State of Illinois
Department of Human Services

Financial Audit
For the Year Ended June 30, 2018

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

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State of Illinois
Department of Human Services
Financial Audit

Table of Contents

State of Illinois

Department of Human Services

Agency Officials

Secretary	Grace B. Hou (3/18/19 – present) Vacant (3/16/19 – 3/17/19) James T. Dimas (through 3/15/19)
Assistant Secretary (Operations)	Dulce Quintero (5/6/19 – present) Vacant (through 5/5/19)
Assistant Secretary (Programs)	Kia Coleman (5/6/19 – present) Vacant (3/22/19 – 5/5/19) Maria Bruni (through 3/21/19)
Budget Director	Tiffany Blair (6/16/19 – present) Robert Brock (8/1/03 – 6/15/19)
Business Services Director	Paul Hartman
Chief of Staff	Ryan Croke (4/24/19 – present) Corey-Ann Gulkewicz (10/1/18 – 4/23/19) Fred Flather (through 9/30/18)
Chief Financial Officer	Robert Brock
Chief Operating Officer	Francisco DuPrey (4/29/19 – present) Vacant (3/1/19 – 4/28/19) Khari Hunt (through 2/28/19)
Office of Contract Administration Manager	Brian Bond (8/1/18 – present) Dan Melliere (Interim 7/1/18 – 7/31/18) Brian Bertrand (through 6/30/18)
Chief Internal Auditor	Amy DeWeese
Agency Procurement Officer	Jean Sandstrom (7/19/18 –present) Vacant (7/1/18 – 7/18/18) William Strahle (through 6/30/18)
Fiscal Services Director	Connie Sabo (10/9/18 – present) Alex Jordan (Acting through 10/8/18)
Human Resources Director	Scott Viniard
Management Information Services Chief	Vacant (6/1/19 – present) Amy Gentry (8/16/17 – 5/31/19), Chief Information Officer Vacant (through 8/15/17)
Office of Community Relations Director	Meghan Powers (8/21/17 – present) Vacant (7/15/17 – 8/20/17) Meredith Krantz (through 7/14/17)
Chief Legislative Liaison	Emily Katalinich (Acting 7/1/19 – present) Jennifer Aring (2/1/15 – 6/30/19)

Hispanic/Latino Affairs Director	Elizabeth Diaz Castillo
General Counsel	John F. Schomberg (3/4/19 – present) Vacant (3/2/19 – 3/3/19) Dan Dyslin (10/1/18 – 3/1/19) Corey-Anne Gulkewicz (through 9/30/18)
Inspector General	Dan Dyslin (Acting 5/21/19 – present) Michael McCotter (12/2012 - 5/20/19)
Strategy, Equity & Transformation Formerly, Office of Innovation, Strategy & Performance	Andrea Hall (7/16/19 – present) Vacant (2/1/19 – 7/15/19) Bruce Bendix (through 1/31/19)
Division of Substance Use & Recovery Director	Danielle Kirby (3/1/18 – present) Maria Bruni (through 2/28/18)
Division of Rehabilitation Services Director	Rahnee Patrick (5/20/19 – present) Vacant (5/5/17 – 5/19/19) Quinetta Wade (Acting 2/1/17-5/4/17)
Division of Developmental Disabilities	Kathy Ward (Acting 1/16/19 – present) Melissa Wright, Interim Director (6/1/18 – 1/15/19) Greg Fenton (through 5/31/18)
Division of Mental Health Director	Diana Knaebe
Division of Clinical, Administrative and Program Support Manager	Jennifer Aring (7/1/19 – present) Vacant (9/1/18 – 6/30/19) J. Michael (Mike) Patton (through 8/30/18)
Office of Family Community Services Director (Formally: HCD)	Tim Verry (Acting 3/4/19 – present) Vacant (3/2/19 – 3/3/19) Diane Grigsby-Jackson (through 3/1/19)
Grant Administration Director	Sessy Nyman (5/28/19 – present) Vacant (11/1/18 – 5/27/19) Mary Jennings (through 10/31/18)
Office of Security and Emergency Preparedness Director	Vacant
Civil Affairs Director & EEO/AA Officer	Ganapathi Ramaswamy
Labor Relations	Lori Simmons

Agency main offices are located at:

100 South Grand Avenue, East Springfield, Illinois 62762	401 South Clinton Street Chicago, Illinois 60607

State of Illinois

Department of Human Services

Financial Statement Report

Summary

The audit of the accompanying basic financial statements of the State of Illinois, Department of Human Services (Department) was performed by RSM US LLP.

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

Summary of Findings

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be material weaknesses. The material weaknesses are described in the accompanying Schedule of Findings (pages 82 through 147 of this report) as items 2018-001, 2018-002, 2018-003, 2018-004, 2018-005, 2018-006, 2018-007, 2018-008, 2018-009, 2018-010 and 2018-011.

Exit Conference

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on July 31, 2019. Attending were:

Department of Human Services:

Grace Hou	Secretary
Dulce Quintero	Assistant Secretary-Operations
Amy DeWeese	Chief Internal Auditor
Albert Okwuegbunam	Senior Auditor
Robert Brock	Chief Financial Officer
Paul Thelen	Chief, Bureau of Performance Management
Linda Saterfield	Policy Advisor
Susan Hamlin	DoIT- IES Bureau Chief
John Schomberg	General Counsel

Office of the Auditor General:

Janis VanDurme	Senior Audit Manager
Kathy Lovejoy	Senior Audit Manager
Dan Nugent	Senior Audit Manager

RSM US LLP:

Linda Abernethy	Partner
Ryan Caldwell	Senior Manager
Jacob Bender	Supervisor

Exit Conference (Continued)

The Department's responses to Findings 2018-001, 2018-002, 2018-003, 2018-007, 2018-008, 2018-009, 2018-010 and 2018-011 were provided by Amy DeWeese, Chief Internal Auditor in correspondence dated August 6, 2019. The Department's responses to Findings 2018-004, 2018-005 and 2018-006 were provided by Amy DeWeese, Chief Internal Auditor in correspondence dated May 17, 2019.

The Department of Children and Family Services' responses to Finding 2018-004, 2018-005 and 2018-006 were provided by Joe McDonald, Associate Deputy Director, in correspondence dated May 17, 2019. The Department on Aging's responses to Findings 2018-004, 2018-005, and 2018-006 were provided by Nicholas Barnard, Chief Internal Auditor, in correspondence dated May 16, 2019. The Department of Healthcare and Family Services' responses to Finding 2018-004, 2018-005, and 2018-006 were provided by Theresa Eagleson, Director, in correspondence dated May 17, 2019. The Department of Healthcare and Family Services' responses to Finding 2018-007, 2018-008, 2018-009, 2018-010 and 2018-011 were provided by Theresa Eagleson, Director, in correspondence dated August 6, 2019.

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Independent Auditor's Report

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Human Services (Department), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Human Services, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the State of Illinois, Department of Human Services are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the State of Illinois, Department of Human Services. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2018, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, the Department adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which required a restatement of governmental activities opening net position of approximately $(4.5) billion.

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying supplementary information, which consists of combining statements and schedules, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2019 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Restricted Use of this Auditor's Report

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

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
August 9, 2019

State of Illinois
Department of Human Services

Statement of Net Position and Governmental Funds Balance Sheet

June 30, 2018 (Expressed in Thousands)

	General Fund	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Position
ASSETS					
Unexpended appropriations	$ 480,642	$ 1,058	$ 481,700	$ -	$ 481,700
Cash deposited with State Treasurer	140,677	228,749	369,426	-	369,426
Cash and cash equivalents	205	1,498	1,703	-	1,703
Securities lending collateral equity with State Treasurer	60,064	14,191	74,255	-	74,255
Investments	-	1,699	1,699	-	1,699
Due from other government - federal	79,361	142,354	221,715	-	221,715
Due from other government - local	-	316	316	-	316
Taxes receivable, net	-	156	156	-	156
Loans and notes receivable, net	-	434	434	-	434
Due from other State fiduciary funds	23	2,801	2,824	-	2,824
Due from other Department funds	4,546	13,620	18,166	(18,166)	-
Due from other State funds	22	4,073	4,095	-	4,095
Due from State of Illinois component units	-	140	140	-	140
Inventories	5,145	2,799	7,944	-	7,944
Prepaid expenses	-	-	-	3	3
Recipient services and other receivables, net	6,182	129,119	135,301	-	135,301
Capital assets not being depreciated	-	-	-	2,889	2,889
Capital assets being depreciated, net	-	-	-	287,353	287,353
Total assets	776,867	543,007	1,319,874	272,079	1,591,953
Deferred outflows of resources - OPEB	-	-	-	486,486	486,486
Deferred outflows of resources - SERS pensions	-	-	-	1,258,603	1,258,603
Deferred outflows of resources - TRS pensions	-	-	-	1,043	1,043
Total deferred outflows of resources	-	-	-	1,746,132	1,746,132
Total assets and deferred outflows of resources	$ 776,867	$ 543,007	$ 1,319,874		
LIABILITIES					
Accounts payable and accrued liabilities	370,170	150,887	521,057	15,280	536,337
Due to other government - federal	9,665	64,035	73,700	-	73,700
Due to other government - local	15,106	12,149	27,255	-	27,255
Due to other Department fiduciary funds	36	-	36	-	36
Due to other State fiduciary funds	22	1,529	1,551	-	1,551
Due to other Department funds	13,620	4,546	18,166	(18,166)	-
Due to other State funds	168,623	11,429	180,052	-	180,052
Due to State of Illinois component units	945	6,266	7,211	-	7,211
Unearned revenue	2,833	9,250	12,083	-	12,083
Obligations under securities lending of State Treasurer	60,064	14,191	74,255	-	74,255
Long-term obligations:					
Due within one year	-	-	-	6,777	6,777
Due subsequent to one year	-	-	-	11,440,854	11,440,854
Total liabilities	641,084	274,282	915,366	11,444,745	12,360,111
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	1,665	134,572	136,237	(136,237)	-
Deferred inflows of resources - OPEB	-	-	-	508,457	508,457
Deferred inflows of resources - SERS pensions	-	-	-	447,781	447,781
Deferred inflows of resources - TRS pensions	-	-	-	1,636	1,636
Total deferred inflows of resources	1,665	134,572	136,237	821,637	957,874

The accompanying notes are an integral part of the basic financial statements.

State of Illinois
Department of Human Services

Statement of Net Position and Governmental Funds Balance Sheet

June 30, 2018 (Expressed in Thousands)

	General Fund	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Position
FUND BALANCES/NET POSITION					
Fund Balances (Deficit):					
Nonspendable	5,145	3,939	9,084	(9,084)	-
Restricted	96,644	120,644	217,288	(217,288)	-
Committed	84,040	62,319	146,359	(146,359)	-
Unassigned	(51,711)	(52,749)	(104,460)	104,460	-
Net Position (Deficit):					
Net investment in capital assets	-	-	-	289,246	289,246
Restricted for:					
Community developmental disabilities programs	-	-	-	70,709	70,709
Child care programs	-	-	-	95,240	95,240
Supplemental nutrition assistance program	-	-	-	70,204	70,204
Temporary assistance for needy families	-	-	-	11,596	11,596
Aid to the aged blind and disabled	-	-	-	11,873	11,873
Vocational rehabilitation	-	-	-	13,284	13,284
Home services	-	-	-	26,526	26,526
Other health and social service programs	-	-	-	38,431	38,431
Restricted-funds held as permanent investments:					
Nonexpendable purposes	-	-	-	1,140	1,140
Unrestricted net position (deficit)	-	-	-	(10,608,149)	(10,608,149)
Total fund balances/net position (deficit)	134,118	134,153	268,271	$ (10,248,171)	$ (9,979,900)
Total liabilities, deferred inflows and fund balances	$ 776,867	$ 543,007	$ 1,319,874		

The accompanying notes are an integral part of the basic financial statements.

State of Illinois
Department of Human Services
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
June 30, 2018
(Expressed in Thousands)

Total fund balances - governmental funds		$	268,271
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			290,242
Prepaid expenses for governmental activities are current uses of financial resources in the governmental funds.			3
Revenues in the Statement of Activities that do not provide current financial resources are deferred inflows of resources in the governmental funds.			136,237
Pension related liabilities and deferrals are not reported in the governmental funds since they do not provide or use current financial resources. These amounts consist of the following:			
Net pension liability - SERS	(6,687,715)		
Net pension liability - TRS	(1,882)		
Deferred outflows of resources - SERS pensions	1,258,603		
Deferred outflows of resources -TRS pensions	1,043		
Deferred inflows of resources - SERS pensions	(447,781)		
Deferred inflows of resources -TRS pensions	(1,636)		(5,879,368)
Retirement benefits other than pensions (OPEB) liabilities and deferrals are not reported in governmental funds since they do not provide or use current financial resources. These amounts consist of the following:			
OPEB Liability	(4,700,437)		
Deferred outflows of resources - OPEB	486,486		
Deferred inflows of resources - OPEB	(508,457)		(4,722,408)
Other liabilities reported in the Statement of Net Position do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These liabilities consist of:			
Retroactive pay under contract settlement	(15,280)		
Capital lease obligations	(996)		
Compensated absences	(56,601)		(72,877)
Net position (deficit) of governmental activities		$	(9,979,900)

The accompanying notes are an integral part of the basic financial statements.

State of Illinois
Department of Human Services

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

For the Year Ended June 30, 2018 (Expressed in Thousands)

	General Fund	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
Expenditures/expenses:					
Health and social services	$ 4,222,909	$ 4,195,987	$ 8,418,896	$ 791,419	$ 9,210,315
Debt service - principal	787	487	1,274	(1,274)	-
Debt service - interest	267	33	300	-	300
Capital outlays	12,141	1,394	13,535	(13,535)	-
Total expenditures/expenses	4,236,104	4,197,901	8,434,005	776,610	9,210,615
Program revenues:					
Charges for services:					
Licenses and fees	97	7,183	7,280	-	7,280
Other charges for services	129	43,003	43,132	(56,816)	(13,684)
Total charges for services	226	50,186	50,412	(56,816)	(6,404)
Operating grant revenue:					
Federal operating grants	630,344	4,105,446	4,735,790	13,935	4,749,725
Other operating grants	87	339	426	-	426
Total operating grant revenue	630,431	4,105,785	4,736,216	13,935	4,750,151
Total program revenues	630,657	4,155,971	4,786,628	(42,881)	4,743,747
Net program expense					(4,466,868)
General revenues and transfers:					
General revenues:					
Interest and investment income	1,607	515	2,122	-	2,122
Other taxes	-	713	713	-	713
Other revenues	1,170	6,943	8,113	-	8,113
Appropriations from State resources	4,488,758	11,293	4,500,051	2,690	4,502,741
Lapsed appropriations	(432,265)	(8,951)	(441,216)	-	(441,216)
Receipts collected and transmitted to State Treasury	(296,337)	(2,036)	(298,373)	-	(298,373)
Capital lease and installment purchase financing	1,985	259	2,244	(2,244)	-
Transfers:					
Net capital contributions and other adjustments	-	-	-	150,976	150,976
Amount of SAMS transfers-in	(573)	-	(573)	-	(573)
Amount of SAMS transfers-out	2,381	-	2,381	-	2,381
Transfers-in	20,969	125,299	146,268	(120,557)	25,711
Transfers-out	(126,389)	(10,069)	(136,458)	120,557	(15,901)
Total general revenues and transfers	3,661,306	123,966	3,785,272	151,422	3,936,694
Excess of revenues and transfers in over expenditures and transfers out	55,859	82,036	137,895	(137,895)	-
Change in net position	-	-	-	(530,174)	(530,174)
Fund balance (deficit) /net position (deficit), July 1, 2017, as restated	77,613	52,345	129,958	(9,579,684)	(9,449,726)
Increase (decrease) for changes in inventories	646	(228)	418	(418)	-
Fund balance /net position (deficit), June 30, 2018	$ 134,118	$ 134,153	$ 268,271	$ (10,248,171)	$ (9,979,900)

The accompanying notes are an integral part of the basic financial statements.

