STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL
Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS DEPARTMENT OF HUMAN SERVICES

Financial Audit for the Year Ended June 30, 2015 and Compliance Examination for the Two Years Ended June 30, 2015

Release Date: June 2, 2016

FINDINGS THIS AUDIT: 33

	New	Repeat	Total
Category 1:	4	3	7
Category 2:	4	22	26
Category 3:	0	0	0
TOTAL	8	25	33

FINDINGS LAST AUDIT: 38

AGING SCHEDULE OF REPEATED FINDINGS

Repeated Since	Category 1	Category 2	Category 3
2014		1, 2, 4	
2013		14, 19, 21, 26, 28, 29, 33	
2011	10, 11	13, 17, 20	
2009	3	27	
2007		18, 25	
2005		12, 15, 23 24, 31, 32	

SYNOPSIS

- (**15-03**) The Department does not have adequate controls over year-end financial reporting, which resulted in inaccurate information.
- (**15-06**) The Department and the Department of Healthcare and Family Services failed to establish controls to conduct due diligence or ensure project management over the State of Illinois' Integrated Eligibility System development project.
- (**15-10**) Department facilities did not comply with statutory requirements regarding the use of restraints.
- (**15-14**) The Department lacked adequate monitoring over provider agencies who were Division of Rehabilitation Services grant/award recipients.
- (**15-15**) The Department continues to not have adequate controls over eligibility redeterminations and, as a result, failed to make annual redeterminations of eligibility for KidCare (now known as ALL KIDS).

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.

{Expenditures and Activity Measures are summarized on next page.}

DEPARTMENT OF HUMAN SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2015
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2015

EXPENDITURE STATISTICS ($ expressed in thousands)	2015	2014	2013
Total Expenditures	**$ 6,107,862**	**$ 5,836,683**	**$ 5,827,496**
OPERATIONS TOTAL	$ 1,804,257	$ 1,782,724	$ 1,742,253
% of Total Expenditures	29.5%	30.5%	29.9%
Personal Services	893,356	860,059	826,848
Other Payroll Costs (FICA, Retirement and Group Insurance)	127,348	122,346	131,138
Interfund Cash Transfers	291,295	293,470	295,297
Medical & Food Supplies for Distribution	225,160	233,649	239,299
Contractual Services	213,291	215,836	200,293
All Other Operating Expenditures	53,807	57,364	49,378
AWARDS AND GRANTS	$ 4,299,030	$ 4,043,299	$ 4,081,575
% of Total Expenditures	70.4%	69.3%	70.0%
PERMANENT IMPROVEMENTS	$ 375	$ 6,314	$ 295
% of Total Expenditures	0.0%	0.1%	0.0%
REFUNDS	$ 4,200	$ 4,346	$ 3,373
% of Total Expenditures	0.1%	0.1%	0.1%
Total Receipts	**$ 2,027,437**	**$ 1,986,334**	**$ 2,058,172**
Number of Employees, June 30 (Unaudited)	**12,925**	**11,956**	**11,287**

SELECTED ACTIVITY MEASURES (unaudited)	FY 2015	FY 2014	FY 2013
Family and Community Services:			
Average number of TANF families engaged each month	5,272	5,108	5,540
Average number of children served - child care, per month	179,315	163,000	163,250
Refugees and imigrants receiving outreach/interpretation services.	64,403	71,088	62,204
Average child care cost per child, per month	$ 478	$ 438	$ 413
Home Services:			
Persons receiving in-home services to prevent institutionalization.	29,595	30,357	31,406
Average monthly cost of in-home service per client	$ 1,502	$ 1,391	$ 1,322
Sexually Violent Persons Program:			
Annual cost per detainee/sexual violent person in TDF	$ 56,702	$ 54,804	$ 43,310

DEPARTMENT SECRETARY

During the Audit Period: Ms. Michelle R. B. Saddler (through 1/19/15)
Ms. Melissa Wright (Acting: 1/20/15 through 2/13/15)
Mr. Greg Bassi (Acting: 2/17/15 through 5/17/15)
Mr. James T. Dimas (Acting 5/18/15 through 4/12/16, Appointed 4/13/16 through present)

Currently: Mr. James T. Dimas

INTRODUCTION

This report presents our Department-wide financial statement audit for the year ended June 30, 2015 and compliance attestation examination for the two years ending June 30, 2015. At June 30, 2015 the Department operated 6 Developmental Centers, 6 Mental Health Centers, 1 combined Mental Health and Developmental Center and 4 Rehabilitation Services Facilities. The findings are presented in the report beginning at page 18.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

WEAKNESSES IN PREPARATION OF YEAR-END DEPARTMENT FINANCIAL STATEMENTS

Lack of complete general ledger system

Several errors noted in financial reporting

The Department does not have a complete general ledger or adequate controls over the completeness and accuracy of monthly and year-end annual financial reporting which resulted in errors in the generally accepted accounting principles (GAAP) basis financial statements, GAAP schedules prepared for the State Comptroller's Office, and additional supporting schedules and analysis.

