from \$407 million to \$440 million for the 921 fund at June 30, 2009. The auditors updated the analysis last performed in 2006, the results of which indicated estimated uncollectible accounts receivable would be approximately \$428 million at June 30, 2009.

Department computed uncollectible accounts receivable between \$407 and \$440 million

Due to the significance of accounts receivable and the allowance for uncollectible accounts in the 921 fund, it is imperative the Department establish a standard methodology and written procedures to accurately estimate uncollectible accounts for both GAAP reporting purposes and quarterly accounts receivable reporting with the Illinois Office of the Comptroller. (Finding 09-6, pages 33-35)

Written procedures should be established to accurately estimate uncollectible accounts

We recommended the Department establish a standard methodology and written procedures to analyze and calculate the estimated uncollectible percentages for the 921 fund, and ensure estimated uncollectibles are fairly presented in a consistent manner.

Department accepted the recommendation, but indicated they estimated the uncollectible allowance in compliance with historical external auditor recommendations

Department officials accepted the recommendation, but indicated they estimated the allowance for uncollectible accounts receivable in compliance with historical external auditor recommendations. In addition, the Department indicated that a new (verbal) policy regarding reporting the allowance for uncollectible accounts receivable was not communicated to the Department by the Illinois Comptroller until February 2010, six months after 921 fund financial reporting forms were submitted. The Department also responded that in the future they will estimate the allowance for uncollectible accounts receivable based upon a five year average.

Auditor's comment

In an auditor's comment it was noted a similar finding was reported for the audit period covering the two fiscal years ended June 30, 2003. (Finding 03-11, "Failure to update allowance for uncollectible accounts receivable in a consistent and timely manner.") The historical external auditor's recommendation referred to in the Department's current response was based on a collaborative analysis with the auditors and the Department in December 2001 and was used for the January 30, 2001 financial statements. Finding 03-11 was written because the analysis had not been updated. The Department subsequently implemented a process to develop a historical analysis of gross receivables and collections to determine an allowance for uncollectible accounts. However, contrary to the Department's current response, the annual reassessment ceased after fiscal year 2005 for no apparent reason. The Department, in its response to the 2003 finding, indicated its allowance for uncollectible accounts would agree on both its internally prepared reports for quarterly accounts receivable reporting and the GAAP financial reports, but then failed to do so.

CHILD CARE PROVIDER ADDRESSES MATCHED TO ILLINOIS SEX OFFENDER REGISTRY

The Department supplements child care services to more than 172,000 children monthly

The Department's Child Care Assistance Program provides low-income, working families with access to quality, affordable child care that allows them to continue working. According to the Department's Annual Child Care Report, in fiscal year 2008 the Department supported an average of 172,300 children from 91,100 families each month. The Department expended \$634 million related to child care assistance in fiscal year 2008. The Department's Child Care Manual bars anyone from "residing in a family home in which a child care facility operates" who has been included in the Illinois Sex Offender Registry.

90 instances were identified in which child care providers addresses matched addresses of individuals on the Illinois Sex Offender Registry

Auditors notified the Department of the 90 address matches

Addresses included in the Illinois Sex Offender Registry are self-reported, matches need to be investigated

One of the matches was a provider who was listed in the Illinois Sex Offender Registry

21 of the address matches identified were for providers that were related to the children for whom care was provided and 3 other providers were not related to the children

Data downloaded from the Illinois Sex Offender Registry was compared with data received from the Department of all child care providers who received a payment in fiscal year 2009. According to data provided by the Department, 79,122 providers received a payment for child care assistance services during fiscal year 2009. Auditors compared child care provider addresses with the addresses of sex offenders contained in the Illinois Sex Offender Registry maintained by the Illinois State Police as of November 18, 2009. Ninety instances were identified in which a Department child care provider's address matched an address of a registered sex offender.

Auditors notified the Department of these 90 matches on December 16, 2009, to provide the Department with an opportunity to determine whether sex offenders were residing at addresses where child care was being provided, which would be in violation of the Department's Child Care Manual.

Because there is a match in addresses does not mean that there was a sex offender living at the location where child care was being provided. Addresses included in the Illinois Sex Offender Registry are self-reported by the offender and there is a possibility that some addresses may be inaccurate or out of date. As such, it is important that each of these matches be investigated to protect the well being of the children involved.