State of Illinois
Department of Human Services
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2018
(Expressed in Thousands)

Net change in fund balances	$ 137,895	
Change in inventories	418	$ 138,313
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.		
Capital expenditures	13,535	
Depreciation	(40,673)	
Losses on disposals of capital assets	(29,459)	(56,597)
Transfers of capital assets from (to) other State agencies and other adjustments do not provide current financial resources and, therefore, are not reported in governmental funds.		150,976
Capital lease repayments and related adjustments are reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		1,519
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		(42,881)
Some capital additions were financed through capital leases. In governmental funds, capital leases are considered a source of financing, but in the Statement of Net Position the capital lease is reported as a liability.		(2,244)
Pension related liabilities and deferrals are not reported in the governmental funds since they do not provide or use current financial resources. Changes in these amounts consist of the following:		
Decrease in net pension liability - SERS pensions	264,875	
Decrease in net pension liability - TRS pensions	516	
Change in deferred inflows	(180,337)	
Change in deferred outflows	(543,869)	(458,815)
Retirement benefits other than pensions (OPEB) liabilities and deferrals are not reported in the governmental funds since they do not provide or use current financial resources. Changes in these amounts consist of the following:		
Decrease in OPEB liability	(216,320)	
Change in deferred inflows	(508,457)	
Change in deferred outflows	476,429	(248,348)
Prepaid expenses in the Statement of Activities are reported as expenditures in governmental funds. Decrease in prepaid expenses.		(797)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. Below are such activities.		
Retroactive pay under contract settlement		(15,280)
Decrease in compensated absences obligation		3,980
Change in net position (deficit) of governmental activities		$ (530,174)

The accompanying notes are an integral part of the basic financial statements.

State of Illinois
Department of Human Services
Statement of Fiduciary Net Position
June 30, 2018 (Expressed in Thousands)

	Private-Purpose Trust: Hansen-Therkelsen Memorial Deaf Student College 0123	Agency Funds
ASSETS		
Cash deposited with State Treasurer	$ 1,055	$ -
Cash and cash equivalents	-	2,067
Securities lending collateral equity with State Treasurer	427	-
Investments	-	920
Due from other government - federal	-	28
Other receivables, net	2	-
Loans and notes receivable	30	-
Due from other Department funds	-	36
Total assets	1,514	$ 3,051
LIABILITIES		
Accounts payable and accrued liabilities	-	36
Obligations under securities lending of State Treasurer	427	-
Other liabilities	-	3,015
Total liabilities	427	$ 3,051
NET POSITION		
Held in trust and other purposes	$ 1,087	

The accompanying notes are an integral part of the basic financial statements.

State of Illinois
Department of Human Services
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2018 (Expressed in Thousands)

	Private-Purpose Trust
	Hansen-Therkelsen Memorial Deaf Student College 0123
Additions:	
Investment income	$ 15
Other additions	2
Total additions	17
Deductions:	
Health and social services	17
Total deductions	17
Net additions	-
Net position, July 1, 2017	1,087
Net position, June 30, 2018	$ 1,087

The accompanying notes are an integral part of the basic financial statements.

NOTE (1) - Organization

The Department of Human Services (the Department) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of, and review by, the Illinois General Assembly. The Department operates under a budget approved by the General Assembly in which resources primarily from the State's General Fund are appropriated for the use of the Department. Activities of the Department are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, excluding all locally-held funds authorized by State law.

The Department is organized to assist Illinois residents to achieve self-sufficiency, independence and health to the maximum extent possible by providing integrated family-oriented services, providing preventive care programs and establishing measurable outcomes in partnership with communities.

NOTE (2) - Summary of Significant Accounting Policies

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

(a) Financial Reporting Entity

The Department is not legally separate from the State of Illinois. The financial statements of the Department are included in the financial statements of the State of Illinois. The State's Comprehensive Annual Financial Report may be obtained by accessing the State Comptroller Office's website - https://illinoiscomptroller.gov/financial-data/find-a-report/comprehensive-reporting/comprehensive-annual-financial-report-cafr/.

The Department does not report any component units.

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Human Services, are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund of the State of Illinois, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2018 and the changes in financial position for the year then ended in conformity with GAAP.

The financial activities of the Department, which consist primarily of governmental activities, are reported under the health and social services function in the State's Comprehensive Annual Financial Report. For reporting purposes, the Department has combined the fund and government-wide financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. A brief description of the Department's government-wide and fund financial statements is as follows:

***Government-wide Statements*:** The government-wide statement of net position and statement of activities report the overall financial activity of the Department, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the Department. The government-wide statement of net position and statement of activities of the Department consist only of governmental activities, which are primarily supported by appropriations from the State and Federal operating grant revenues.

The statement of net position presents the assets, deferred outflows of resources, liabilities and deferred inflows of resources of the Department's governmental activities with the difference being reported as net position (deficit). The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components - the amount due within one year and the amount due subsequent to one year.

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

***Fund Financial Statements*:** The fund financial statements provide information about the Department's funds, including fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on the major governmental fund, which is displayed in a separate column. Major funds are determined by the State Comptroller. All remaining governmental funds are aggregated and reported as non-major funds.

The Department administers the following major governmental funds (or portions thereof in the case of shared funds) of the State of Illinois' Comprehensive Annual Financial Report (see Note 2(d)).

General – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund. The services which are administered by the Department and accounted for in the General Fund include, among others, health and social services. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund. The Department's portion of the General Fund is composed of a primary sub-account (General Revenue) and ten secondary sub-accounts (Illinois Veterans' Rehabilitation, Special Olympics Illinois and Special Children's Charities, Home Services Medicaid Trust, Community Developmental Disabilities Services Medicaid Trust, CMS vs AFSCME Wages Trust, Care Provider Fund for Persons with a Developmental Disability, Health and Human Services Medicaid Trust, Commitment to Human Services, Budget Stabilization, and Community Mental Health Medicaid Trust).

Additionally, the Department reports the following fund types:

***Governmental Fund Types*:**

Special Revenue – These funds are used to account for and report the proceeds of specific revenue sources that are *restricted or committed to expenditure for specified purposes* other than debt service or capital projects. The Department does not have any major special revenue funds to disclose.

Permanent – These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizens.

***Fiduciary Fund Types*:**

Private Purpose – These funds account for resources legally held in trust for use by individuals the Department serves. All resources of these funds, including any earnings on invested resources, may be used to support these individuals.

Agency – These funds account for receipts from individuals or groups of individuals at the Department's mental health and developmental centers, and schools, as well as electronic benefit transfers. These funds are collected by the Department, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

(c) Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include intergovernmental grants. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

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

Significant revenue sources which are susceptible to accrual include intergovernmental grants, charges for services, and interest. All other revenue sources including fines, licenses and fees and other revenues are considered to be measurable only when cash is received.

(d) Shared Fund Presentation

The financial statement presentation for the General Revenue, CMS vs AFSCME Wages Trust, Care Provider Fund for Persons with a Developmental Disability, Commitment to Human Services, and Budget Stabilization subaccounts of the General Fund, and the Tobacco Settlement Recovery and Maternal and Child Health Services Block Grant, nonmajor governmental funds, represents only the portion of the shared fund that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report. In presenting these financial statements, certain unique accounts are used for the presentation of shared funds.

The following accounts are used in these financial statements to present the Department's portion of shared funds:

***Unexpended appropriations* –** This "asset" account represents lapse period expenditure transactions processed by the State Comptroller's Office after June 30 annually in accordance with Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year and voucher, interfund payment, and mandatory SAMS transfer transactions held by the State Comptroller's Office at June 30.

***Appropriations from State resources* –** This "other financing source" account represents the final legally adopted appropriation according to SAMS records.

Lapsed appropriations – Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records. For fiscal year 2018, the lapse period was extended through October.

Receipts collected and transmitted to State Treasury – This "other financing use" account represents all cash receipts received during the fiscal year according to SAMS records.

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

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

Transfer of administration of other financing source/use – This "other financing source/use" account represents a change in administration of a fund as directed by the Office of the Comptroller.

(e) Eliminations

Eliminations have been made in the government-wide statement of net position and statement of activities to minimize the "grossing-up" effect on assets and liabilities within the governmental activities column of the Department, and to eliminate transfers between funds of the Department. As a result, amounts reported in the governmental funds balance sheet as interdepartmental interfund receivables and payables have been eliminated in the government-wide statement of net position.

Similarly, amounts reported in the governmental funds statement of revenues, expenditures and changes in fund balance as transfers in and transfers out, have been eliminated in the government-wide statement of activities. Amounts reported in the governmental funds balance sheet as receivable from or payable to fiduciary funds have been included in the government-wide statement of net position as receivable from and payable to external parties, rather than as internal balances.

(f) Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of 3 months or less at the time of purchase. Cash and cash equivalents include cash on hand, cash in banks, certificates of deposit, cash invested in the Illinois Funds and money market accounts for locally held funds.

(g) Investments

Most investments are reported at fair value. The Illinois Funds, a 2a7-like pool is reported at amortized cost. The Department holds investments pursuant to statutory authority for locally held funds.

(h) Inventories

For governmental funds, the Department recognizes the costs of inventories as expenditures when purchased. At year-end, physical counts are taken of significant inventories, consisting primarily of food and drugs maintained at the mental health and developmental centers, in governmental funds and are reported at weighted average cost. Inventories reported in governmental funds do not reflect current appropriable resources, and therefore, the Department reports an equivalent portion of fund balance as non-spendable.

(i) Prepaid Items

Payments made to vendors for services that will benefit periods beyond the date of this report are recorded as expenditures in the governmental funds and as prepaid expenses in the government-wide statement of net position.

(j) Interfund Transactions

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

Interfund Borrowings – Interfund loans made in accordance with State statute that are to be repaid with interest to the lender fund. Interfund borrowings are reported as “due to other funds” in lender funds and “due from other funds” in borrower funds.

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

Designated Revenues – Revenues specifically restricted or committed by State statute initially received by another fund and subsequently distributed to a special revenue fund. Designated revenues are reported as revenues in the receiving special revenue fund and a reduction of revenues in the fund of initial deposit.

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

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

The Department also has activity with various component units of the State of Illinois for professional services received and payments for State and Federal programs.

(k) Capital Assets

Capital assets, which include property, plant, equipment, and intangibles are reported at cost or estimated historical cost. Capital assets transferred from other State agencies are recorded at their carryover basis. Contributed assets are reported at acquisition value at the time received. Capital assets are depreciated/amortized using the straight-line method.

Capitalization thresholds (amounts expressed in whole dollars) and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Land	$ 100,000	N/A
Land Improvements	25,000	N/A
Site Improvements	25,000	3 - 50
Buildings	100,000	10 - 60
Building Improvements	25,000	10 - 45
Equipment	5,000	3 - 25
Purchased Computer Software	25,000	3 - 5
Internally Generated Computer Software	1,000,000	5 - 20

(l) Deferred Outflows/Inflows of Resources

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

(m) Compensated Absences

The liability for compensated absences reported in the government-wide statement of net position consists of unpaid, accumulated vacation and sick leave balances for Department employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability is calculated based on the employees’ salary at June 30 and includes salary related costs (e.g., Social Security and Medicare taxes).

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

(n) Pensions

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense have been recognized in the government-wide financial statements.

The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of service and the plans' fiduciary net position. The total pension expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total pension liability, plan administrative expenses, current year benefit changes, and other changes in plan fiduciary net position less employee contributions and projected earnings on plan investments. Additionally, the total pension expense includes the annual amortization of pension related deferred outflows and inflows of resources.

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, pension expense and expenditures associated with the Department's contribution requirements, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported within the separately issued plan financial statements. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value.

In the governmental fund financial statements, pension expenditures represent amounts paid to the pension plan and the change between the beginning and ending balances of amounts owed to the plan for contributions.

(o) Post-Employment Benefits Other Than Pensions ("OPEB")

The State provides health, dental, vision and life insurance benefits for certain retirees and their dependents through the State Employees Group Insurance Program ("SEGIP"). The total OPEB liability, deferred outflows of resources, deferred inflows of resources, expense, and expenditures associated with the program have been determined through an actuarial valuation using certain actuarial assumptions as applicable to the current measurement period. (see Note 10). The liability is measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability).

The OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and OPEB expense have been recognized in the government-wide financial statements. In the governmental fund financial statements, OPEB expenditures represent amounts paid for OPEB as they become due and payable.

(p) Fund Balances

For the year ended June 30, 2018, components of fund balance include the following captions:

Nonspendable – Fund balance component resulting from portions of net resources that cannot be spent because of their form or because they must be legally or contractually maintained intact.

Restricted – Fund balance component resulting from enforceable external limitations on use, such as limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments as well as limitations imposed by law through constitutional provision or enabling legislation.

Committed – Fund balance component resulting from self-imposed limitations set in place prior to the end of the reporting period. The limitations are imposed at the highest level of decision-making authority that requires formal action at the same level to remove. For the Department, the State Legislature is the highest level of decision-making. In order to commit fund balance for a specific purpose, the State Legislature must enact a law specifying the commitment.

Unassigned – Total fund balance in the General Fund in excess of nonspendable, restricted and committed fund balance, and deficit residual fund balances in other governmental funds.

If there is an expenditure incurred for purposes for which both restricted and unrestricted (committed, assigned and unassigned) fund balance is available, the Department considers restricted fund balance to be spent before unrestricted fund balance. In addition, if there is an expenditure incurred for which committed, assigned or unassigned fund balance may be used, the Department considers committed fund balance to be spent before assigned fund balance and assigned fund balance to be spent before unassigned fund balance.

(q) Net Position (Deficit)

Net position (deficit) represents the difference of assets plus deferred outflows and liabilities plus deferred inflows of resources. In the government-wide statement of net position, equity is displayed in three components as follows:

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

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

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

(r) Use of Estimates

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

During the fiscal year, the Department made a change in its accounting policy from the prior period. The Department had previously estimated salvage values for its capital assets in determining the depreciable amount. Those salvage values totaling approximately $18.7 million were removed during the year and are included in depreciation expense.

(s) Recent and Future Accounting Pronouncements

Effective for the year ended June 30, 2018, the Department adopted the following GASB statements:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which replaces the requirements of Statement No. 45 and requires governments to report a liability on the face of the financial statements for the Other Postemployment Benefits (OPEB) they provide.

In addition, this statement requires governments participating in all types of OPEB plans to present more extensive note disclosures and Required Supplementary Information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The implementation of this statement significantly impacted the Department's government-wide financial statements and footnote disclosure with the recognition of an OPEB liability, deferred outflows of resources and deferred inflows of resources in the Statement of Net Position and OPEB expense in the Statement of Activities. Additionally, the requirements of this statement resulted in the restatement of beginning net position as disclosed in Note 15. Information regarding participation in the State Employees Group Insurance Program is disclosed in Note 10.

Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting guidance for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of this statement had no financial impact on the Department's net position or results of operations.

