



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF HUMAN SERVICES

**Financial Audit
 For the Year Ended June 30, 2021**

Release Date: June 22, 2022

FINDINGS THIS AUDIT: 10	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	9	10	2020	4, 6		
Category 2:	0	0	0	2019	7, 8		
Category 3:	0	0	0	2018	9, 10		
TOTAL	1	9	10	2017	1, 2, 5		
FINDINGS LAST AUDIT: 13							

SYNOPSIS

- **(21-01)** The Department does not have an adequate understanding of the suitability of the design of internal control or the operating effectiveness of internal control in place over all data recorded in its financial statements for transactions initiated by other State agencies and recorded in the Department's financial statements.
- **(21-03)** The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) contained inaccurate information.
- **(21-05)** The Departments (HFS and DHS) had insufficient internal controls over changes to the Integrated Eligibility System (IES) and recipient data.
- **(21-09)** The Department of Healthcare and Family Services (HFS) failed to execute interagency agreements (IA) with the Department of Human Services (DHS) establishing adequate internal controls over operation of the State of Illinois' Illinois Medicaid Program Advanced Cloud Technology system (IMPACT). In addition, HFS failed to sufficiently review and document eligibility requirements either prior to the approval of eligibility, and/or during the required monthly screenings for enrolled providers.
- **(21-10)** The Departments (HFS and DHS) failed to establish and maintain adequate general information technology internal controls (general IT controls) over the operation of the State of Illinois' Illinois Medicaid Program Advanced Technology system (IMPACT).

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 HUMAN SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2021**

FINANCIAL INFORMATION - Governmental Funds (in thousands)	FY 2021	FY 2020
REVENUES		
Program revenue: charges for service.....	\$ 47,555	\$ 48,358
Program revenue: operating grants.....	8,046,842	5,344,796
General revenue: taxes, interest and other.....	7,380	8,294
Total revenue.....	<u>8,101,777</u>	<u>5,401,448</u>
EXPENDITURES		
Health and social services.....	12,790,501	9,752,995
Debt service - principal.....	917	658
Debt service - interest.....	888	759
Capital outlays	41,708	2,379
Total expenditures.....	<u>12,834,014</u>	<u>9,756,791</u>
OTHER SOURCES (USES)		
Appropriations from State resources.....	5,248,749	4,955,884
Transfers in.....	201,680	156,650
Transfers out.....	(129,352)	(108,760)
Receipts collected & transmitted to the State treasury.....	(353,293)	(263,890)
Lapsed appropriation.....	(345,930)	(305,649)
Other.....	(110,469)	(18,386)
Total other sources (uses).....	<u>4,511,385</u>	<u>4,415,849</u>
Increase in fund balance.....	(220,852)	60,506
Fund balance, July 1 (as restated).....	443,743	382,599
(Decrease) for changes in inventories.....	360	638
Fund balance, June 30.....	\$ 223,251	\$ 443,743
SELECTED ACCOUNT BALANCES - June 30,		
Governmental Funds (in thousands)	FY 2021	FY 2020
ASSETS		
Cash and cash equivalents & investments.....	\$ 399,928	\$ 387,822
Due from other governments - federal & local.....	227,118	341,061
Loans, taxes and other receivables, net.....	118,729	147,620
Due from other Department and State funds.....	47,288	182,247
Inventories.....	7,990	7,730
Unexpended appropriations.....	457,770	542,071
Total assets.....	<u>\$ 1,258,823</u>	<u>\$ 1,608,551</u>
LIABILITIES		
Accounts payable and other liabilities.....	\$ 604,231	\$ 585,069
Unearned revenue.....	20,340	9,906
Due to other funds - State, federal, local & Department.....	238,152	396,184
Total Liabilities.....	<u>862,723</u>	<u>991,159</u>
DEFERRED INFLOWS OF RESOURCES	172,849	173,649
FUND BALANCE.....	223,251	443,743
TOTAL LIABILITIES AND FUND BALANCE.....	\$ 1,258,823	\$ 1,608,551
SECRETARY		
During Audit Period and Currently: Grace B. Hou		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**MEDICAL ASSISTANCE PROGRAM FINANCIAL
INFORMATION**

Department does not perform a sufficient review of transactions initiated by other State agencies

The Department of Human Services (Department) does not have an adequate understanding of the suitability of the design of internal control or the operating effectiveness of internal control in place over all data recorded in its financial statements for transactions initiated by other State agencies and recorded in the Department's financial statements.