One of the 90 matches was an actual provider who was listed in the Illinois Sex Offender Registry for Aggravated Criminal Sexual Assault. The provider received two payments in fiscal year 2009 for a total of \$187.69. For the other 89 addresses that matched, an individual listed in the Illinois Sex Offender Registry had the same address as the provider. According to Department officials, 59 of these 89 providers were no longer providing services. For these 59 matches, the Department entered into its provider database that a sex offender is registered as living at the provider's address. In 6 other matches, the address of the provider was different than the address in the matched data. Of the remaining 24 providers, the Department reported 21 providers were related to the children for whom they provided care, and the remaining 3 providers were not related to the children.

Department indicated they only have authority to investigate the provider

According to Department officials, they have no authority to investigate anyone but the child care provider and systems were not in place to routinely match to the Illinois Sex Offender Registry. Officials also stated that according to Department Legal Counsel, they cannot stop payment to these providers. (Finding 09-7, pages 36-38)

We recommended the Department ensure that children for which the State is assisting with child care costs are not placed in arrangements in which the provider or other members of the household are listed on the Illinois Sex Offender Registry.

Department agrees with auditors

Department officials accepted the recommendation and indicated they have sent letters to the parents of the children involved notifying them that a sex offender is listed at the same address for the 24 matches noted. The letter notifies the parent and allows them to check a box if they were aware that a sex offender lived at the provider's address and whether they want to continue care. The Department also noted they sent letters to the providers asking them to certify whether or not a sex offender lives in the home where child care was being provided. The Department also indicated they will periodically match the addresses of child care providers with those addresses listed in the Illinois Sex Offender Registry.

WEAKNESSES OVER IMPLEMENTING FEE-FOR-SERVICE CONVERSION

Weaknesses were noted in the process and with the contract to convert to fee-for-service payments

The Department is in the process of converting from grant based payments to fee-for-service payments to providers of mental health services. The goal to transition to fee-for-service was to encourage productivity, efficiency, accountability, improve mental health services, and maximize federal funds earned. During testing numerous weaknesses in this conversion process were noted. Some of the weaknesses identified with the conversion process and the related contracts are as follows:

Fee-for-service conversion behind schedule for completion

- The fee-for-service conversion is not complete. Planning began during fiscal year 2005. One consultant estimated the conversion could be in place by July 1, 2007 if the Department adhered to procurement timelines and implementation timeframes. Department officials noted staffing resources were not available in time to move to fee-for-service on July 1, 2007.

No substantiation for \$157,000 payment to contractor

- There was no substantiation for payment of \$157,000 to the contractor to implement fee-for-service. A contract for fiscal year 2008 included a provision for \$157,000 to be paid to the contractor for “amortized expenses”. Due to the lack of documentation, auditors were unable to determine the nature of these costs.

Contractor was overpaid \$1.785 million for fiscal year 2008

- The final payments to the contractor for fiscal year 2008 and 2009 were processed prior to final review of performance measurements. The Department subsequently noted it overpaid the contractor \$1,785,185 for fiscal year 2008. The contractor retained this amount for other contract services that it was not able to complete for fiscal year 2008 due to the late start of the initial contract. Enhancements that had not been detailed on the original deliverables’ timeline also were to be funded by this overpayment in fiscal year 2009. As a result, the contractor was prepaid for services that were not completed until the subsequent fiscal year.

Department failed to timely withhold \$101 thousand for contractor not meeting performance standards

- The Department did not timely withhold \$101,557 for the contractor’s failure to meet performance standards established by contract for fiscal year 2008. When the amount was withheld the Department erroneously withheld the entire amount rather than only 50%, the other half had already been withheld. This amount was to be netted against the \$1.7 million overpayment.

Contractor did not provide required deliverables on a timely basis

- The contractor did not provide contract deliverables on a timely basis. Six deliverables were submitted from 4 to 52 days late. Many deliverables had to be carried over to fiscal year 2009 due to the delayed delivery of specific information from the Division of Mental Health.

Department indicated issues noted were primarily due to inadequate staffing

Department personnel stated the weaknesses over implementing fee-for-service conversion are primarily due to inadequate staffing. The objectives in implementing fee-for-service assumed staffing levels that the Department has been unable to maintain primarily due to lack of funding. (Finding 09-9, pages 41-43)

We recommended the Department follow through and adhere to the MOU concerning its plans to convert to fee-for-service framework. It should also administer contracts in accordance with the terms agreed to with the contractors and documented in writing.

Department agrees with auditors

Department officials accepted the recommendation and agreed to administer contracts in accordance with the terms agreed to with the contractor.