Statement No. 85, *Omnibus 2017*, which addresses practice issues identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The provisions related to postemployment benefits of this statement were incorporated with the implementation of GASB Statement 75.

Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. In addition, this statement improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of this statement had no financial impact on the Department's net position or results of operations.

Effective for the year ending June 30, 2019, the Department will adopt the following GASB statements:

Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,* which is intended to improve the information that is disclosed in notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should be including when disclosing information related to debt.

Effective for the year ending June 30, 2020, the Department will adopt the following GASB statement:

Statement No. 84, *Fiduciary Activities*, which is intended to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. In addition, this Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployments benefit arrangements that are fiduciary activities.

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

Effective for the year ending June 30, 2021, the Department will adopt the following GASB statements:

Statement No. 87, *Leases*, which is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources and/or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which is intended to (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

The Department has not yet determined the impact of adopting these statements on its financial statements, however the Statement on Leases is expected to be material to the financial statements.

NOTE (3) - Deposits and Investments

(a) Deposits

The State Treasurer is the custodian of the Department's deposits and investments for funds maintained in the State Treasury. The Department manages deposits and investments maintained outside the State Treasury.

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

Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned. The Department is required by the State Officers and Employees Money Disposition Act (30 ILCS 230/2c) to obtain a bond, pledged securities, or other eligible collateral equal to or greater than the uninsured portion of the deposit. Deposits for locally-held funds had a carrying amount of $5.191 million ($2.233 million and $2.958 million reported in governmental activities and fiduciary funds, respectively).

The total bank balance was not exposed to custodial credit risk.

(b) Investments

The Department categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Department has the following recurring fair value measurements as of June 30, 2018, which are held outside of the State Treasury (amounts expressed in thousands):

Investments Measured at Fair Value

		Fair Value Measurements Using		
	6/30/18	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Signifiant Unobservable Inputs (Level 3)
Governmental Activities				
U.S. Agency Obligations	$ 40	$ -	$ 40	$ -
Total Governmental Activities	$ 40	$ -	$ 40	$ -

The Department also has $1.1 million invested with The Illinois Funds. The Illinois Funds is an investment pool managed by the State of Illinois, Office of the Treasurer, which allows governments within the State to pool their funds for investment purposes. The Illinois Funds is a GASB No. 79 qualified external investment pool that measures for financial reporting purposes all its investments at amortized cost. There are no limitations or restrictions on withdrawals from the pool.

The Department is authorized by Illinois State Statute to invest in the following:

1. Obligations of the U.S. Treasury, its agencies, and instrumentalities
2. Savings accounts, certificates of deposit, or time deposits that are direct obligations of any bank that is insured by the Federal Deposit Insurance Corporation
3. Commercial paper noted within the three highest classifications by at least two standard rating services
4. Obligations of states and their political subdivisions
5. Shares or other securities issued by savings and loan associations that are insured by the Federal Savings and Loan Insurance Corporation
6. Insured accounts of a credit union whose principal office is located in the State of Illinois
7. Illinois Funds Money Market Fund
8. Money market mutual funds where the portfolio is limited to U.S. government securities
9. Repurchase agreements where the Department or its authorized third-party agent takes possession of the securities

Interest Rate Risk – The Department’s investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Department’s investments in U.S. Agency securities have maturities of less than one year ($10,000) and maturities of one to five years ($30,000).

Credit Risk – The Department’s investment policy does not address credit risk. The U.S. Agency Obligations were rated Aaa by Moody’s Investors Services or AA+ by Standard & Poor’s ratings. The Illinois Funds was rated AAAm by Standard & Poor’s.

Reconciliation to Statement of Net Position and Statement of Fiduciary Net Position

The amounts reported as investments in the statement of net position and the statement of fiduciary net position contain certain long-term deposits to reflect their lack of liquidity. A reconciliation (amounts expressed in thousands) follows:

	Cash & Cash Equivalents/ Deposits	Investments
Governmental Activities		
Amounts per note 3 (a) and 3 (b)	$ 2,233	$ 1,140
Deposits held for investment purposes	(678)	678
Cash equivalents	119	(119)
Petty cash	29	-
Amounts per Statement of Net Position	$ 1,703	$ 1,699
Fiduciary Funds		
Amounts per note 3 (a)	$ 2,958	$ -
Deposits held for investment purposes	(920)	920
Petty cash	29	
Amounts per Statement of Fiduciary Net Position	$ 2,067	$ 920

NOTE (4) - Other Receivables

Recipient services and other receivables, net at June 30, 2018 (amounts expressed in thousands) consisted of the following:

	Governmental Funds	
Revenue Source	**General Fund**	**Nonmajor Funds**
Fines	$ -	$ 21
Public Assistance Recoveries	8,456	2,092
Rebates	-	11,361
Recipient services and recoveries	7,660	466,719
Interest and Other Income	240	79
Total Other receivables	16,356	480,272
Allowance for uncollectible amounts	(10,174)	(351,153)
Other receivables, net	$ 6,182	$ 129,119

NOTE (5) - Securities Lending Transactions

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

During Fiscal Year 2018, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during Fiscal Year 2018 on loan amounts of available and eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. Moreover, there were no losses during Fiscal Year 2018 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2018, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan pertaining to the Funds of DHS was $74.7 million.

NOTE (6) - Interfund Balances and Activity

(a) Balances Due from/to Other Funds

The following balances (amounts expressed in thousands) at June 30, 2018 represent amounts due from other Department and State of Illinois funds:

	Due from Other			
Fund Type	**Department Funds**	**State Funds**	**State Fiduciary**	**Description/Purpose**
General	$ 4,546	$ 22	$ 23	See comment that follows
Nonmajor governmental	13,620	4,073	2,801	See comment that follows
Fiduciary	36	-	-	See comment that follows
	$ 18,202	$4,095	$ 2,824	

General - Due from other Department funds for required transfers and expenditure reimbursements and other State funds for expenditure reimbursements and other State Fiduciary Funds for excess contributions for employee retirement.

Non-major governmental - Due from other Department funds for required transfers and expenditure reimbursements and other State funds for expenditure reimbursements and other State Fiduciary Funds for excess contributions for employee retirement.

Fiduciary – Due from other Department funds for expenditure reimbursements.

The following balances (amounts expressed in thousands) at June 30, 2018 represent amounts due to other Department and State of Illinois funds:

	Due to Other				
Fund Type	**Department Funds**	**Department Fiduciary**	**State Funds**	**State Fiduciary**	**Description/Purpose**
General	$ 13,620	$ 36	$168,623	$ 22	See comment that follows
Nonmajor governmental	4,546	-	11,429	1,529	See comment that follows
	$ 18,166	$ 36	$180,052	$ 1,551	

General –Due to other Department funds and other Department fiduciary funds for expenditure reimbursements, other State funds for expenditure reimbursements, and other State fiduciary funds for expenditure reimbursements.

Non-major governmental – Due to other Department funds for required transfers and expenditure reimbursements, other State funds for expenditure reimbursements and other State fiduciary funds for post-employment benefits.

(b) Transfers from/to Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2018 were as follows:

	Transfers in from Other			
Fund Type	**Department Funds**	**State Funds**	**Total**	**Description/Purpose**
General	$ 8	$ 20,961	$ 20,969	Transfer from other State funds pursuant to statute.
Nonmajor governmental	120,549	4,750	125,299	Transfers from other Department funds and other State funds pursuant to statute and annual appropriations bill.
Totals	$ 120,557	$ 25,711	$ 146,268	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2018 were as follows:

	Transfers out to Other			
Fund Type	**Department Funds**	**State Funds**	Total	**Description/Purpose**
General	$ 120,549	$ 5,840	$ 126,389	Transfers to other Department funds and State funds pursuant to statute.
Nonmajor governmental	8	10,061	10,069	Transfers to other State funds pursuant to statute.
Totals	$ 120,557	$ 15,901	$ 136,458	

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

The following balances (amounts expressed in thousands) at June 30, 2018 represent amounts due to/from State of Illinois component units for reimbursement for expenses incurred:

	Due From Amounts	Due to Amounts	
Component Unit	Nonmajor Governmental Funds	General Fund	Nonmajor Governmental Funds
Toll Highway Authority	$ -	$ 3	$ -
Eastern Illinois University	-	19	171
Governors State University	-	5	15
Northeastern Illinois	-	2	41
Western Illinois University	-	-	67
Illinois State University	-	1	-
Northern Illinois University	-	20	49
Southern Illinois University	-	38	700
University of Illinois	140	857	5,223
Totals	$ 140	$ 945	$ 6,266

NOTE (7) - Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Additions	Deletions	Net Transfers	Balance June 30, 2018
Capital assets not being depreciated/amortized:					
Land and land improvements	$ 2,993	$ -	$ 104	$ -	$ 2,889
Construction in progress	4,728	-	-	(4,728)	-
Internally generated intangible assets in development	-	9,508	-	(9,508)	-
Total capital assets not being depreciated/amortized	7,721	9,508	104	(14,236)	2,889
Capital assets being depreciated/amortized:					
Site improvements	81,296	-	3,678	-	77,618
Buildings and building improvements	546,616	-	25,205	14,523	535,934
Equipment	33,608	1,783	2,064	287	33,614
Capital leases - equipment	706	2,244	583	-	2,367
Non-internally generated software	204	-	-	-	204
Internally generated software	81,618	-	-	150,689	232,307
Total capital assets being depreciated/amortized	744,048	4,027	31,530	165,499	882,044
Less accumulated depreciation/amortization:					
Site improvements	75,277	2,511	-	-	77,788
Buildings and building improvements	430,762	16,352	1,592	-	445,522
Equipment	21,711	2,453	-	287	24,451
Capital leases - equipment	515	1,618	583	-	1,550
Non-internally generated software	147	16	-	-	163
Internally generated software	27,494	17,723	-	-	45,217
Total accumulated depreciation/amortization	555,906	40,673	2,175	287	594,691
Total capital assets being depreciated/amortized, net	188,142	(36,646)	29,355	165,212	287,353
Total capital assets, net	$ 195,863	$ (27,138)	$ 29,459	$ 150,976	$ 290,242

Depreciation/amortization expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2018 was charged as follows:

Health and social services	$ 40,673

Depreciation expense includes approximately $18 million to write off salvage values of capital assets during the year.

NOTE (8) - Long-term Obligations

(a) Changes in Long-term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2018 were as follows:

	July 1, 2017*	Additions	Deletions	June 30, 2018	Due Within One Year
Other long-term obligations:					
Compensated absences	$ 60,581	$ 89,140	$ 93,120	$ 56,601	$ 6,379
Capital lease obligations	271	2,244	1,519	996	398
OPEB liability	4,484,117	-	(216,320)	4,700,437	
Net pension liability - SERS	6,952,590	-	264,875	6,687,715	-
Net pension liability - TRS	2,398	-	516	1,882	-
Totals	$ 11,499,957	$ 91,384	$ 143,710	$ 11,447,631	$ 6,777

*Restated to include the OPEB liability as of July 1, 2017.

Compensated absences will be liquidated by the applicable governmental funds that account for the salaries and wages of the related employees. Net pension liabilities and OPEB liabilities will be liquidated though the General Revenue Fund, and the special revenue funds that report wages. The capital lease obligations will be liquidated primarily by the General Revenue Fund.

(b) Capital Lease Obligations

The Department leases office and computer equipment with a historical cost and accumulated depreciation (amounts expressed in thousands) of $2,367 and $1,550, respectively, under capital lease arrangements. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting. Future minimum lease payments (amounts expressed in thousands) at June 30, 2018 are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	$ 398	$ 685	$ 1,083
2020	380	458	838
2021	218	41	259
Totals	$ 996	$ 1,184	$ 2,180

NOTE (9) - Defined Benefit Pension Plans

Plan Descriptions. Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS) or the Teachers' Retirement System (TRS), which are pension trust funds in the State of Illinois reporting entity.

The SERS is a single-employer defined benefit pension trust fund in which State employees participate except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. SERS is governed by article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). TRS is the administrator of a cost-sharing multiple-employer public employee defined benefit pension plan with a "special funding situation" as described below. TRS provides coverage to personnel in positions that require a certification under the teacher certification law that are employed by public school districts in Illinois (excluding Chicago), special districts, and certain State agencies. There are 850 local school districts, 125 special districts, and 14 other State agencies that contribute to the TRS plan as of the measurement date June 30, 2017. The State of Illinois, as a non-employer contributing entity, is legally mandated to make contributions to TRS, thus creating a special funding relationship with the plan. TRS is governed by article 16 of the Illinois Pension Code.

Both plans consist of two tiers of contribution requirements and benefit levels based on when an employee was hired. Members who first become an employee and participate under any of the State's retirement plans on or after January 1, 2011 are members of Tier 2, while Tier 1 consists of employees hired before January 1, 2011 or those who have service credit prior to January 1, 2011. The provisions below apply to both Tier 1 and 2 members, except where noted.

Both plans also issue a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports are available on the respective plan websites or may be obtained by writing or calling the plan as follows:

- State Employees' Retirement System, 2101 South Veterans Parkway, PO Box 19255, Springfield, Illinois, 62794-9255, (217) 785-7444 or www.srs.illinois.gov.
- Teachers' Retirement System, 2815 West Washington Street, PO Box 19253, Springfield, Illinois, 62794-9253, (877) 927-5877 or www.trsil.org.

<u>Benefit Provisions</u>

State Employees' Retirement System
SERS provides retirement benefits based on the member's final average compensation and the number of years of service credit that have been established. The retirement benefit formula available to general State employees that are covered under the Federal Social Security Act is 1.67% for each year of service and for noncovered employees it is 2.2% for each year of service. The maximum retirement annuity payable is 75% of final average compensation as calculated under the regular formula. The minimum monthly retirement

annuity payable is $15 for each year of covered service and $25 for each year of noncovered service.

Members in SERS under the regular formula Tier 1 and Tier 2 receive the following levels of benefits based on the respective age and years of service credits.

Regular Formula Tier 1	**Regular Formula Tier 2**
A member must have a minimum of eight years of service credit and may retire at: • Age 60, with 8 years of service credit. • Any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with eight years of credited service. • Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60). The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service. Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement. If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.	A member must have a minimum of 10 years of credited service and may retire at: • Age 67, with 10 years of credited service. • Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67). The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of $106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less. If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2017 rate is $112,408. If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.

Additionally, the Plan provides an alternative retirement formula for State employees in high-risk jobs, such as State policemen, fire fighters, and security employees.

Employees qualifying for benefits under the alternative formula may retire at an earlier age depending on membership in Tier 1 or Tier 2. The retirement formula is 2.5% for each year of covered service and 3.0% for each year of noncovered service. The maximum retirement annuity payable is 80% of final average compensation as calculated under the alternative formula.

SERS also provides occupational and nonoccupational (including temporary) disability benefits. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least 18 months of credited service with the System. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of State employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers' Compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through SERS. Certain nonoccupational death benefits vest after 18 months of credited service. Occupational death benefits are provided from the date of employment.