During our testing of the financial statements, we noted the following:

- The Department could not provide documentation of the preparation or the Department's review of expenditure reconciliations for Federal Medical Assistance Program (MAP) funds or the State Children's Health Insurance Program (CHIP) (Funds 0120, 0142, 0211, 0365, 0502, 0509, 0718) between amounts reported in the Department's Consolidated Accounting and Reporting System (CARS) and amounts reported in the Grant/Contract Analysis Forms (Form SCO-563s) provided to the Comptroller's Office (IOC) which support the receivable calculation for financial reporting. The amount per the Form SCO-563s (totaling approximately \$374 million for total reimbursable costs "TRC" for Assistance Listing Numbers 93.767 and 93.778) is a computed amount (a formula), essentially the amount needed to achieve the reported receivable balance provided by the Department of Healthcare and Family Services (HFS), a separate State agency. The Department does not retain a reconciliation between what is reported on the Form SCO-563s (claimable expenditures) and within CARS (all expenditures) for each fund. Additionally, there is no documentation maintained by the Department to support the calculation and methodology used by HFS in preparing the federal receivable amount (approximately \$17.2 million for the two programs).
- During testing of expenditures and liabilities, we determined that the Department is not monitoring or reviewing the payments submitted by HFS, or the liabilities calculated by HFS, on behalf of the Department and reported in the Department's financial statements. When HFS submits a request for payment to the IOC, a summary file is also sent to the Department which goes through an interface and is recorded into CARS. An employee in the

Department could not provide documentation supporting expenditure reconciliations for its Federal MAP funds

Department does not monitor payments submitted or liabilities calculated by HFS on behalf of the Department

Department's Fiscal Services Bureau reconciles the payments between CARS and the IOC before accepting them into CARS. Although, the Department has documented their understanding of how transactions for DHS programs are processed within HFS, the Department was not able to provide auditors with documentation of their monitoring performed over the amounts reported in the Department's financial statements. Additionally, the Department is placing reliance on the internal control over the applicable HFS system without recent independent verification of the system. Currently, the Department receives summarized information from HFS and records the transactions into CARS and the GAAP packages without performing sufficient procedures to determine the accuracy of the information. (Finding 1, pages 75-76)

We recommended the Department assume more responsibility for the transactions and balances reported in its financial statements that are initiated/estimated by other State agencies, including the following: entering into an interagency agreement (IA) with HFS that details the responsibilities of each agency with regards to initiating, processing and recording transactions, and how the sufficiency of internal control over Department transactions will be monitored (i.e. annual internal audit, SOC 1 Type 2 audit, or other), and, once an IA is executed, on a regular basis, the Department should determine if the control system and related monitoring agreed to through the IA, is sufficient to prevent and detect significant financial statement errors. The sufficiency of internal control should be monitored each time there is a major change to MAP/CHIP programs or IT systems used for those programs. We also recommended expenditure and accrual amounts provided by HFS in connection with year-end reporting of Federal MAP receivables should be reconciled to CARS or agreed to reports and source data compiled by HFS.

DHS accepted the recommendation

The Department accepted the recommendation and stated it will pursue an interagency agreement with HFS and monitor audits and reviews performed on HFS data and internal controls.

WEAKNESSES IN PREPARATION OF YEAR-END DEPARTMENT FINANCIAL STATEMENTS

Year-end financial reporting contained inaccurate information

The Department of Human Services' (Department's) year-end financial reporting in accordance with generally accepted accounting principles (GAAP) contained inaccurate information.