CONTRACTS WITH THE UNIVERSITY OF ILLINOIS TO HIRE SUBCONTRACTORS AND RETIRED STATE EMPLOYEES

Department paid U of I to hire subcontractors during fiscal year 2008 and 2009

During the audit period, the Department entered into two contractual agreements and paid the University of Illinois (U of I) \$745,000 and \$1,749,000 in fiscal years 2008 and 2009, respectively, to hire twelve subcontractors to provide various services for the Department. Six of these subcontracts were with former Department personnel who had retired from the Department. As part of the contractual agreements the Department paid a 10% administrative fee (indirect cost) to the U of I to administer the contractual agreements. Weaknesses noted included the following:

Retired Department employees were hired as subcontractors through contracts with the U of I

- Because of the arrangement to hire retired Department employees there is potential for the retired former employees to work more than the legislatively mandated 75 day maximum while receiving State pension benefits, as opposed to if the former employees had been directly contracted by the Department. Subcontracting with former retired Department employees appeared to be an important part of the purpose for utilizing the U of I for these agreements.
- The Department incurred \$226,728 of indirect costs by utilizing the U of I for these agreements versus contracting directly with the subcontractors itself.
- By utilizing the U of I, the Department did not follow its normal contracting processes for competitive procurement of these types of services in accordance with the Illinois Procurement Code.

Department paid U of I \$226,728 in administrative fees

Services of subcontractors were not competitively procured

Department personnel stated since contracting with state universities are exempt from the Illinois Procurement Code, the Department views these contracts as not circumventing the contracting process. (Finding 09-10, pages 44-46)

We recommended the Department discontinue the practice of contracting with the U of I, or any entity, to hire

former retired Department employees and follow the Department's established contracting processes.

Department officials accepted the recommendation and noted in the future, when the Department desires to hire retirees, the Department will use the established contracting procedures.

Department agrees with auditors

INADEQUATE PROCEDURES FOR DISPOSAL OF CONFIDENTIAL INFORMATION

The Department regularly collects and maintains various types of documents, including confidential and personal identifiable information, necessary for fulfilling its mission. Although the Department has established several administrative directives regarding the disposal of confidential information, procedures for properly disposing of confidential information were not adequate and were not always being followed by Department employees.

Department personnel were not always following procedures for properly disposing of confidential information

While performing walkthroughs at the Department's Central Office and at certain Department facilities unsecured confidential information was found, for example:

- At the Central Office, computer print outs with names and social security numbers were found near printers, the print outs had been there for several hours.
- At the Department facilities tested, numerous examples of personal information were found within unsecured bins. Specifically found were:
 - Clinical Record Face Sheet showing SSN, resident and family names/addresses, significant health changes in past year, consultation, diagnostics, medication list and changes, and special medical needs.
 - A list of persons served and the number of anti-epileptic drugs taken for seizures.
 - The unit/subunit daily census listing which lists the name of the persons served and his/her ID number.
 - Laboratory listings with a patients name and ID, including patient name, date of birth, living area, ID number and patient's family member names.
 - Patient discharge information with name and address and a pharmacy pick list with resident's names and IDs.

Confidential information found in trash and recycle bins

Numerous instances of confidential information not being secured were identified at Department facilities

Employees improperly disposed of confidential information

The Department stated employees inadvertently disposed of confidential information improperly. (Finding

We recommended the Department assess its procedures (including all facility procedures) for safeguarding, retention and subsequent disposal of all confidential information. We further recommended the Department effectively communicate the procedures to all Department personnel, and enforce compliance with its procedures to ensure all confidential information is kept secured until no longer needed, and then properly forwarded for retention until materials can be subsequently disposed.

Department officials stated the Office of HIPAA Compliance has enhanced the Department's procedures for safeguarding, retention and subsequent disposal of all confidential information to ensure compliance with all state and federal requirements.

Department responded they have enhanced their procedures over confidential information

INTERNAL CONTROL WEAKNESSES IN THE HOME SERVICES PROGRAM

During testing, numerous internal control weaknesses were identified in the Department's Home Services Program (HSP). These weaknesses were also noted in a previous Department management review. HSP allows individuals with disabilities who are at risk of placement in a nursing home to remain in their homes. The auditors noted the following weaknesses were still prevalent during the current engagement period:

Internal control weaknesses from prior engagement remain uncorrected

- The Quality Assurance Unit reviews between 92-202 case files per month. This is an average of 2-4 case files each month per office. This review process results in less than 10% of case files being reviewed each year which is not adequate to ensure staff are compliant with program requirements.

Less than 10% of the case files are being reviewed annually

- There was insufficient monitoring of case files to ensure program objectives were being met. There is only one supervisor at each of the 44 local offices to monitor HSP activities. However, there are two offices currently without supervisors (Elgin and Ford City). On average, each supervisor was responsible for approximately 680 case files during fiscal years 2008 and 2009.