Teachers' Retirement System
TRS provides retirement benefits, whereby most members retire under a formula that provides 2.2% of final average salary up to a maximum of 75% with 34 years of service. Under Tier 1, a member qualifies for an age retirement annuity after reaching age 62 with 5 years of credited service, age 60 with 10 years of credited service, or age 55 with 20 years of credited service. If a member retires between the ages of 55 and 60 with fewer than 35 years of service, the annuity will be reduced one-half percent for each month the member is under age 60. The retirement benefit is based on the final average salary, which is the average salary for the highest 4 consecutive years within the last 10 years of credible service. Annual automatic increases equal to 3% are provided to essentially all retirees. Under Tier 2, a member qualifies for an age retirement annuity after reaching age 62 with 10 years of credited service, at a discounted rate, or age 67 with 10 years of credited service. The retirement benefit is based on the final average salary, which for Tier 2 is the average salary for the highest 8 consecutive years within the last 10 years of credible service. Annual automatic increases equal to the lesser of 3% or one half of the Consumer Price Index with the adjustment applied to the original benefit are provided to Tier 2 retirees. Disability and death benefits are also provided by TRS.

Contributions

State Employees' Retirement System
Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%.

Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed $106,800 with limitations for future years increased by the lessor of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2018, this amount was $113,645.

The State is required to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the ILCS and all administrative expenses of the System to the extent specified in the ILCS. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

For fiscal year 2018, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For fiscal year 2018, the employer contribution rate was 47.342%. The Department's contribution amount for fiscal year 2018 was $39.804 million. In addition, the Department recorded $347.8 million of revenue and expenditures in the General Revenue account of the General Fund to account for on-behalf payments to SERS for Department employees.

Teachers' Retirement System
The State maintains the primary responsibility for funding TRS. The Illinois Pension Code, as appended by Public Act 88-0593 and subsequent acts, provides that for years 2010 through 2045, the minimum contribution to TRS for each fiscal year be an amount determined to be sufficient to bring the total assets of TRS up to 90% funding. Contributions from active members and TRS contributing employers are also required by the Illinois Pension Code. The active member contribution rate for the year ended June 30, 2018 was 9.0% of salary. Employer contributions are made by or on behalf of employers from several sources. The State of Illinois provides the largest source of contributions through State appropriations. Employers also make contributions of 0.58% of total credible earnings for the 2.2 benefit formula change and for teachers who are paid from federal funds. Additionally, employers contribute their portion of any excess salary increase or sick leave costs due as defined within Chapter 40, section 5/16 of the Illinois Compiled Statutes.

For TRS, employee contributions are fully refundable, without interest, upon withdrawal from applicable employment. For Tier 1 members, there is no annual compensation limit on contributions. For Tier 2 members, annual compensation on which contributions are taken cannot exceed $106,800. This amount increases annually by the lesser of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2018, this amount was $113,645. The Department's contribution amount for fiscal year 2018 was $14 thousand.

The Department recognized revenue and expenditures of $3.525 million for pension contributions paid by the State on behalf of Department employees.

Pension liability, deferred outflows of resources, deferred inflows of resources and expense related to pensions

State Employees' Retirement System

At June 30, 2018, the Department reported a liability of $6.688 billion for its proportionate share of the State's net pension liability for SERS on the statement of net position. The net pension liability was measured as of June 30, 2017 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's portion of the net pension liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2017. As of the current year measurement date of June 30, 2017, the Department's proportion was 20.3231%, which was a decrease of 0.0386 from its proportion measured as of the prior year measurement date of June 30, 2016 (20.3617%).

For the year ended June 30, 2018, the Department recognized pension expense of $851.757 million. At June 30, 2018, the Department reported deferred outflows of resources and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,936	$ 211,821
Changes of assumptions	689,785	139,433
Net difference between projected and actual investment earnings on pension plan investments	5,831	-
Changes in proportion	171,447	96,527
Department contributions subsequent to the measurement date	387,604	-
Total	**$ 1,258,603**	**$ 447,781**

$387.604 million reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

The remaining amount of $423 million reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

Year ended June 30,	SERS
2019	$ 227,660
2020	186,151
2021	72,696
2022	(63,289)
Total	**$ 423,218**

Teachers' Retirement System

At June 30, 2018, the Department reported a liability of $1.882 million for its proportionate share of the TRS net pension liability on the statement of net position. The State's proportionate share of the net pension liability (as a non-employer contributing entity in a special funding situation), for the Department employees was $65.369 million. The total net pension liability for the Department's employees participating in TRS was $67.251 million as of the measurement date. The net pension liability was measured as of June 30, 2017 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 and rolled forward to June 30, 2017. The Department's portion of the net pension liability was based on the Department's contributions relative to the contributions of all participating TRS employers and the State during the year ended June 30, 2017. At June 30, 2017, the measurement date, the Department's proportionate share was 0.00246% for the TRS plan, which was a 0.00061 decrease from its proportion at the prior year measurement date of June 30, 2016 of .00307%.

For the year ended June 30, 2018, the Department recognized pension expense of $6.5 million, which includes $6.4 million of State pension expense for Department employees. This amount is also recorded as revenue. At June 30, 2018, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 20	$ 1
Changes of assumptions	126	54
Net difference between projected and actual investment earnings on pension plan investments	1	-
Changes in proportion	882	1,581
Department contributions subsequent to the measurement date	14	-
Total	$ 1,043	$ 1,636

$14 thousand reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. The remaining amount of $(607) thousand reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

Year ended June 30,	TRS
2019	$ (224)
2020	(333)
2021	37
2022	(75)
2023	(12)
Total	$ (607)

Actuarial Methods and Assumptions. The total pension liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

	SERS	TRS
Valuation date	6/30/2017	6/30/2016*
Measurement date	6/30/2017	6/30/2017
Actuarial cost method	Entry Age	Entry Age
Actuarial assumptions:		
Investment rate of return	7.00%	7.00%
Projected salary increases**	3.25% - 7.67%	3.25% - 9.25%
Inflation rate	2.75%	2.50%
Postretirement benefit increases		
Tier 1	3%, compounded	3%, compounded
Tier 2	Lesser of 3% or 1/2 of CPI^, on original benefit	1.25% not compounded
Retirement age experience study ^^	July 2009 - June 2013	July 2011 - June 2014
Mortality^^^		
SERS	105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added	
TRS	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2014	

* The total pension liability is based on an actuarial valuation date of June 30, 2016, rolled-forward to the measurement date using generally accepted actuarial procedures.

** Includes inflation rate listed.

^ Consumer Price Index

^^ The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remain unchanged.

^^^ Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

State Employees' Retirement System

The long-term expected real rate of return on pension plan investments was determined using the best estimates of geometric real rates of return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation, calculated as of the measurement date of June 30, 2017, the best estimates of the geometric real rates of return are summarized in the following table:

	SERS	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	23%	5.50%
Developed Foreign Equity	13%	5.30%
Emerging Market Equity	8%	7.80%
Private Equity	7%	7.60%
Intermediate Investment Grade Bonds	14%	1.50%
Long-term Government Bonds	4%	1.80%
TIPS	4%	1.50%
High Yield and Bank Loans	5%	3.80%
Opportunistic Debt	8%	5.00%
Emerging Market Debt	2%	3.70%
Real Estate	5.5%	3.70%
Non-core Real Estate	4.5%	5.90%
Infrastructure	2%	5.80%
Total	**100%**	

Teachers' Retirement System

The long-term expected rate of return assumption on pension plan investments under the TRS plan was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017, that were used by the actuary are summarized in the following table:

	TRS	
Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
U.S. Equities Large Cap	14%	6.94%
U.S. Equities Small/Mid Cap	4%	8.09%
International Equities Developed	14%	7.46%
Emerging Market Equities	4%	10.15%
U.S. Bonds Core	11%	2.44%
International Debt Developed	5%	1.70%
Real Estate	15%	5.44%
Commodities (Real Return)	11%	4.28%
Hedge Funds (Absolute Return)	8%	4.16%
Private Equity	14%	10.63%
Total	**100%**	

Discount rate

State Employees' Retirement System
A discount rate of 6.78% was used to measure the total pension liability. This represents an increase of .14 from the discount rate used for the June 30, 2016 valuation of 6.64%. This single blended discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.56%, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The municipal bond rate increased from the rate used during the previous actuarial valuation of 2.85%. The projection of cash flows used to determine this single discount rate assumed that contributions will be made based on the statutorily required rates under Illinois law. Based on these assumptions, it has been determined that the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2073 for SERS. As a result, the long-term expected rate of return on pension plan investments has been applied to projected benefit payments through the year 2073, at which time the municipal bond rate has been applied to all remaining benefit payments.

Teachers' Retirement System
A discount rate of 7.00% was used to measure the total pension liability. This represents an increase of .17 from the discount rate used for the June 30, 2016 valuation of 6.83%. This single blended discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.56%, based on an S&P Municipal Bond 20-year High Grade Rate Index. The municipal bond rate increased from the rate used during the previous actuarially valuation of 2.85%.

The projection of cash flows used to determine the discount rate assumed that employee contributions, employer contributions, and state contributions will be made at the current statutorily-required rates. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2119. As a result, the long-term expected rate of return on pension plan investments has been applied to projected benefit payments through the year 2119, at which time the municipal bond rate has been applied to all remaining benefit payments.

Sensitivity of the net pension liability to changes in the discount rate. The net pension liability for SERS and TRS was calculated using the stated discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate as shown below (amounts expressed in thousands):

	SERS		
	1% Decrease 5.78%	**Discount Rate 6.78%**	**1% Increase 7.78%**
Department's Proportionate Share of the SERS Net Pension Liability	$ 8,092,278	$ 6,687,715	$ 5,538,214

	TRS		
	1% Decrease 6.00%	**Discount Rate 7.00%**	**1% Increase 8.00%**
Department's Proportionate Share of the TRS Net Pension Liability	$ 2,313	$ 1,882	$ 1,530

Payables to the pension plan. At June 30, 2018, the Department reported a payable of $1.558 million to SERS for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2018.

NOTE (10) - Post-employment Benefits

Plan description. The State Employees Group Insurance Act of 1971 ("Act"), as amended, authorizes the Illinois State Employees Group Insurance Program ("SEGIP") to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the Department's full-time employees are members of SEGIP. Members receiving monthly benefits from the State Employees' Retirement System of Illinois ("SERS") and Teachers' Retirement System ("TRS") are eligible for these other post-employment benefits ("OPEB"). The eligibility provisions for each of the retirement systems are defined within Note 9. Certain TRS members eligible for coverage under SEGIP include: certified teachers employed by certain State agencies, executives employed by the Board of Education, regional superintendents, regional assistant superintendents, TRS employees and members with certain reciprocal service.

No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (SERS and TRS). The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

Benefits provided**.** The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes $5,000.

Funding policy and annual other postemployment benefit cost. OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis.

For fiscal year 2018, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $10,926.24 ($6,145.92 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $14,939.04 ($5,165.04 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

Total OPEB liability, deferred outflows of resources, deferred inflows of resources and expense related to OPEB**.** The total OPEB liability, as reported at June 30, 2018, was measured as of June 30, 2017, with an actuarial valuation as of June 30, 2016.

Update procedures were used to roll forward the total OPEB liability to the measurement date. At June 30, 2018, the Department recorded a liability of $4.700 billion for its proportionate share of the State's total OPEB liability. The Department's portion of the OPEB liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2017. As of the current year measurement date of June 30, 2017, the Department's proportion was 11.3746%, which was an increase of 1.0662 from its proportion measured as of the prior year measurement date of June 30, 2016 (10.3085%).

The Department recognized OPEB expense for the year ended June 30, 2018, of $320.765 million. At June 30, 2018, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

Deferred outflows of resources		
Differences between expected and actual experience	$	1,507
Changes in proportion and differences between employer contributions and proportionate share of contributions		440,807
Department contributions subsequent to the measurement date		44,172
Total deferred outflows of resources	$	486,486
Deferred inflows of resources		
Changes of assumptions	$	446,305
Changes in proportion and differences between employer contributions and proportionate share of contributions		62,152
Total deferred inflows of resources	$	508,457

The amounts reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2019. The remaining amount of $(66) million reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

Year ended June 30,	Amount
2019	$ (14,869)
2020	(14,869)
2021	(14,869)
2022	(14,869)
2023	(6,666)
Total	$ (66,142)

***Actuarial methods and assumptions*.** The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on, SERS and TRS active, inactive, and retiree data as of June 30, 2016, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2016.

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.75%
Projected Salary Increases*	3.00% - 15.00%
Discount Rate	3.56%
Healthcare Cost Trend Rate:	
Medical (Pre-Medicare)	8.0 % grading down 0.5% in the first year to 7.5%, then grading down 0.01% in the second year to 7.49%, followed by grading down of 0.5% per year over 5 years to 4.99% in year 7
Medical (Post-Medicare)	9.0% grading down 0.5% per year over 9 years to 4.5%
Dental	7.5% grading down 0.5% per year over 6 years to 4.5%
Vision	3.00%
Retirees' share of benefit-related costs	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2017 and 2018 are based on actual premiums. Premiums after 2018 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax.

* Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2016 valuations for SERS and TRS as follows:

	Retirement age experience study^	Mortality^^
GARS	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
JRS	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
SERS	July 2009 - June 2013	105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added
TRS	July 2011 - June 2014	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2014
SURS	July 2010 - June 2014	RP-2014 White Collar, gender distinct, projected using MP-2014 two dimensional mortality improvement scale, set forward one year for male and female annuitants

^ The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.

^^ Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

Discount rate. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 2.85% at June 30, 2016, and 3.56% at June 30, 2017, was used to measure the total OPEB liability.

Sensitivity of total OPEB liability to changes in the single discount rate. The following presents the plan's total OPEB liability, calculated using a Single Discount Rate of 3.56%, as well as what the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.56%) or lower (2.56%) than the current rate (amounts expressed in thousands):

	1% Decrease (2.56%)	Current Single Discount Rate Assumption (3.56%)	1% Increase (4.56%)
Total OPEB liability	$ 5,332,608	$ 4,700,437	$ 4,071,827

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate. The following presents the plans total OPEB liability, calculated using the healthcare cost trend rates as well as what the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower than the current healthcare cost trend rates (amounts expressed in thousands):

	1% Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
Total OPEB liability	$ 4,016,485	$ 4,700,437	$ 5,265,089

NOTE (11) - Fund Balances

(a) Categories

At June 30, 2018, the Department's fund balances were classified as follows:

	General Fund	Nonmajor Governmental Funds	Total
Nonspendable:			
Inventory	$ 5,145	$ 2,799	$ 7,944
Permanent endowments	-	1,140	1,140
Total nonspendable	5,145	3,939	9,084
Restricted Purposes:			
Home services program	26,526	-	26,526
Community developmental disabilities programs	69,798	-	69,798
Vocational rehabilitaition programs	-	13,273	13,273
Child care programs	-	86,716	86,716
Grant vs. Dimas Court order - wage payments	-	16,072	16,072
Other programs	320	4,583	4,903
	96,644	120,644	217,288
Committed Purposes:			
Veteran's rehabilitation	5,877	-	5,877
Medical assistance programs	77,807	17,547	95,354
Mental health programs	-	31,643	31,643
Information technology initiatives	-	7,428	7,428
Other programs	356	5,701	6,057
	84,040	62,319	146,359
Unassigned	(51,711)	(52,749)	(104,460)
Total fund balance	$ 134,118	$ 134,153	$ 268,271

(b) Fund Deficits

The General Revenue Fund, the CMS vs AFSCME Wages Trust and Care Provider Fund for Persons with a Developmental Disability, subaccounts of the General Fund had fund deficits of $46,250, $140 and $176, respectively (expressed in thousands), at June 30, 2018. The Prevention and Treatment of Alcoholism and Substance Abuse Block Grant, Employment and Training, DHS Federal Projects, Alcoholism and Substance Abuse and DHS Recoveries Trust, non-major governmental funds had fund deficits (expressed in thousands) of $3, $3,339, $449, $3,426 and $45,534, respectively, at June 30, 2018.