The Department does not have adequate controls over the completeness and accuracy of year-end financial reporting which resulted in errors in the GAAP basis financial statements and supporting schedules provided to the auditors. The Department does not perform a sufficient supervisory review of all amounts recorded in its financial statements and footnotes.

We noted and the Department corrected the following disclosure errors related to Footnotes 9 and 10:

SERS pension expense footnote understated by \$58.5 million

- Most Department employees participate in the State Employees' Retirement System (SERS), which is a single-employer defined benefit pension trust fund. The pension expense amount reported in the draft financial statements for Footnote 9 for State Employees' Retirement System (SERS) was understated by \$58.5 million. The Department netted the reversal of the contributions to the SERS Plan with pension expense to arrive at the pension expense amount disclosed in Footnote 9 - Defined Benefit Pension Plans.

TRS pension expense footnote understated by \$3.5 million

- Certain Department facility employees participate in the Teachers Retirement System of Illinois (TRS), which is a multiple employer cost sharing plan with a special funding situation. GASB Statement No. 68 Accounting and Financial Reporting for Pensions, requires that the Department, as an employer, record its portion of the non-employer contributing entity (NECE) pension expense pertaining to Department employees in the government wide financial statements (as a revenue and an expense). This amount for the year ended June 30, 2021 was approximately \$6.8 million and the Department recorded approximately \$3.2 million, the difference was deemed immaterial and not recorded.

SEGIP OPEB footnote understated by \$12.8 million

- The Department's employees are members of the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services for their other postemployment benefits (OPEB). The OPEB expense amount reported in the draft financial statements for Footnote 10 was understated by \$12.8 million. The Department netted the reversal of the contributions to the OPEB Plan with OPEB expense to arrive at the OPEB expense amount disclosed in Footnote 10 - Postemployment Benefits.

Additionally, prior year audit entries for the General Revenue Fund (001) and the DHS Special Purposes Trust Fund (0408) were not correctly reversed during FY2021 resulting in a misstatement in federal operating grant revenues. In FY 2020, audit adjustments were recorded to correct the accounting for federal operating grant revenues and receivables for the Child Care Assistance program. In the prior year, revenues earned by Fund 0001 were recorded as revenue in Fund 0408, resulting in

a correcting entry and an interfund receivable and payable between the two funds. In FY 2021, the prior year entries were reversed solely to federal operating grant revenue as part of the year-end close process. A portion of the FY 2020 interfund balance was not liquidated and was forgiven. That portion (\$24.7 million) should have been classified as a transfer between the two funds during FY 2021, instead of an adjustment to revenue. These errors were corrected by the Department. (Finding 3, pages 82-84)

We recommended Department management increase the level and quality of supervisory review of year-end financial reporting including completing a report checklist, such as the one available on the Government Finance Officers' Association (GFOA) website, to determine if all amounts and disclosures in the financial statements are complete and accurate, and carefully reviewing audit entries from the prior period when determining the reversing entry to be recorded.

DHS accepted the recommendation

DHS accepted the recommendation and stated it will review the GFOA checklist regarding benefit plans and identify items that apply to IDHS pension and OPEB reporting.

INSUFFICIENT INTERNAL CONTROLS OVER CHANGES TO THE IES AND RECIPIENT DATA

Insufficient internal controls over changes to IES and recipient data

The Department of Healthcare and Family Services and the Department of Human Services (collectively, the "Departments") had insufficient internal controls over changes to the Integrated Eligibility System (IES) and recipient data.

Management of the Departments have 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 which intakes, processes (with the assistance of caseworkers), and approves recipient applications, maintenance items, and redeterminations in order to determine eligibility and make payments for the State's human service programs.

Change control is the systematic approach to managing changes to an IT environment, application, or data. The purpose is to prevent unnecessary and/or unauthorized changes, ensure all changes are documented, and minimize any disruptions due to system changes.

IES Application Changes Policies and Procedures

Our review of the April 20, 2020 IES Change Management Plan (Plan) noted the Plan did not:

IES Change Management Plan did not contain required information

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

Testing of IES Application Changes

Due to the Plan's limitation our scope of auditing was limited

Due to the Plan's limitations noted above, the scope of our audit procedures was limited to the Departments' testing and approval of IES changes prior to placing them into production. Specifically, we could not perform testing on other change management control procedures, which would otherwise be typically tested, as they were not included in the Plan.