Insufficient monitoring of case files, each supervisor was responsible for approximately 680 cases

- There are insufficient controls in the payroll system for

Insufficient controls in the payroll system for processing of the personal assistants' payroll

processing of the personal assistants' payroll. HSP management stated the payroll system allows coordinators to override controls to process payroll without taking additional steps or obtaining approval from the counselor or the supervisor when the hours budgeted for the customer have been exceeded.

Department previously responded it would work to ensure case loads are less than 250

Department officials stated they had concerns regarding the controls within this program due to staff discovery of instances of fraud and abuse. In its response to this finding in the previous report, the Department stated it would work to ensure active case loads are less than 250 cases per professional staff in each office, and when caseloads exceed this limit, they will work through various options to supplement staffing to bring the staff to customer ratio back to acceptable levels. (Finding 09-15, pages 57-59)

We recommended the Department implement procedures to strengthen internal controls over the Home Services Program.

Department agrees with auditors

Department officials accepted the recommendation and agreed with the need to address these issues and indicated changes are already under development to provide for additional quality checks and thus address the concerns noted.

FAILURE TO RECOVER GRANT FUNDS BY CIRCUMVENTING THE GRANT FUNDS RECOVERY ACT

The Department awarded a \$30,000 grant to a provider in fiscal year 2006. The provider failed to file the required DHS Grant Report, used to verify if and how the funds were expended. The Department did not receive any correspondence from the provider requesting an extension and the provider was sent certified notices for an informal and formal hearing to resolve the amount due.

\$30,000 grant was recovered by Department

Since the provider never answered the numerous requests by the Department for a resolution to the matter, the Department utilized the Illinois Office of the Comptroller's offset system to offset current payments to the provider in compliance with the Grant Funds Recovery Act. According to Department records, all funds were recovered through the offset system.

There is no provision in the Department's

Administrative Directives or the Grant Funds Recovery Act to allow for a provider to keep funds after ignoring Department requests for Grant Reports and failing to participate in the formal hearing process. Once the recovery process has deemed funds are due back to the State, there is no procedure to reverse this process.

Offset grant funds were subsequently returned to the provider upon a request from the Department Secretary's office

After the funds were collected through the offset system, the provider then filed the DHS Grant Report requesting all previously offset funds be released. According to Department personnel, the offset was then reversed and the funds were released based upon a request from the Secretary's office, circumventing provisions of the Grant Funds Recovery Act and Department Administrative Directives. (Finding 09-17, pages 62-63)

We recommended the Department follow existing procedures outlined in the Grant Funds Recovery Act and Department Administrative Directives regarding recovered grant funds.

Department officials accepted the recommendation and noted they will reiterate to staff that requests to the Illinois Office of the Comptroller to release funds from grant recoveries will not be allowed.

Department agrees with auditors

FAILURE TO TIMELY DETERMINE THE DISPOSITION OF UNSPENT GRANT FUNDS

Auditor testing identified 10 programs with unspent grant funds of which the Department had not determined the final disposition. Several programs were noted that had concluded in previous years with balances in the deferred revenue and unearned deferred revenue accounts that would indicate unspent balances due to grantor agencies. Some of the specific programs with unspent grant funds noted were as follows:

Final disposition of unspent funds not determined by Department

\$360,000 in deferred revenue from grant period that ended in fiscal year 2002

- The Policy Research and Evaluation Grants reported deferred revenue totaling \$360,000. The grant period ended in fiscal year 2002, with the last receipt coming in June 2002.
- The AmeriCorps program reported deferred revenue totaling \$79,000. The grant period ended in fiscal year 2005, with the last receipt coming in February 2003.
- The Ten State Performance Indicator Pilot Project Program reported deferred revenue totaling \$72,000.

The grant period ended in fiscal year 2005, with the last receipt coming in May 2005.

\$146,000 in deferred revenue from grant period that ended in fiscal year 2008

- The Enforcing Underage Drinking Laws Program reported deferred revenue totaling \$146,000. The grant period ended in fiscal year 2008, with the last receipt coming in January 2006.

The Department stated the final disposition was not determined timely due to staffing shortages; however, they stated they are continuing to review and reconcile the funds. (Finding 09-20, pages 67-68)

Department noted final disposition was not made due to staffing shortages

We recommended the Department determine the availability of these funds for expenditure or return them after proper consultation with the respective grantor.

Department officials accepted the recommendation and indicated they believe the grant funds have been spent appropriately. However, the Department went on to note they must complete a historical review of applicable fund reporting and grant expenditures to ensure that grant funds were reported accurately in previous years' fund GAAP financial reporting packages.