NOTE (12) - Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; aviation liability; auto liability; workers' compensation; and natural disasters. The State retains the risk of loss (i.e. self-insured) for these risks. The Department's risk management activities for employee health claims, workers' compensation claims and auto liability claims are financed through appropriations to the Illinois Department of Central Management Services (CMS). Other claims costs could be charged back to the Department upon settlement; however, the Department is not able to estimate those amounts and does not expect them to be material.

The Department's risk management activities for self-insurance, unemployment insurance and workers' compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Department, and accordingly, have not been reported in the Department's financial statements for the year ended June 30, 2018.

NOTE (13) - Commitments and Contingencies

(a) Federal Funding

Backlog of Applications in Integrated Eligibility System (IES)

The State of Illinois implemented an Integrated Eligibility System (IES) for the intake and processing of applications in order to determine eligibility for various health and human services programs (i.e., Medicaid, SNAP, TANF) effective October 2013. Upon the implementation of IES, the State has experienced delays in processing applications due to an increase in the number of applications for the expanded Medicaid programs and open enrollment periods, insufficient caseworker resources and other factors. These delays resulted in applications not being reviewed and approved or denied within the mandated 45 day timeframe. As of June 30, 2018, the Department had approximately 25,000 unprocessed initial applications and 23,000 unprocessed redeterminations for SNAP in IES. Department management estimated the amount of the retroactive benefits associated with the unprocessed applications and redeterminations at $1.8 million and $2.3 million respectively. The amounts are not material to the financial statements and have not been recorded.

SNAP Overpayment Claims

Investigating and resolving overpayment claims for the Supplemental Nutrition Assistance Program (SNAP) is a lengthy process. The Department cannot establish a claim against a SNAP recipient until their investigation is complete. When resolution of these claims is complete, the Department estimates it will record net receivables from beneficiaries under the program of approximately $76 million, for benefits established on or before June 30, 2018. Additionally, it is estimated that $60 million will be recorded as a liability to the Federal government for their share of overpayment collections.

Unsupported Eligibility Determination for Human Service Programs (IES)

Department management has determined that some eligibility determinations within the Integrated Eligibility System (IES) lacked sufficient documentation to support the eligibility conclusion. In order to obtain human service benefits, individuals are evaluated on financial and non-financial criteria. All application information related to the eligibility criteria is required to be supported, with documentation of support retained. Certain eligibility information is also obtained and reviewed between eligibility redeterminations for the SNAP program (mid-point reviews or “MPRs”). For MPRs required during the three months of December 2017 through February 2018, the MPRs were not performed timely. The Department does not have historical information or other data to estimate the proportion of initial applications or delayed MPRs that result in over (under) payment of benefits. Department management cannot estimate the amount of the contingent assets or liabilities (related to excess benefits provided) associated with the unsupported eligibility criteria within the population of applications, or caused by the delayed MPRs.

Federal Program Audits

The Department receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants and subject to repayment by the Department. Generally, no provision for repayment is recorded until the federal grantor agency has determined a repayment is necessary. The Department is not aware of any material unrecorded liabilities pertaining to questioned costs. Identified questioned costs are frequently reported in the State of Illinois Single Audit Report. A copy of the report may be obtained by accessing the Illinois Office of the Auditor General’s website, http://www.auditor.illinois.gov/Audit-Reports/Statewide-Single-Audit.asp.

(b) Litigation

A lawsuit against the Department was settled on March 14, 2019, when a Settlement Agreement was signed by the Services Employees International Union Healthcare Illinois and Indiana and the State of Illinois, Departments of Central Management Services and Human Services. In the document the State agreed to implement a $.48 per hour increase for providers in the Home Services Program beginning in August 2017. During FY18 the

Department deposited funds into an escrow account, Fund 0818 (Grant V. Dimas Escrow Fund), per the court order that was in effect while the case was ongoing. The Department has recorded an estimated liability of $16 million for the settlement amount pertaining to FY2018 in the government-wide financial statements.

The Department is routinely involved in a number of legal proceedings and claims that cover a wide range of matters. In the opinion of management, the outcome of these matters is not expected to have any material adverse effect on the financial position or results of operations of the Department.

NOTE (14) – Restatement for Implementation of New Accounting Standard

The Department's financial statements have been restated as of June 30, 2017. The restatement is a result of the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Governmental Activities will report a restatement of net position for the beginning of the year net OPEB liability as follows (amounts presented in thousands):

	Governmental Activities
Net Position (Deficit), June 30, 2017, as previously reported	$ (4,975,666)
Implementation of GASB Statement No. 75:	
OPEB Liability	(4,484,117)
Deferred Outflows	10,057
Net Position (Deficit), June 30, 2017, as restated	$ (9,449,726)

The effect of the restatement on beginning net position (deficit) includes deferred outflows of resources for OPEB benefit payments made subsequent to the measurement date of the OPEB liability. Restatement of the net position (deficit) for other deferred outflows of resources and deferred inflows of resources related to OPEB was not done because it was not practical to determine such amounts. Additionally, the impact on the change in net position (deficit) for fiscal year 2017 was not determined.

State of Illinois
Department of Human Services
Combining Schedule of Accounts - General Fund
June 30, 2018 (Expressed in Thousands)

	General Revenue 0001	Illinois Veterans' Rehabilitation 0036	Special Olympics Illinois and Special Children's Charities 0073	Home Services Medicaid Trust 0120	Community Developmental Disabilities Services Medicaid Trust 0142	CMS vs AFSCME Wages Trust 0168
ASSETS						
Unexpended appropriations	$ 477,108	$ -	$ -	$ -	$ -	$ -
Cash deposited with State Treasurer	813	320	298	25,814	49,985	-
Cash and cash equivalents	205	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	108	16,571	20,175	-
Due from other government - federal	34,490	-	-	6,530	22,282	-
Recipient services and other receivables, net	5,516	-	-	77	81	-
Due from other State fiduciary funds	-	-	-	-	-	-
Due from other Department funds	4,569	5,557	-	-	-	-
Due from other State funds	-	-	22	-	-	-
Inventories	5,145	-	-	-	-	-
Total assets	$ 527,846	$ 5,877	$ 428	$ 48,992	$ 92,523	$ -
LIABILITIES						
Accounts payable and accrued liabilities	358,514	-	-	4,907	1,639	-
Due to other government - federal	9,662	-	-	-	-	-
Due to other government - local	15,091	-	-	15	-	-
Due to other Department fiduciary funds	36	-	-	-	-	-
Due to other State fiduciary funds	-	-	-	-	-	-
Due to other Department funds	18,295	-	-	771	-	140
Due to other State funds	168,417	-	-	131	-	-
Due to State of Illinois component units	874	-	-	71	-	-
Unearned revenue	2,833	-	-	-	-	-
Obligations under securities lending of State Treasurer	-	-	108	16,571	20,175	-
Total liabilities	573,722	-	108	22,466	21,814	140
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue	374	-	-	-	911	-
Total Deferred Inflows of Resources	374	-	-	-	911	-
FUND BALANCES (DEFICITS)						
Nonspendable	5,145	-	-	-	-	-
Restricted	-	-	320	26,526	69,798	-
Committed	-	5,877	-	-	-	-
Unassigned	(51,395)	-	-	-	-	(140)
Total fund balances (deficits)	(46,250)	5,877	320	26,526	69,798	(140)
Total liabilities, deferred inflows and fund balances (deficits)	$ 527,846	$ 5,877	$ 428	$ 48,992	$ 92,523	$ -

(Continued)

State of Illinois
Department of Human Services
Combining Schedule of Accounts - General Fund
June 30, 2018 (Expressed in Thousands)

	Care Provider Fund for Persons with a Developmental Disability 0344	Health and Human Services Medicaid Trust 0365	Commitment to Human Services 0644	Budget Stabilization 0686	Community Mental Health Medicaid Trust 0718	Eliminations	Total
ASSETS							
Unexpended appropriations	$ 3,534	$ -	$ -	$ -	$ -	$ -	$ 480,642
Cash deposited with State Treasurer	-	15,100	11	-	48,336	-	140,677
Cash and cash equivalents	-	-	-	-	-	-	205
Securities lending collateral equity with State Treasurer	-	5,318	-	-	17,892	-	60,064
Due from other government - federal	-	6,670	-	-	9,389	-	79,361
Recipient services and other receivables, net	-	91	345	-	72	-	6,182
Due from other State fiduciary funds	-	-	-	-	23	-	23
Due from other Department funds	-	-	-	-	6	(5,586)	4,546
Due from other State funds	-	-	-	-	-	-	22
Inventories	-	-	-	-	-	-	5,145
Total assets	$ 3,534	$ 27,179	$ 356	$ -	$ 75,718	$ (5,586)	$ 776,867
LIABILITIES							
Accounts payable and accrued liabilities	3,710	163	-	-	1,237	-	370,170
Due to other government - federal	-	-	-	-	3	-	9,665
Due to other government - local	-	-	-	-	-	-	15,106
Due to other Department fiduciary funds	-	-	-	-	-	-	36
Due to other State fiduciary funds	-	-	-	-	22	-	22
Due to other Department funds	-	-	-	-	-	(5,586)	13,620
Due to other State funds	-	41	-	-	34	-	168,623
Due to State of Illinois component units	-	-	-	-	-	-	945
Unearned revenue	-	-	-	-	-	-	2,833
Obligations under securities lending of State Treasurer	-	5,318	-	-	17,892	-	60,064
Total liabilities	3,710	5,522	-	-	19,188	(5,586)	641,084
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	-	-	-	-	380	-	1,665
Total Deferred Inflows of Resources	-	-	-	-	380	-	1,665
FUND BALANCES (DEFICITS)							
Nonspendable	-	-	-	-	-	-	5,145
Restricted	-	-	-	-	-	-	96,644
Committed	-	21,657	356	-	56,150	-	84,040
Unassigned	(176)	-	-	-	-	-	(51,711)
Total fund balances (deficits)	(176)	21,657	356	-	56,150	-	134,118
Total liabilities, deferred inflows and fund balances (deficits)	$ 3,534	$ 27,179	$ 356	$ -	$ 75,718	$ (5,586)	$ 776,867

State of Illinois
Department of Human Services
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance - General Fund
For the Year Ended June 30, 2018 (Expressed in Thousands)

	General Revenue 0001	Illinois Veterans' Rehabilitation 0036	Special Olympics Illinois and Special Children's Charities 0073	Home Services Medicaid Trust 0120	Community Developmental Disabilities Services Medicaid Trust 0142	CMS vs AFSCME Wages Trust 0168	Care Provider Fund for Persons with a Developmental Disability 0344	Health and Human Services Medicaid Trust 0365
REVENUES								
Federal operating grants, net of refunds	$ 278,227	$ -	$ -	$ 232,525	$ 38,997	$ -	$ -	$ 10,011
Licenses and fees, net of refunds	97	-	-	-	-	-	-	-
Interest and investment income	-	-	5	495	481	-	-	106
Other charges for services, net of refunds	129	-	-	-	-	-	-	-
Other operating grants	87	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-
Other revenues, net of refunds	800	-	-	-	-	-	-	-
Total revenues	279,340	-	5	233,020	39,478	-	-	10,117
EXPENDITURES								
Health and social services	3,843,377	2,400	1,000	227,227	59,986	-	29,598	15,694
Debt service - principal	766	-	-	21	-	-	-	-
Debt service - interest	252	-	-	15	-	-	-	-
Capital outlays	12,075	-	-	66	-	-	-	-
Total expenditures	3,856,470	2,400	1,000	227,329	59,986	-	29,598	15,694
Excess (deficiency) of revenues over (under) expenditures	(3,577,130)	(2,400)	(995)	5,691	(20,508)	-	(29,598)	(5,577)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	4,343,570	-	-	-	-	-	45,000	-
Lapsed appropriations	(317,061)	-	-	-	-	-	(15,187)	-
Receipts collected and transmitted to State Treasury	(252,477)	-	-	-	-	-	-	-
Amount of SAMS transfers-in	(573)	-	-	-	-	-	-	-
Amount of SAMS transfers-out	2,381	-	-	-	-	-	-	-
Transfers-in	8	4,763	961	-	-	-	-	20,000
Transfers-out	(130,381)	-	-	(771)	-	-	-	-
Capital lease and installment purchase financing	1,919	-	-	66	-	-	-	-
Net other sources (uses) of financial resources	3,647,386	4,763	961	(705)	-	-	29,813	20,000
Net change in fund balances	70,256	2,363	(34)	4,986	(20,508)	-	215	14,423
Fund balances (deficits), July 1, 2017	(117,152)	3,514	354	21,540	90,306	(140)	(391)	7,234
Increase for change in inventories	646	-	-	-	-	-	-	-
FUND BALANCES (DEFICITS), June 30, 2018	$ (46,250)	$ 5,877	$ 320	$ 26,526	$ 69,798	$ (140)	$ (176)	$ 21,657

(Continued)

State of Illinois
Department of Human Services
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance - General Fund
For the Year Ended June 30, 2018 (Expressed in Thousands)

	Commitment to Human Services 0644	Budget Stabilization 0686	Community Mental Health Medicaid Trust 0718	Eliminations	Total
REVENUES					
Federal operating grants, net of refunds	$ -	$ -	$ 70,584	$ -	$ 630,344
Licenses and fees, net of refunds	-	-	-	-	97
Interest and investment income	-	-	520	-	1,607
Other charges for services, net of refunds	-	-	-	-	129
Other operating grants	-	-	-	-	87
Other taxes	-	-	-	-	-
Other revenues, net of refunds	370	-	-	-	1,170
Total revenues	370	-	71,104	-	633,434
EXPENDITURES					
Health and social services	(3,931)	(230)	47,788	-	4,222,909
Debt service - principal	-	-	-	-	787
Debt service - interest	-	-	-	-	267
Capital outlays	-	-	-	-	12,141
Total expenditures	(3,931)	(230)	47,788	-	4,236,104
Excess (deficiency) of revenues over (under) expenditures	4,301	230	23,316	-	(3,602,670)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	100,188	-	-	-	4,488,758
Lapsed appropriations	(100,000)	(17)	-	-	(432,265)
Receipts collected and transmitted to State Treasury	(43,860)	-	-	-	(296,337)
Amount of SAMS transfers-in	-	-	-	-	(573)
Amount of SAMS transfers-out	-	-	-	-	2,381
Transfers-in	-	-	-	(4,763)	20,969
Transfers-out	-	-	-	4,763	(126,389)
Capital lease and installment purchase financing	-	-	-	-	1,985
Net other sources (uses) of financial resources	(43,672)	(17)	-	-	3,658,529
Net change in fund balances	(39,371)	213	23,316	-	55,859
Fund balances (deficits), July 1, 2017	39,727	(213)	32,834	-	77,613
Increase for change in inventories	-	-	-	-	646
FUND BALANCES (DEFICITS), June 30, 2018	$ 356	$ -	$ 56,150	$ -	$ 134,118

State of Illinois
Department of Human Services
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2018 (Expressed in Thousands)