Our testing noted no exceptions during testing of IES application changes. (Finding 5, pages 88-90)

We recommended management of both Departments work together to strengthen controls in the Change Management Plan by including:

- Specific requirements for the prioritization or classification of changes,
- Definitions of the numerical grading for determining impact,
- Detailed documentation requirements for test scripts and results, impact analysis, design documentation, or other required documentation,
- Definitions of when changes are required to include a specific requirement, who should review the various steps, and when, and by whom approvals are required, and
- Requirements for backout plans to return the system to a previous functional version in the event a change moved into production causes undesired results, for individual infrastructure changes.

DHS accepted the recommendation

DHS accepted the recommendation and stated it will review its Change Management policy and procedure to assure that it meets the auditor recommendations. DHS stated it will also

review and modify, as needed, its documentation of the various steps and the responsible individuals, in the change approval process and work to develop a documented change backout plan.

INSUFFICIENT REVIEW AND DOCUMENTATION OF PROVIDER ENROLLMENT DETERMINATIONS AND FAILURE TO EXECUTE INTERAGENCY AGREEMENT

Failure to establish and implement controls over IMPACT

The Department of Healthcare and Family Services (HFS) failed to execute interagency agreements (IA) with the Department of Human Services (DHS) establishing adequate internal controls over the operation of the State of Illinois' Illinois Medicaid Program Advanced Cloud Technology system (IMPACT). In addition, HFS failed to sufficiently review and document eligibility requirements either prior to the approval of eligibility, and/or during the required monthly screenings for enrolled providers.

Insufficient review of enrollment determinations

Interagency Agreements

DHS did not have IAs defining roles and responsibilities

Auditors noted HFS did not enter into or have an existing IA with DHS defining each agency's roles and responsibilities as they related to IMPACT during fiscal year 2021.

Detail Sample Testing of IMPACT Providers at HFS

During fiscal year 2021, 24,209 provider enrollment applications were approved in IMPACT. In order to determine if the providers' applications were approved in accordance with federal and State laws/rules/regulations, a sample of 60 approved applications were selected for testing. Our testing noted seven (12%) approved provider applications did not contain documentation to substantiate a review of the provider's required professional license or board certification to confirm the licenses/certifications were valid at the time the application was approved.

DHS does not use IMPACT as its official book of record

Detail Sample Testing of IMPACT Providers at DHS

During testing, the auditors determined DHS did not solely utilize IMPACT as the official book of record or consistently rely on it to verify its providers met certain Medicaid requirements prior to approving them to provide services. Specifically, in fiscal year 2021, DHS performed procedures to determine if its providers met certain Medicaid requirements outside of IMPACT. Upon completion of those procedures, DHS personnel then entered the providers' information into IMPACT and approved the provider's file in order to grant approval for payment.

In order to determine if DHS provider applications were approved in accordance with federal and State laws/rules/regulations, prior to DHS entering their information into IMPACT, the auditors selected a sample of 60 approved applications for detailed testing and had no exceptions.

Additionally, on a monthly basis, IMPACT conducts monthly screenings of provider profiles against several databases to determine if the provider licenses are valid and current, and identifies suspected criminal activity. During testing, the auditors determined DHS personnel did not regularly follow-up on issues identified in IMPACT during the monthly screenings. (Finding 9, pages 97-99)

We recommended HFS management work with DHS to ensure all provider applications are properly reviewed, approved, and documented within IMPACT. In addition, we recommended HFS work with DHS to execute detailed interagency agreements which document specific roles and responsibilities as they relate to IMPACT. Finally, until the interagency agreement is finalized, we recommended DHS follow-up on issues identified pertaining to their providers, from the IMPACT monthly screenings.