Department agrees with auditors

IMPROPER TRANSFERS TO THE FY09 BUDGET RELIEF FUND

Transfers were made to the FY09 Budget Relief Fund in fiscal year 2009 from the DHS Private Resources Fund which violated the restricted purpose for which the funds were designated. The Department did not make a detail accounting of the source(s) of the transfer; however, based on the availability of monies in the fund a minimum of \$327,000 was transferred from proceeds of a court settlement agreement specifically for diabetes research or treatment, but it could have been for the entire \$500,000.

Transfer of funds from the Department were not in accordance with a court settlement agreement for diabetes research and treatment

The transfer of these funds is in direct violation of the signed agreements for which the grants/proceeds were provided to be used and could result in the funds being identified as improperly expended and the grantors requesting refunds. Department management stated this transfer was included as one of many such "fund sweeps" that were part of the FY09 budget implementation legislation. (Finding 09-21, pages 69-70)

Department noted transfers were the result of mandated "fund sweeps"

We recommended the Department work with the State

Treasurer and Comptroller to return the \$500,000 to the DHS Private Resources Fund so these funds may be expended in compliance with the agreements for which the funds were provided.

Department partially accepted the recommendation

Department officials partially accepted the recommendation noting the transfer was included as one of many such “fund sweeps” that were part of the FY09 budget implementation legislation and the Department was not involved in any way in the development or passage of this legislation and will seek to introduce legislation requiring the return of DHS Private Resources Fund monies.

WEAKNESSES IN CONDUCTING ANNUAL ELIGIBILITY REDETERMINATIONS FOR KIDCARE (ALL KIDS)

Passive redeterminations used to determine continued eligibility

During testing of 30 ALL KIDS case files, 13 cases (43%) were identified in which the eligibility redeterminations were completed using a passive redetermination process. The passive redetermination process includes sending a form to the client annually which is required to be completed only upon changes to the client’s income. The Department assumes there are no changes if a response is not received. Additionally, auditors identified 1 case file where an annual redetermination was not performed.

Auditors unable to test enrollment criteria are being met

Passive redeterminations are utilized by the Department for cases that involve families where the only benefits received by the children are medical benefits. Due to the utilization of the passive redetermination process, auditors are unable to determine whether the enrollment criteria continue to be met.

Passive redeterminations do not provide information to determine continued eligibility in accordance with State statute

Failure to perform the annual redeterminations may allow ineligible individuals to receive services. Additionally, the Department cannot redetermine eligibility in accordance with the Children’s Health Insurance Program Act (Act) utilizing a passive redetermination process as no information is received to reassess eligibility. Department personnel stated the passive redetermination was implemented in response to the federal Children’s Health Insurance Program Reauthorization Act of 2009. (Finding 09-39, pages 105-106)

We recommended the Department implement an active

eligibility redetermination process and require eligibility redeterminations be completed on an annual basis in compliance with the Act.

Department partially agreed with the recommendation

Department officials partially agreed with the recommendation and noted they have a written policy and procedure in support of the annual redetermination requirement. The Department went on to state they currently use an active form of redetermination in the majority of cases administered and administrative renewals (passive redeterminations) are limited to only medical cases fitting the criteria. Further, the Department went on to note the Department of Healthcare and Family Services is the single State Medicaid agency that sets all policy for the State's health care programs and the Department does not have the authority to bypass administrative renewal policy for cases that fit the criteria.

Auditor's comment

In an auditor's comment it was noted the Department's response is directed to federal law but does not address the requirements in State statute, specifically the requirements of the Children's Health Insurance Program Act. The federal law does not prohibit active redeterminations which include internal controls to maintain accountability.

OTHER FINDINGS

The remaining findings are reportedly being given attention by the Department. We will review the Department's progress toward the implementation of our recommendations in our next engagement.

AUDITORS' OPINION / REPORT

The auditors' opinion stated the June 30, 2009 financial statements of the Department are fairly presented in all material respects.

A compliance examination of the Department was also conducted as required by the Illinois State Auditing Act. The Accountants' Report noted the Department did not comply in all material respects with requirements regarding applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations as well as requirements regarding obligating, expending, receiving and using public funds of the State.

WILLIAM G. HOLLAND, Auditor General

WGH:RPU:pp

SPECIAL ASSISTANT AUDITORS

The public accounting firm of Sikich LLP was our special assistant auditor for this engagement.

DIGEST FOOTNOTE

#1 INADEQUATE CONTROLS OVER COMMODITIES – Previous Department Response

2008: The Department accepts the recommendation. The Department will continue to strengthen controls over the centralized oversight of commodities. A procedure will be established requiring periodic counts. The Department will require each store to explain fluctuations and develop a corrective action plan for adjustments as necessary.