	Special Revenue						
	Prevention and Treatment of Alcoholism and Substance Abuse Block Grant 0013	Group Home Loan Revolving 0025	Mental Health 0050	Vocational Rehabilitation 0081	Assistance to the Homeless 0100	Youth Alcoholism and Substance Abuse Prevention 0128	Survivors Human Trafficking 0132
ASSETS							
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash deposited with State Treasurer	-	46	21,288	13,112	707	710	2
Cash and cash equivalents	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	19	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Due from other government - federal	11,639	-	2,974	10,926	-	-	-
Due from other government - local	-	-	-	-	-	-	-
Taxes receivable, net	-	-	156	-	-	-	-
Other receivables, net	131	-	1,493	11	-	-	-
Loans and notes receivable, net	-	17	-	-	-	-	-
Due from other Department fiduciary funds	-	-	-	-	-	-	-
Due from other State fiduciary funds	58	-	86	1,233	-	-	-
Due from other Department funds	-	-	11	65	-	-	-
Due from other State funds	-	-	1,566	-	1	1,180	-
Due from State of Illinois component units	140	-	-	-	-	-	-
Inventories	-	-	2,799	-	-	-	-
Total assets	$ 11,968	$ 82	$ 30,373	$ 25,347	$ 708	$ 1,890	$ 2
LIABILITIES							
Accounts payable and accrued liabilities	$ 10,298	$ 15	$ 763	$ 7,420	$ 59	$ 5	$ -
Due to other government - federal	6	-	7	548	-	-	-
Due to other government - local	463	-	-	1,372	-	-	-
Due to other Department fiduciary funds	-	-	-	-	-	-	-
Due to other State fiduciary funds	37	-	47	644	-	5	-
Due to other Department funds	-	-	26	-	-	-	-
Due to other State funds	374	-	154	1,603	-	26	-
Due to State of Illinois component units	793	-	51	476	-	-	-
Unearned revenue	-	-	-	-	-	-	-
Obligations under securities lending of State Treasurer	-	19	-	-	-	-	-
Total liabilities	11,971	34	1,048	12,063	59	36	-
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	-	-	-	11	-	-	-
Total Deferred Inflows of Resources	-	-	-	11	-	-	-
FUND BALANCES (DEFICITS)							
Nonspendable	-	-	2,799	-	-	-	-
Restricted	-	48	-	13,273	-	-	2
Committed	-	-	26,526	-	649	1,854	-
Unassigned	(3)	-	-	-	-	-	-
Total fund balances (deficits)	(3)	48	29,325	13,273	649	1,854	2
Total liabilities, deferred inflows and fund balances (deficits)	$ 11,968	$ 82	$ 30,373	$ 25,347	$ 708	$ 1,890	$ 2

(Continued)

State of Illinois
Department of Human Services
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2018 (Expressed in Thousands)

	Special Revenue						
	Mental Health Reporting 0148	**Sexual Assault Services and Prevention 0158**	**Children's Wellness Charities 0178**	**Housing for Families 0181**	**DHS Technology Initiative 0211**	**Autism Research Check-off 0228**	**Drunk and Drugged Driving Prevention 0276**
ASSETS							
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash deposited with State Treasurer	5,122	241	36	45	7,508	4	201
Cash and cash equivalents	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	2,049	97	-	-	3,050	2	-
Investments	-	-	-	-	-	-	-
Due from other government - federal	-	-	-	-	652	-	-
Due from other government - local	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-
Other receivables, net	8	-	-	-	12	-	-
Loans and notes receivable, net	-	-	-	-	-	-	-
Due from other Department fiduciary funds	-	-	-	-	-	-	-
Due from other State fiduciary funds	7	-	-	-	24	-	-
Due from other Department funds	-	-	-	-	249	-	5
Due from other State funds	-	-	-	-	329	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-
Total assets	$ 7,186	$ 338	$ 36	$ 45	$ 11,824	$ 6	$ 206
LIABILITIES							
Accounts payable and accrued liabilities	$ 10	$ -	$ -	$ -	$ 1,288	$ -	$ 57
Due to other government - federal	1	-	-	-	-	-	2
Due to other government - local	-	-	-	-	-	-	2
Due to other Department fiduciary funds	-	-	-	-	-	-	-
Due to other State fiduciary funds	-	-	-	-	-	-	9
Due to other Department funds	-	-	-	-	-	-	130
Due to other State funds	9	-	-	-	58	-	6
Due to State of Illinois component units	-	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-	-
Obligations under securities lending of State Treasurer	2,049	97	-	-	3,050	2	-
Total liabilities	2,069	97	-	-	4,396	2	206
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	-	-	-	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-	-	-	-
FUND BALANCES (DEFICITS)							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	241	36	45	-	4	-
Committed	5,117	-	-	-	7,428	-	-
Unassigned	-	-	-	-	-	-	-
Total fund balances (deficits)	5,117	241	36	45	7,428	4	-
Total liabilities, deferred inflows and fund balances (deficits)	$ 7,186	$ 338	$ 36	$ 45	$ 11,824	$ 6	$ 206

(Continued)

State of Illinois
Department of Human Services
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2018 (Expressed in Thousands)

	Special Revenue						
	Federal National Community Services 0343	Employment and Training 0347	Drug Treatment 0368	Sexual Assault Services 0389	Gaining Early Awareness and Readiness for Undergraduate Programs 0394	Autism Care 0399	DHS Special Purposes Trust 0408
ASSETS							
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash deposited with State Treasurer	476	27,372	571	110	3,191	39	73,285
Cash and cash equivalents	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	1,291	-	-
Investments	-	-	-	-	-	-	-
Due from other government - federal	-	31,692	-	-	-	-	55,736
Due from other government - local	-	-	202	7	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-
Other receivables, net	-	-	-	-	5	-	2
Loans and notes receivable, net	-	-	-	-	-	-	-
Due from other Department fiduciary funds	-	-	-	-	-	-	-
Due from other State fiduciary funds	-	-	-	-	-	-	144
Due from other Department funds	-	-	7	-	-	-	-
Due from other State funds	-	35	-	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-
Total assets	$ 476	$ 59,099	$ 780	$ 117	$ 4,487	$ 39	$ 129,167
LIABILITIES							
Accounts payable and accrued liabilities	$ -	$ 56,254	$ 709	$ -	$ -	$ -	$ 23,785
Due to other government - federal	-	-	2	-	3,186	-	13
Due to other government - local	-	630	-	-	-	-	4,224
Due to other Department fiduciary funds	-	-	-	-	-	-	-
Due to other State fiduciary funds	-	-	16	-	-	-	68
Due to other Department funds	-	-	-	-	-	-	-
Due to other State funds	476	2,174	5	-	5	-	1,679
Due to State of Illinois component units	-	47	-	-	5	-	3,851
Unearned revenue	-	-	-	-	-	-	307
Obligations under securities lending of State Treasurer	-	-	-	-	1,291	-	-
Total liabilities	476	59,105	732	-	4,487	-	33,927
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	-	3,333	-	-	-	-	8,524
Total Deferred Inflows of Resources	-	3,333	-	-	-	-	8,524
FUND BALANCES (DEFICITS)							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	39	86,716
Committed	-	-	48	117	-	-	-
Unassigned	-	(3,339)	-	-	-	-	-
Total fund balances (deficits)	-	(3,339)	48	117	-	39	86,716
Total liabilities, deferred inflows and fund balances (deficits)	$ 476	$ 59,099	$ 780	$ 117	$ 4,487	$ 39	$ 129,167

(Continued)

State of Illinois
Department of Human Services
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2018 (Expressed in Thousands)

	Special Revenue						
	Autism Awareness 0458	**Old Age Survivors Insurance 0495**	**Early Intervention Services Revolving 0502**	**DHS Community Services 0509**	**Domestic Violence Abuser Services 0528**	**Juvenile Accountability Incentive Block Grant 0581**	**DHS Federal Projects 0592**
ASSETS							
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash deposited with State Treasurer	29	476	8,092	11,690	102	44	2,996
Cash and cash equivalents	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	2,808	4,848	-	27	-
Investments	-	-	-	-	-	-	-
Due from other government - federal	-	1,678	14,042	5,558	-	-	2,793
Due from other government - local	-	-	-	-	2	-	-
Taxes receivable, net	-	-	-	-	-	-	-
Other receivables, net	-	-	335	37	-	-	26
Loans and notes receivable, net	-	-	-	-	-	-	-
Due from other Department fiduciary funds	-	-	-	-	-	-	-
Due from other State fiduciary funds	-	946	26	-	-	-	6
Due from other Department funds	-	-	12,715	-	-	-	26
Due from other State funds	-	-	35	800	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-
Total assets	$ 29	$ 3,100	$ 38,053	$ 22,933	$ 104	$ 71	$ 5,847
LIABILITIES							
Accounts payable and accrued liabilities	$ -	$ 1,913	$ 23,427	$ 473	$ -	$ 19	$ 4,254
Due to other government - federal	-	95	-	-	-	12	4
Due to other government - local	-	3	786	-	-	-	266
Due to other Department fiduciary funds	-	-	-	-	-	-	-
Due to other State fiduciary funds	-	519	-	-	-	9	10
Due to other Department funds	-	-	-	-	-	-	-
Due to other State funds	-	570	6	64	-	4	46
Due to State of Illinois component units	-	-	185	-	-	-	545
Unearned revenue	-	-	3,999	-	-	-	1,170
Obligations under securities lending of State Treasurer	-	-	2,808	4,848	-	27	-
Total liabilities	-	3,100	31,211	5,385	-	71	6,295
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	-	-	5,577	1	-	-	1
Total Deferred Inflows of Resources	-	-	5,577	1	-	-	1
FUND BALANCES (DEFICITS)							
Nonspendable	-	-	-	-	-	-	-
Restricted	29	-	-	-	-	-	-
Committed	-	-	1,265	17,547	104	-	-
Unassigned	-	-	-	-	-	-	(449)
Total fund balances (deficits)	29	-	1,265	17,547	104	-	(449)
Total liabilities, deferred inflows and fund balances (deficits)	$ 29	$ 3,100	$ 38,053	$ 22,933	$ 104	$ 71	$ 5,847

(Continued)

State of Illinois
Department of Human Services
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2018 (Expressed in Thousands)

	Special Revenue						
	Special Olympics Illinois 0623	**DHS State Projects 0642**	**Alcoholism and Substance Abuse 0646**	**DHS Private Resources 0690**	**U.S.D.A. Women Infants and Children 0700**	**Tobacco Settlement Recovery 0733**	**Thriving Youth Income Tax Checkoff 0752**
ASSETS							
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash deposited with State Treasurer	3	5,182	818	2,016	3,958	-	61
Cash and cash equivalents	-	-	-	-	454	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Due from other government - federal	-	-	3,426	-	89	-	-
Due from other government - local	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-
Other receivables, net	-	117	-	-	11,379	-	-
Loans and notes receivable, net	-	-	-	-	-	-	-
Due from other Department fiduciary funds	-	-	-	-	-	-	-
Due from other State fiduciary funds	-	-	-	-	63	-	-
Due from other Department funds	-	-	-	-	-	-	-
Due from other State funds	-	-	-	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-
Total assets	$ 3	$ 5,299	$ 4,244	$ 2,016	$ 15,943	$ -	$ 61
LIABILITIES							
Accounts payable and accrued liabilities	$ -	$ 1,933	$ 3,708	$ -	$ 10,371	$ -	$ -
Due to other government - federal	-	-	1	-	5	-	-
Due to other government - local	-	-	196	-	3,492	-	-
Due to other Department fiduciary funds	-	-	-	-	-	-	-
Due to other State fiduciary funds	-	-	-	-	34	-	-
Due to other Department funds	-	1,348	-	-	-	-	-
Due to other State funds	-	2,018	5	3	1,403	-	-
Due to State of Illinois component units	-	-	108	-	31	-	-
Unearned revenue	1	-	226	2,013	607	-	-
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	-
Total liabilities	1	5,299	4,244	2,016	15,943	-	-
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	-	-	3,426	-	-	-	-
Total Deferred Inflows of Resources	-	-	3,426	-	-	-	-
FUND BALANCES (DEFICITS)							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	61
Committed	-	-	-	-	-	-	-
Unassigned	2	-	(3,426)	-	-	-	-
Total fund balances (deficits)	2	-	(3,426)	-	-	-	61
Total liabilities, deferred inflows and fund balances (deficits)	$ 3	$ 5,299	$ 4,244	$ 2,016	$ 15,943	$ -	$ 61

(Continued)

State of Illinois
Department of Human Services
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2018 (Expressed in Thousands)

	Special Revenue						
	Local Initiative 0762	Rehabilitation Services Elementary and Secondary Education Act 0798	Grant V. Dimas Escrow 0818	Domestic Violence Shelter and Service 0865	Maternal and Child Health Services Block Grant 0872	Community Mental Health Services Block Grant 0876	Youth Drug Abuse Prevention 0910
ASSETS							
Unexpended appropriations	$ -	$ -	$ -	$ -	$ 1,058	$ -	$ -
Cash deposited with State Treasurer	5,502	783	15,280	918	-	460	1,120
Cash and cash equivalents	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Due from other government - federal	-	-	-	-	1,112	-	-
Due from other government - local	-	-	-	33	-	-	-
Taxes receivable, net	-	-	-	-	-	-	-
Other receivables, net	45	-	21	-	2	80	-
Loans and notes receivable, net	-	-	-	-	-	-	-
Due from other Department fiduciary funds	-	-	-	-	-	-	-
Due from other State fiduciary funds	12	-	-	-	-	11	-
Due from other Department funds	-	1	771	-	-	-	-
Due from other State funds	-	125	-	2	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-
Total assets	$ 5,559	$ 909	$ 16,072	$ 953	$ 2,172	$ 551	$ 1,120
LIABILITIES							
Accounts payable and accrued liabilities	$ 1,953	$ 52	$ -	$ 86	$ 714	$ 379	$ 301
Due to other government - federal	2	-	-	-	-	1	-
Due to other government - local	272	1	-	-	344	-	-
Due to other Department fiduciary funds	-	-	-	-	-	-	-
Due to other State fiduciary funds	10	-	-	-	-	7	-
Due to other Department funds	3,067	-	-	-	-	-	-
Due to other State funds	103	34	-	22	-	4	-
Due to State of Illinois component units	152	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	160	-
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	-
Total liabilities	5,559	87	-	108	1,058	551	301
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	-	-	-	-	52	-	-
Total Deferred Inflows of Resources	-	-	-	-	52	-	-
FUND BALANCES (DEFICITS)							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	822	16,072	-	1,062	-	-
Committed	-	-	-	845	-	-	819
Unassigned	-	-	-	-	-	-	-
Total fund balances (deficits)	-	822	16,072	845	1,062	-	819
Total liabilities, deferred inflows and fund balances (deficits)	$ 5,559	$ 909	$ 16,072	$ 953	$ 2,172	$ 551	$ 1,120

(Continued)

State of Illinois
Department of Human Services
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2018 (Expressed in Thousands)