DHS accepted the recommendation

DHS accepted the recommendation and stated it will work with HFS to ensure provider applications are properly reviewed, approved, and documented within IMPACT. An interagency agreement was drafted and submitted for final approval. IDHS will review the findings and follow up on deficiencies identified pertaining to our providers from the IMPACT monthly screenings.

INADEQUATE GENERAL INFORMATION TECHNOLOGY CONTROLS OVER IMPACT

Failure to establish and maintain GITC over IMPACT

The Department of Healthcare and Family Services (HFS) and the Department of Human Services (DHS) (collectively, the “Departments”) failed to establish and maintain adequate general information technology internal controls (general IT controls) over the operation of the State of Illinois’ Illinois Medicaid Program Advanced Technology system (IMPACT).

In calendar year 2012, HFS and the State of Michigan’s Department of Community Health entered into an intergovernmental agreement (IGA) for the State of Illinois (State) to utilize Michigan’s existing Medicaid Management Information System (MMIS) and its related infrastructure with the goal of replacing the State’s MMIS to accommodate the processing of the State’s Medicaid provider enrollment determinations and all Medicaid claim payments to such providers. Since 2012, the State has implemented two phases of IMPACT: Electronic Health Record Medicaid Incentive Payment Program (eMIPP) and Provider Enrollment (PE).

An IGA was entered into in 2015 which formally established the Illinois-Michigan Program Alliance for Core Technology. Additionally, the parties agreed to pursue expansion of the Michigan MMIS environment to accommodate the processing

of Illinois' Medicaid claims. The IGA required Michigan to extend its current system to utilize cloud architecture that would result in converged infrastructure, maximizing the effectiveness of shared resources, and allowing the shared services to be offered to HFS.

Departments lack access or control over IMPACT and failed to obtain a SOC report over IMPACT

As a result of the Departments not having access to or control over IMPACT and its infrastructure, the auditors requested HFS provide a System and Organization Control (SOC) report which would provide the State and auditors information on the design and effectiveness of internal controls over IMPACT. In response, HFS provided a Security Assessment Report (Report), however, this report did not evaluate the design and implementation of Michigan's internal controls.

Specifically, the Report did not document:

- Timeframe/period in which the Security Assessment Report covered,
- Independent service auditor's report,
- Details of the testing conducted, and
- Details of Michigan's internal controls as they relate to:
 - Control environment,
 - Risk assessment processes,
 - Information and communication,
 - Control activities, and
 - Monitoring activities.

Report lacks required items to sufficiently report internal controls over IMPACT

As a result, the auditors were unable to perform adequate procedures to satisfy themselves that certain general IT controls (change management) to IMPACT were operating effectively during the audit period.

Change Management

As a result of the Departments' failure to obtain a SOC report, as noted above, or conduct their own timely, independent internal control review over changes to IMPACT, data, or the infrastructure, the auditors were unable to determine if changes made during the audit period were proper and approved.

Auditor unable to perform adequate procedures related to Change Management and User Access

User Access Control

The auditors noted HFS included all users, including DHS users, in its annual IMPACT Provider Enrollment Access Review. However, due to no executed intergovernmental agreement between HFS and DHS (see Finding 2021-009), there was no interim user access review completed for DHS. (Finding 10, pages 100-102)

We recommended the Departments work with the service provider to obtain assurance the internal controls over IMPACT, data, and the infrastructure, including change control and user access, are adequate. Additionally, until the Departments execute an intergovernmental agreement which

addresses all user access testing, we recommended DHS perform periodic user access reviews of all DHS employees with access to IMPACT.

DHS accepted the recommendation

DHS accepted the recommendation and stated it will work with HFS and the service provider to ensure controls over IMPACT, data, and the infrastructure are adequate.

OTHER FINDINGS

The remaining findings pertain to the lack of adequate controls over service providers, census data, access review procedures for IES, disaster recovery controls over the IES, insufficient detailed agreement with the Department of Innovation & Technology, and inadequate interagency agreement over IES. 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 Human Services as of and for the year ended June 30, 2021 are fairly stated in all material respects.

This financial audit was performed by RSM US 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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