The Department did not timely record all expenditures and receipts into its Consolidated Accounting and Reporting System. This included payroll transactions in approximately 20 funds totaling $84.2 million through June 30 and $8.6 million as of August 31, 2015.

We also noted the following issues with the year-end financial reporting process:

- The Department does not have a robust documented process for estimating liabilities payable from future year's appropriations for certain programs. As a result of a separate analysis performed by auditors over these liability estimates, we concluded the following liabilities were misstated:

Misstated liabilities of over $5.8 million

  - Developmental Disabilities was understated approximately $5.8 million
  - DASA was overstated approximately $500 thousand
  - Mental Health was overstated approximately $2.6 million
  - Early Intervention was overstated approximately $12.9 million

- Pension amounts (pension expenditures and the related revenues) pertaining to pension contributions made for DHS employees paid from the General Revenue Fund

were not recorded.

- The Department could not provide expenditure reconciliations for federal Medical Assistance Program funds.
- Other reconciliations were incomplete.
- Unexpended appropriations was misstated in the draft financial statements in the General Revenue Fund.

State funds not protected with FDIC coverage

- Deposits at financial institutions exceeded federal deposit insurance coverage in the amount of $1.3 million. Additionally, for another significant account held, approximately $5 million was exposed to custodial credit risk because the collateral provided by the financial institution was not held in the name of the Department.
- The Department does not maintain a detailed accounts receivable subsidiary ledger to support the ending Mental Health Fund quarterly balances.
- The Department does not perform a supervisory review of all amounts recorded in its GAAP packages and financial statements. (Finding 3, pages 23-27) **This finding was first reported in 2009.**

We recommended management perform a thorough assessment of the year-end financial reporting process and determine the significant liability estimates that need to be re-evaluated.

Department agreed with auditors

The Department accepted the recommendation and stated they will perform a thorough assessment of the year-end financial reporting process and continue to make improvements to ensure accurate GAAP reporting forms and year-end financial statements. (*For the previous Department response, see Digest Footnote #1*)

LACK OF DUE DILIGENCE AND PROJECT MANAGEMENT OVER THE INTEGRATED ELIGIBILITY SYSTEM (IES)

The Department and the Department of Healthcare and Family Services (Departments) did not establish controls to conduct due diligence or ensure project management over the State of Illinois' Integrated Eligibility System (IES) development project.

In order to meet the requirements of the Affordable Care Act of 2010, the Departments undertook a project to consolidate and modernize eligibility functions for several human service programs by October 1, 2013. Three contracts totaling $167.8 million were executed for the development, oversight, and independent verification and validation of IES.

Reliance on vendors to maintain and provide documentation

The Departments had to rely on the vendors to provide the required documentation to respond to the auditors' requests. Additionally, during this timeframe, the vendors did not provide complete and accurate information responsive to the requests.

System went live with known problems

Based on the information provided, Phase One of IES went live on October 1, 2013 even though it had known problems, required manual workarounds, and encountered data integrity and downtime issues. Our review of documentation identified a significant number of critical deficiencies:

- The Departments did not conduct due diligence or assess the risks over the known problems at October 1, 2013.
- Over-reliance was placed on the vendors.
- System testing was inadequate and did not comply with development requirements.

Failure to adequately review and assess testing

- The Departments did not thoroughly review or assess testing completed by one of the vendors.

Eligibility not accurately determined for various programs

As a result of the lack of project management, IES did not accurately determine individuals' eligibility for various social service programs. In addition, the Departments did not implement adequate security controls over IES.

Deficiencies led to additional project expenditures

The Departments' lack of due diligence and an effective and controlled project management process over IES led to: additional project expenditures for revisions, the State's over-reliance on the contractors, system downtime, and a system that does not completely meet the needs of the State. (Finding 6, pages 33-35)

We recommended the Departments establish controls over project management and due diligence, such as improving vendor relationships, monitoring, testing, etc. for major projects, such as IES.

Departments agreed with auditors

The Departments accepted the recommendation and have taken steps to address issues.

NONCOMPLIANCE WITH STATUTORY REQUIREMENTS AT DEPARTMENT FACILIITES FOR THE USE OF RESTRAINTS

Several exceptions noted regarding use of restraints at 8 facilities

During testing, exceptions were noted with regards to the use of restraints at 8 of the Department's facilities. Some of these exceptions are noted as follows:

Lack of training noted as widespread issue

- Several employees authorized to apply restraints did not receive their required annual training at the end of Fiscal Year 2015.

No order found to support use of restraint

- Two out of 6 (33%) residents at the Read Center placed in restraints were not reported to the Center Director in writing within 24 hours of the use of the restraint.
- One out of 6 (17%) residents at the Read Center placed in restraints did not have an order for Physical Hold to support the use of the restraint.