	Special Revenue						
	Juvenile Justice Trust 0911	**DHS Recoveries Trust 0921**	**DHS Other Special Trusts 1139**	**DHS Commissary 1140**	**DHS Rehabilitation 1144**	**DHS/DORS Special Revenue 1149**	**Food Stamp and Commodity 1245**
ASSETS							
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash deposited with State Treasurer	874	14,279	-	-	-	-	-
Cash and cash equivalents	-	-	435	8	61	178	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	-
Investments	-	-	440	-	-	17	-
Due from other government - federal	9	-	28	-	-	-	-
Due from other government - local	-	-	-	-	-	72	-
Taxes receivable, net	-	-	-	-	-	-	-
Other receivables, net	-	115,354	2	-	-	-	-
Loans and notes receivable, net	-	-	-	-	-	-	-
Due from other Department fiduciary funds	-	-	-	-	-	-	-
Due from other State fiduciary funds	4	181	-	-	-	-	-
Due from other Department funds	-	-	-	-	-	196	-
Due from other State funds	-	-	-	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-
Total assets	$ 887	$ 129,814	$ 905	$ 8	$ 61	$ 463	$ -
LIABILITIES							
Accounts payable and accrued liabilities	$ 26	$ 586	$ -	$ -	$ 4	$ -	$ -
Due to other government - federal	-	60,149	-	-	1	-	-
Due to other government - local	46	52	-	-	-	-	-
Due to other Department fiduciary funds	-	-	-	-	-	-	-
Due to other State fiduciary funds	4	110	-	-	-	-	-
Due to other Department funds	-	249	-	1	-	1	-
Due to other State funds	23	555	-	-	-	-	-
Due to State of Illinois component units	22	-	-	-	-	-	-
Unearned revenue	766	-	-	1	-	-	-
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	-
Total liabilities	887	61,701	-	2	5	1	-
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	-	113,647	-	-	-	-	-
Total Deferred Inflows of Resources	-	113,647	-	-	-	-	-
FUND BALANCES (DEFICITS)							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	-	905	6	56	462	-
Committed	-	-	-	-	-	-	-
Unassigned	-	(45,534)	-	-	-	-	-
Total fund balances (deficits)	-	(45,534)	905	6	56	462	-
Total liabilities, deferred inflows and fund balances (deficits)	$ 887	$ 129,814	$ 905	$ 8	$ 61	$ 463	$ -

(Continued)

State of Illinois
Department of Human Services
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2018 (Expressed in Thousands)

	Special Revenue	Permanent	Permanent		
	Vending Facility Program for the Blind 1385	**DHS/DORS Permanent Trust 1150**	**Burr Bequest 1272**	**Eliminations**	**Total**
ASSETS					
Unexpended appropriations	$ -	$ -	$ -	$ -	$ 1,058
Cash deposited with State Treasurer	-	-	-	-	228,749
Cash and cash equivalents	182	162	18	-	1,498
Securities lending collateral equity with State Treasurer	-	-	-	-	14,191
Investments	-	261	981	-	1,699
Due from other government - federal	-	-	-	-	142,354
Due from other government - local	-	-	-	-	316
Taxes receivable, net	-	-	-	-	156
Other receivables, net	58	-	1	-	129,119
Loans and notes receivable, net	417	-	-	-	434
Due from other Department fiduciary funds	-	-	-	-	-
Due from other State fiduciary funds	-	-	-	-	2,801
Due from other Department funds	-	-	-	(426)	13,620
Due from other State funds	-	-	-	-	4,073
Due from State of Illinois component units	-	-	-	-	140
Inventories	-	-	-	-	2,799
Total assets	$ 657	$ 423	$ 1,000	$ (426)	$ 543,007
LIABILITIES					
Accounts payable and accrued liabilities	$ 25	$ -	$ -	$ -	$ 150,887
Due to other government - federal	-	-	-	-	64,035
Due to other government - local	-	-	-	-	12,149
Due to other Department fiduciary funds	-	-	-	-	-
Due to other State fiduciary funds	-	-	-	-	1,529
Due to other Department funds	-	150	-	(426)	4,546
Due to other State funds	-	-	-	-	11,429
Due to State of Illinois component units	-	-	-	-	6,266
Unearned revenue	-	-	-	-	9,250
Obligations under securities lending of State Treasurer	-	-	-	-	14,191
Total liabilities	25	150	-	(426)	274,282
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	-	-	-	-	134,572
Total Deferred Inflows of Resources	-	-	-	-	134,572
FUND BALANCES (DEFICITS)					
Nonspendable	-	159	981	-	3,939
Restricted	632	114	19	-	120,644
Committed	-	-	-	-	62,319
Unassigned	-	-	-	-	(52,749)
Total fund balances (deficits)	632	273	1,000	-	134,153
Total liabilities, deferred inflows and fund balances (deficits)	$ 657	$ 423	$ 1,000	$ (426)	$ 543,007

State of Illinois
Department of Human Services
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2018 (Expressed in Thousands)

	Special Revenue					
	Prevention and Treatment of Alcoholism and Substance Abuse Block Grant 0013	Group Home Loan Revolving 0025	Mental Health 0050	Vocational Rehabilitation 0081	Assistance to the Homeless 0100	Youth Alcoholism and Substance Abuse Prevention 0128
REVENUES						
Federal operating grants, net of refunds	$ 56,419	$ -	$ -	$ 109,100	$ -	$ -
Licenses and fees, net of refunds	-	-	-	-	-	-
Interest and investment income	-	1	-	-	-	-
Other charges for services, net of refunds	-	-	26,065	-	-	-
Other operating grants, net of refunds	-	-	-	-	-	-
Other taxes, net of refunds	-	-	713	-	-	-
Other revenues, net of refunds	-	-	-	(14)	263	-
Total revenues	56,419	1	26,778	109,086	263	-
EXPENDITURES						
Health and social services	56,419	18	30,898	113,492	259	987
Debt service - principal	-	-	432	45	-	-
Debt service - interest	-	-	1	28	-	-
Capital outlays	-	-	268	1,038	-	-
Total expenditures	56,419	18	31,599	114,603	259	987
Excess (deficiency) of revenues over (under) expenditures	-	(17)	(4,821)	(5,517)	4	(987)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-
Transfers-in	-	-	-	144	-	-
Transfers-out	-	-	(1,101)	-	-	-
Transfer of administration of funds (to)/from other State agencies	-	-	-	-	-	-
Transfer of administration of funds from other state agencies	-	-	-	-	-	-
Capital lease and installment purchase financing	-	-	129	109	-	-
Net other sources (uses) of financial resources	-	-	(972)	253	-	-
Net change in fund balances	-	(17)	(5,793)	(5,264)	4	(987)
Fund balances (deficits), July 1, 2017	(3)	65	35,346	18,537	645	2,841
Decrease for changes in inventories	-	-	(228)	-	-	-
FUND BALANCES (DEFICITS), June 30, 2018	$ (3)	$ 48	$ 29,325	$ 13,273	$ 649	$ 1,854

(Continued)

State of Illinois
Department of Human Services

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

For the Year Ended June 30, 2018 (Expressed in Thousands)

	Special Revenue					
	Survivors Human Trafficking 0132	**Mental Health Reporting 0148**	**Sexual Assault Services and Prevention 0158**	**Children's Wellness Charities 0178**	**Housing for Families 0181**	**DHS Technology Initiative 0211**
REVENUES						
Federal operating grants, net of refunds	$ -	$ -	$ -	$ -	$ -	$ 5,197
Licenses and fees, net of refunds	-	1,156	-	-	-	-
Interest and investment income	-	71	2	-	-	107
Other charges for services, net of refunds	-	-	440	-	-	-
Other operating grants, net of refunds	-	-	-	-	-	-
Other taxes, net of refunds	-	-	-	-	-	-
Other revenues, net of refunds	1	-	-	-	-	-
Total revenues	1	1,227	442	-	-	5,304
EXPENDITURES						
Health and social services	-	504	600	-	-	1,546
Debt service - principal	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-
Total expenditures	-	504	600	-	-	1,546
Excess (deficiency) of revenues over (under) expenditures	1	723	(158)	-	-	3,758
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-
Transfers-in	-	-	-	-	-	-
Transfers-out	-	-	-	-	-	(2,250)
Transfer of administration of funds (to)/from other State agencies	-	-	-	-	-	-
Transfer of administration of funds from other state agencies	-	-	-	-	-	-
Capital lease and installment purchase financing	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	-	-	-	-	(2,250)
Net change in fund balances	1	723	(158)	-	-	1,508
Fund balances (deficits), July 1, 2017	1	4,394	399	36	45	5,920
Decrease for changes in inventories	-	-	-	-	-	-
FUND BALANCES (DEFICITS), June 30, 2018	$ 2	$ 5,117	$ 241	$ 36	$ 45	$ 7,428

(Continued)

State of Illinois

Department of Human Services

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

For the Year Ended June 30, 2018 (Expressed in Thousands)

	Special Revenue					
	Autism Research Check-off 0228	**Drunk and Drugged Driving Prevention 0276**	**Federal National Community Services 0343**	**Employment and Training 0347**	**Drug Treatment 0368**	**Sexual Assault Services 0389**
REVENUES						
Federal operating grants, net of refunds	$ -	$ -	$ -	$ 389,598	$ -	$ -
Licenses and fees, net of refunds	-	1,443	-	-	-	-
Interest and investment income	-	-	-	-	-	-
Other charges for services, net of refunds	-	-	-	-	-	-
Other operating grants, net of refunds	-	-	-	-	-	-
Other taxes, net of refunds	-	-	-	-	-	-
Other revenues, net of refunds	-	-	-	-	2,804	69
Total revenues	-	1,443	-	389,598	2,804	69
EXPENDITURES						
Health and social services	-	1,610	-	392,937	3,118	100
Debt service - principal	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-
Total expenditures	-	1,610	-	392,937	3,118	100
Excess (deficiency) of revenues over (under) expenditures	-	(167)	-	(3,339)	(314)	(31)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-
Transfers-in	-	167	-	-	-	-
Transfers-out	-		-	-	(195)	-
Transfer of administration of funds (to)/from other State agencies	-	-	-	-	-	-
Transfer of administration of funds from other state agencies	-	-	-	-	-	-
Capital lease and installment purchase financing	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	167	-	-	(195)	-
Net change in fund balances	-	-	-	(3,339)	(509)	(31)
Fund balances (deficits), July 1, 2017	4	-	-	-	557	148
Decrease for changes in inventories	-	-	-	-	-	-
FUND BALANCES (DEFICITS), June 30, 2018	$ 4	$ -	$ -	$ (3,339)	$ 48	$ 117

(Continued)

State of Illinois
Department of Human Services

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

For the Year Ended June 30, 2018 (Expressed in Thousands)

	Special Revenue					
	Gaining Early Awareness and Readiness for Undergraduate Programs 0394	**Autism Care 0399**	**DHS Special Purposes Trust 0408**	**Autism Awareness 0458**	**Old Age Survivors Insurance 0495**	**Early Intervention Services Revolving 0502**
REVENUES						
Federal operating grants, net of refunds	$ 33	$ -	$ 287,028	$ -	$ 72,536	$ 74,878
Licenses and fees, net of refunds	-	-	-	20	-	4,550
Interest and investment income	48	-	-	-	-	71
Other charges for services, net of refunds	-	-	-	-	-	-
Other operating grants, net of refunds	-	-	32	-	-	-
Other taxes, net of refunds	-	-	-	-	-	-
Other revenues, net of refunds	-	-	500	-	-	(238)
Total revenues	81	-	287,560	20	72,536	79,261
EXPENDITURES						
Health and social services	81	-	250,183	10	72,528	164,624
Debt service - principal	-	-	2	-	6	-
Debt service - interest	-	-	-	-	2	1
Capital outlays	-	-	3	-	10	1
Total expenditures	81	-	250,188	10	72,546	164,626
Excess (deficiency) of revenues over (under) expenditures	-	-	37,372	10	(10)	(85,365)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-
Transfers-in	-	-	-	-	-	96,692
Transfers-out	-	-	-	-	-	-
Transfer of administration of funds (to)/from other State agencies	-	-	-	-	-	-
Transfer of administration of funds from other state agencies	-	-	-	-	-	-
Capital lease and installment purchase financing	-	-	3	-	10	1
Net other sources (uses) of financial resources	-	-	3	-	10	96,693
Net change in fund balances	-	-	37,375	10	-	11,328
Fund balances (deficits), July 1, 2017	-	39	49,341	19	-	(10,063)
Decrease for changes in inventories	-	-	-	-	-	-
FUND BALANCES (DEFICITS), June 30, 2018	$ -	$ 39	$ 86,716	$ 29	$ -	$ 1,265

(Continued)

State of Illinois
Department of Human Services
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2018 (Expressed in Thousands)

	Special Revenue					
	DHS Community Services 0509	**Domestic Violence Abuser Services 0528**	**Juvenile Accountability Incentive Block Grant 0581**	**DHS Federal Projects 0592**	**Special Olympics Illinois 0623**	**DHS State Projects 0642**
REVENUES						
Federal operating grants, net of refunds	$ 12,355	$ -	$ 72	$ 14,762	$ -	$ -
Licenses and fees, net of refunds	-	-	-	-	14	-
Interest and investment income	157	-	1	-	-	-
Other charges for services, net of refunds	-	-	-	-	-	-
Other operating grants, net of refunds	-	-	-	173	-	-
Other taxes, net of refunds	-	-	-	-	-	-
Other revenues, net of refunds	-	28	-	-	-	-
Total revenues	12,512	28	73	14,935	14	-
EXPENDITURES						
Health and social services	17,026	-	73	15,725	16	(33)
Debt service - principal	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-
Capital outlays	-	-	-	7	-	33
Total expenditures	17,026	-	73	15,732	16	-
Excess (deficiency) of revenues over (under) expenditures	(4,514)	28	-	(797)	(2)	-
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-
Transfers-in	4,750	-	-	-	-	-
Transfers-out	-	-	-	-	-	-
Transfer of administration of funds (to)/from other State agencies	-	-	-	-	-	-
Transfer of administration of funds from other state agencies	-	-	-	-	-	-
Capital lease and installment purchase financing	-	-	-	-	-	-
Net other sources (uses) of financial resources	4,750	-	-	-	-	-
Net change in fund balances	236	28	-	(797)	(2)	-
Fund balances (deficits), July 1, 2017	17,311	76	-	348	4	-
Decrease for changes in inventories	-	-	-	-	-	-
FUND BALANCES (DEFICITS), June 30, 2018	$ 17,547	$ 104	$ -	$ (449)	$ 2	$ -

(Continued)

State of Illinois
Department of Human Services
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2018 (Expressed in Thousands)

	Special Revenue					
	Alcoholism and Substance Abuse 0646	**DHS Private Resources 0690**	**U.S.D.A. Women Infants and Children 0700**	**Tobacco Settlement Recovery 0733**	**Thriving Youth Income Tax Checkoff 0752**	**Local Initiative 0762**
REVENUES						
Federal operating grants, net of refunds	$ 14,416	$ -	$ 185,283	$ -	$ -	$ 17,364
Licenses and fees, net of refunds	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-
Other charges for services, net of refunds	-	-	-	-	-	-
Other operating grants, net of refunds	134	-	-	-	-	-
Other taxes, net of refunds	-	-	-	-	-	-
Other revenues, net of refunds	-	1,002	-	-	61	-
Total revenues	14,550	1,002	185,283	-	61	17,364
EXPENDITURES						
Health and social services	17,976	2	185,246	-	-	17,364
Debt service - principal	-	-	1	-	-	-
Debt service - interest	-	-	-	-	-	-
Capital outlays	-	-	1	-	-	1
Total expenditures	17,976	2	185,248	-	-	17,365
Excess (deficiency) of revenues over (under) expenditures	(3,426)	1,000	35	-	61	(1)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	1,389	-	-
Lapsed appropriations	-	-	-	(1,389)	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-
Transfers-in	-	-	-	-	-	-
Transfers-out	-	(1,000)	-	-	-	-
Transfer of administration of funds (to)/from other State agencies	-	-	-	-	-	-
Transfer of administration of funds from other state agencies	-	-	-	-	-	-
Capital lease and installment purchase financing	-	-	1	-	-	1
Net other sources (uses) of financial resources	-	(1,000)	1	-	-	1
Net change in fund balances	(3,426)	-	36	-	61	-
Fund balances (deficits), July 1, 2017	-	-	(36)	-	-	-
Decrease for changes in inventories	-	-	-	-	-	-
FUND BALANCES (DEFICITS), June 30, 2018	$ (3,426)	$ -	$ -	$ -	$ 61	$ -