Residents restrained twice in 48 hour period without written authorization

- One out of 6 (17%) residents at the Elgin Center and one out of 5 (20%) residents at the Mabley Center placed in restraints, was restrained twice in a 48 hour period without the prior written authorization of the Center Director.
- For 1 out of 6 (17%) residents tested at the McFarland Mental Center, the restraint report noted the restraint was applied for one hour while the resident's file noted the restraint was applied for two hours and 55 minutes.
- For 1 out of 6 (17%) residents tested at the McFarland Center, a manual hold noted in the file did not appear on the report.

Lack of re-training noted

- Five out of 6 (83%) employees tested at the Kiley Center were not re-trained within 12 months of their previous training date. The employees were between 41 and 598 days late.

Lack of review of use of restraint

- One out of 5 (20%) residents placed in restraints at the Mabley Center did not have the use or application of the restraint reviewed by the Center Director or Administrator on Duty. (Finding 10, pages 45-48) **This finding was first reported in 2011.**

We recommended the Department establish comprehensive Department-wide internal controls over compliance with State mandates regarding the use of restraints that is applicable to all Centers.

Department agreed with auditors

Department officials accepted the recommendation and stated they will implement necessary controls with the Division of Mental Health Centers and the Regional State-Operated Developmental Centers Operations' oversight and monitoring to ensure compliance. (*For the previous Department response, see Digest Footnote #2*)

INADEQUATE MONITORING OF PROVIDER AGENCIES

Testing of the Department's monitoring of the Division of Rehabilitation Services' grant/award agreements with its independent living program provider agencies revealed the following:

No on-site monitoring of Independent Living providers during 2014 and 2015

- No on-site monitoring for any of the providers in the Independent Living Program had occurred during fiscal years 2014 and 2015.

- For one of the 3 providers tested, monitoring of Fiscal Year 2015 was conducted on December 8, 2015 with a report issued January 14, 2016 and a corrective action plan received February 29, 2016. Both the report issued and corrective action plan were after the 30 day requirement per statute. Additionally, the other two providers tested did not have an on-site monitoring visit since 2009 and 2006. (Finding 14, pages 59-60)

We recommended the Department allocate sufficient resources to improve compliance with the Department's Administrative Rules for monitoring provider agencies who were Division of Rehabilitation Services grant/award recipients.

Department agreed with auditors

Department officials accepted the recommendation and stated that the Division will review current resource allocations and adjust as appropriate to ensure compliance with monitoring providers.

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

23% in 2014 and 12% in 2015 of cases not redetermined annually

Based on the Office of the Auditor General's February 2016 Program Audit of the Covering ALL KIDS Health Insurance Act, of the 28,695 EXPANDED ALL KIDS recipients that required an annual redetermination of eligibility in FY14, 6,625 (23%) were not redetermined annually as required. Testing for FY15 found that of the 29,881 EXPANDED ALL KIDS recipients that required an annual redetermination of eligibility, 3,715 (12%) were not redetermined annually as required.

Department management stated that an increasing number of overdue redeterminations exist due to the absorption of cases that would have previously been eligible for administrative renewal; start up issues and time spent on process development with Maximus; and the amount of time spent on staff development for new hires. (Finding 15, pages 61-62) **This finding was first reported in 2005.**

We recommended the Department allocate additional resources to the ALL KIDS eligibility redetermination process and establish an internal control whereby benefits are not provided until such redeterminations are complete.

Department agreed with auditors

Department officials accepted the recommendation and stated they will continue to work with the Department of Healthcare and Family Services to review current processes for performing eligibility redeterminations and consider changes necessary to ensure all redeterminations are performed within prescribed timeframes. (*For the previous Department response, see Digest Footnote #3*)

OTHER FINDINGS

The remaining findings are reportedly being given attention by Department personnel. We will review progress toward implementation of our recommendations in our next Audit/Examination.

AUDITOR'S OPINION

Our auditors stated the financial statements of the Department of Human Services as of June 30, 2015, and for the year ended, are fairly stated in all material respects.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Department for the two years ended June 30, 2015, as required by the Illinois State Auditing Act. The auditors qualified their report on State Compliance for findings 2015-006 through 2015-011. Except for the noncompliance described in these findings, the auditors state the Department complied, in all material respects, with the requirements described in the report.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:etl

SPECIAL ASSISTANT AUDITORS

RSM US LLP was our special assistant auditors.

DIGEST FOOTNOTES

#1 – Weaknesses in preparation of year-end Department financial statements - Previous Department Response

2014: The Department agrees with the recommendation. The Department will perform a thorough assessment of the year-end financial reporting process and continue to make improvements to ensure accurate and timely preparation of GAAP reporting forms and year-end financial statements.

#2 – Noncompliance with statutory requirements at facilities for the use of restraints - Previous Department Response

2013: The Department accepts the recommendation. The Department is enhancing its procedures to comply with the statutory requirements noted.

#3 – Weaknesses in conducting annual eligibility redetermination for Kidcare (ALL KIDS) - Previous Department Response

2013: The Department accepts the recommendation. The Department will continue to work with the Department of Healthcare and Family Services to review current processes for performing eligibility redeterminations and consider changes necessary to ensure all redeterminations are performed within prescribed timeframes.