(Continued)

State of Illinois
Department of Human Services
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2018 (Expressed in Thousands)

	Special Revenue					
	Rehabilitation Services Elementary and Secondary Education Act 0798	**Grant V. Dimas Escrow 0818**	**Domestic Violence Shelter and Service 0865**	**Maternal and Child Health Services Block Grant 0872**	**Community Mental Health Services Block Grant 0876**	**Youth Drug Abuse Prevention 0910**
REVENUES						
Federal operating grants, net of refunds	$ 329	$ -	$ -	$ 2,343	$ 15,898	$ -
Licenses and fees, net of refunds	-	-	-	-	-	-
Interest and investment income	-	26	-	-	-	-
Other charges for services, net of refunds	-	-	-	-	-	-
Other operating grants, net of refunds	-	-	-	-	-	-
Other taxes, net of refunds	-	-	-	-	-	-
Other revenues, net of refunds	347	-	438	-	80	256
Total revenues	676	26	438	2,343	15,978	256
EXPENDITURES						
Health and social services	659	-	526	2,339	15,978	301
Debt service - principal	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-
Capital outlays	27	-	-	-	-	-
Total expenditures	686	-	526	2,339	15,978	301
Excess (deficiency) of revenues over (under) expenditures	(10)	26	(88)	4	-	(45)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	9,904	-	-
Lapsed appropriations	-	-	-	(7,562)	-	-
Receipts collected and transmitted to State Treasury	-	-	-	(2,036)	-	-
Transfers-in	-	16,046	-	-	-	-
Transfers-out	-	-	-	-	-	-
Transfer of administration of funds (to)/from other State agencies	-	-	-	-	-	-
Transfer of administration of funds from other state agencies	-	-	-	-	-	-
Capital lease and installment purchase financing	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	16,046	-	306	-	-
Net change in fund balances	(10)	16,072	(88)	310	-	(45)
Fund balances (deficits), July 1, 2017	832	-	933	752	-	864
Decrease for changes in inventories	-	-	-	-	-	-
FUND BALANCES (DEFICITS), June 30, 2018	$ 822	$ 16,072	$ 845	$ 1,062	$ -	$ 819

(Continued)

State of Illinois
Department of Human Services
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2018 (Expressed in Thousands)

	Special Revenue					
	Juvenile Justice Trust 0911	**DHS Recoveries Trust 0921**	**DHS Other Special Trusts 1139**	**DHS Commissary 1140**	**DHS Rehabilitation 1144**	**DHS/DORS Special Revenue 1149**
REVENUES						
Federal operating grants, net of refunds	$ 809	$ 79	$ 260	$ -	$ -	$ -
Licenses and fees, net of refunds	-	-	-	-	-	-
Interest and investment income	-	-	8	-	-	-
Other charges for services, net of refunds	-	16,445	-	53	-	-
Other operating grants, net of refunds	-	-	-	-	-	-
Other taxes, net of refunds	-	-	-	-	-	-
Other revenues, net of refunds	-	-	325	-	233	331
Total revenues	809	16,524	593	53	233	331
EXPENDITURES						
Health and social services	809	(16,278)	681	45	226	316
Debt service - principal	-	1	-	-	-	-
Debt service - interest	-	1	-	-	-	-
Capital outlays	-	5	-	-	-	-
Total expenditures	809	(16,271)	681	45	226	316
Excess (deficiency) of revenues over (under) expenditures	-	32,795	(88)	8	7	15
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-
Transfers-in	-	7,644	-	-	-	-
Transfers-out	-	(5,515)	-	(8)	-	-
Transfer of administration of funds (to)/from other State agencies	-	-	-	-	-	-
Transfer of administration of funds from other state agencies	-	-	-	-	-	-
Capital lease and installment purchase financing	-	5	-	-	-	-
Net other sources (uses) of financial resources	-	2,134	-	(8)	-	-
Net change in fund balances	-	34,929	(88)	-	7	15
Fund balances (deficits), July 1, 2017	-	(80,463)	993	6	49	447
Decrease for changes in inventories	-		-	-	-	-
FUND BALANCES (DEFICITS), June 30, 2018	$ -	$ (45,534)	$ 905	$ 6	$ 56	$ 462

(Continued)

State of Illinois
Department of Human Services

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

For the Year Ended June 30, 2018 (Expressed in Thousands)

	Special Revenue		Permanent			
	Food Stamp and Commodity 1245	**Vending Facility Program for the Blind 1385**	**DHS/DORS Permanent Trust 1150**	**Burr Bequest 1272**	**Eliminations**	**Total**
REVENUES						
Federal operating grants, net of refunds	$ 2,846,687	$ -	$ -	$ -	$ -	$ 4,105,446
Licenses and fees, net of refunds	-	-	-	-	-	7,183
Interest and investment income	-	-	11	12	-	515
Other charges for services, net of refunds	-	-	-	-	-	43,003
Other operating grants, net of refunds	-	-	-	-	-	339
Other taxes, net of refunds	-	-	-	-	-	713
Other revenues, net of refunds		455	2	-	-	6,943
Total revenues	2,846,687	455	13	12	-	4,164,142
EXPENDITURES						
Health and social services	2,846,687	381	1	7	-	4,195,987
Debt service - principal	-	-	-	-	-	487
Debt service - interest	-	-	-	-	-	33
Capital outlays	-	-	-	-	-	1,394
Total expenditures	2,846,687	381	1	7	-	4,197,901
Excess (deficiency) of revenues over (under) expenditures	-	74	12	5	-	(33,759)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	-	-	11,293
Lapsed appropriations	-	-	-	-	-	(8,951)
Receipts collected and transmitted to State Treasury	-	-	-	-	-	(2,036)
Transfers-in	-	-	-	-	(144)	125,299
Transfers-out	-	(144)	-	-	144	(10,069)
Transfer of administration of funds (to)/from other State agencies	-	-	-	-	-	-
Transfer of administration of funds from other state agencies	-	-	-	-	-	-
Capital lease and installment purchase financing	-	-	-	-	-	259
Net other sources (uses) of financial resources	-	(144)	-	-	-	115,795
Net change in fund balances	-	(70)	12	5	-	82,036
Fund balances (deficits), July 1, 2017	-	702	261	995	-	52,345
Decrease for changes in inventories	-	-	-	-	-	(228)
FUND BALANCES (DEFICITS), June 30, 2018	$ -	$ 632	$ 273	$ 1,000	$ -	$ 134,153

State of Illinois
Department of Human Services
Combining Statement of Fiduciary Net Position - Agency Funds
June 30, 2018 (Expressed in Thousands)

	Agency			
	Electronic Benefits Transfers 0540	DHS Resident's Trust 1143	DHS/DORS Agency 1147	Total
ASSETS				
Cash and cash equivalents	$ -	$2,067	-	$ 2,067
Investments	-	920	-	920
Due from other government - federal	-	28	-	28
Due from other Department funds	-	-	36	36
Total assets	$ -	$ 3,015	$ 36	$ 3,051
LIABILITIES				
Accounts payable and accrued liabilities	-	-	36	36
Other liabilities	-	3,015	-	3,015
Total liabilities	$ -	$ 3,015	$ 36	$ 3,051

State of Illinois
Department of Human Services
Combining Statement of Changes in Assets and Liabilities - Agency Funds
For the Year Ended June 30, 2018 (Expressed in Thousands)

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018
Electronic Benefits Transfers (0540)				
ASSETS				
Cash equity with State Treasurer	$ -	$ 106,840	$ 106,840	$ -
Total assets	$ -	$ 106,840	$ 106,840	$ -
LIABILITIES				
Accounts payable and accrued liabilities	-	106,840	106,840	-
Total liabilities	$ -	$ 106,840	$ 106,840	$ -
DHS Resident's Trust (1143)				
ASSETS				
Cash and cash equivalents	1,378	15,002	14,313	2,067
Investments	890	30	-	920
Due from other government - federal	28	945	945	28
Total assets	$ 2,296	$ 15,977	$ 15,258	$ 3,015
LIABILITIES				
Other liabilities	2,296	15,977	15,258	3,015
Total liabilities	$ 2,296	$ 15,977	$ 15,258	$ 3,015
DHS/DORS Agency (1147)				
ASSETS				
Cash and cash equivalents	-	224	224	-
Due from other Department funds	43	29	36	36
Total assets	$ 43	$ 253	$ 260	$ 36
LIABILITIES				
Accounts payable and accrued liabilities	43	193	200	36
Total liabilities	$ 43	$ 193	$ 200	$ 36
Total - All Agency Funds				
ASSETS				
Cash and cash equivalents	1,378	122,066	121,377	2,067
Investments	890	30	-	920
Due from other government - federal	28	945	945	28
Due from other Department funds	43	29	36	36
Total assets	$ 2,339	$ 123,070	$ 122,358	$ 3,051
LIABILITIES				
Accounts payable and accrued liabilities	43	107,033	107,040	36
Other liabilities	2,296	15,977	15,258	3,015
Total liabilities	$ 2,339	$ 123,010	$ 122,298	$ 3,051

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Honorable Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Human Services (Department), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated August 9, 2019.

Our report included an emphasis of matter paragraph relating to the Department's adoption of the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which required a restatement of governmental activities opening net position of approximately $(4.5) billion.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2018-001 to 2018-011 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2018-001 and 2018-004 to 2018-011.

State of Illinois, Department of Human Services' Responses to Findings
The Department's responses to items 2018-001 through 2018-011 are described in the accompanying schedule of findings. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on the responses.

State of Illinois, Department of Children and Family Services' Responses to Findings
The State of Illinois, Department of Children and Family Services' responses to items 2018-004, 2018-005 and 2018-006 are described in the accompanying schedule of findings. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

State of Illinois, Department on Aging's Responses to Findings
The State of Illinois, Department on Aging's responses to items 2018-004, 2018-005, and 2018-006 are described in the accompanying schedule of findings. The State of Illinois, Department on Aging's responses were not subjected to the auditing procedures applied to the audit of the financial statements and accordingly, we express no opinion on the responses.

State of Illinois, Department of Healthcare and Family Services' Responses to Findings
The State of Illinois, Department of Healthcare and Family Services' responses to items 2018-004, 2018-005, 2018-006, 2018-007, 2018-008, 2018-009, 2018-010 and 2018-011 are described in the accompanying schedule of findings. The State of Illinois, Department of Healthcare and Family Services' responses were not subjected to the auditing procedures applied to the audit of the financial statements and accordingly, we express no opinion on the responses.

Purpose of this Report

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

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
August 9, 2019

Current Findings – *Government Auditing Standards*

Finding 2018-001 Medical Assistance Program Financial Information

The Department of Human Services (Department) does not have an adequate understanding of the internal controls in place over all data recorded in its financial statements and the Department does not sufficiently review transactions initiated by other State agencies and recorded in the Department's financial statements.

During 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 (Funds 0120, 0142, 0365, 0502, 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 about $418 million) 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.

- 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's Fiscal Services Bureau reconciles the payments between CARS and the IOC before accepting them into CARS. However, the Department has not obtained and documented a detailed understanding of how its transactions are processed within HFS, the controls in place over those transactions, monitoring performed by HFS, exceptions noted by HFS through its monitoring activities, and how exceptions and control deficiencies are addressed by HFS and communicated to the Department. We selected and tested multiple expenditures and liabilities initially processed by HFS. 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.

A good system of internal control requires that management review all significant accounts and balances recorded in the financial statements for accuracy, which includes transactions initiated by other State agencies.

Current Findings – *Government Auditing Standards*

Finding 2018-001 Medical Assistance Program Financial Information (Continued)

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Department management indicated, similar to the prior year, that in order to meet the IOC's due dates for GAAP reporting packages and staffing shortages, the Department had to rely on information submitted by other agencies to the IOC. Department management reviewed the other agencies' information for reasonableness, but did not review the information at a detailed level.

Lack of sufficient control over transactions and balances recorded in the Department's financial statements increases the likelihood of misstatements. (Finding Code No. 2018-001, 2017-002)

Recommendation

We recommend 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:

- The Department should work with management of HFS to gain a better understanding of the internal control system established over Department transactions and enter into an interagency agreement with HFS that details the responsibilities of each agency and how this will be monitored. Subsequently, on a regular basis, the Department should determine if the control system and related monitoring is sufficient to prevent and detect significant financial statement errors.

- Expenditure amounts provided by HFS in connection with year-end reporting of Federal MAP receivables should be reconciled to CARS.

Department Response

The Department accepts the recommendation. The Department will prepare documentation, at a high level, of HFS's internal controls over Department transactions and institute annual monitoring. The Department will implement a process to verify that the data provided by HFS is complete and accurate.

Current Findings – *Government Auditing Standards*

Finding 2018-002 Methodology Used for Calculating the Allowance for Doubtful Accounts Not Accurate

The Department of Human Services (Department) did not sufficiently assess all information it had available in determining the allowance for doubtful accounts and did not maintain sufficient detail supporting all receivable balances.

During testing, we noted the following:

- The originally recorded allowance for doubtful accounts relating to recipient overpayment receivables in the DHS Recoveries Trust Fund (Fund 0921) was understated, resulting in an overstatement of accounts receivable and deferred inflows of resources of $193 million. Additionally, the government-wide statements for governmental activities were overstated by $193 million for accounts receivable and revenues. Also, because the allowance is used to estimate the amount of collections and recoupments of recipient overpayments that are owed back to the federal government for the Aid to Families with Dependent Children (AFDC) and Supplemental Nutrition Assistance Program (SNAP) programs, expenditures/expenses and the liability were overstated by $107 million in the draft financial statements. The Department recorded adjustments to correct the balances.

- The Department was unable to provide detailed support for the portion of the receivables maintained in its Accounts Receivable System (ARS) that are from periods prior to 1986, totaling $44.8 million. The Department recorded adjustments to correct the balances.

- The detail provided for $35.3 million of receivables recorded in the Department's Consolidated Accounting and Reporting System (CARS) is not sufficient to perform an aging of the receivables or to calculate a reasonable allowance. The data contained within CARS is only the customer ID and amount (lacking the debt's establishment date and any collections data). As such, the allowance rate applied to the CARS receivables was based on the ARS data.

According to generally accepted accounting principles (GAAP), the allowance for uncollectable accounts should represent management's best estimate of the amount of receivables that will not be collected. The allowance for doubtful accounts is a significant estimate that requires proper analysis and evaluation of past and current events as well as the assumptions used.

Current Findings – *Government Auditing Standards*

Finding 2018-002 Methodology Used for Calculating the Allowance for Doubtful Accounts Not Accurate (Continued)

Additionally, in Concepts Statement No. 4, *Elements of Financial Statements*, the Governmental Accounting Standards Board (GASB) defines an asset as "resources with present service capacity that the government presently controls." Further, GASB states,

> Control of an asset is the ability of the government to utilize the resource's present service capacity and to determine the nature and manner of use of the present service capacity embodied in the resource. Generally, the government controlling the asset has the ability to determine whether to (a) directly use the present service capacity to provide services to citizens; (b) exchange the present service capacity for another asset, such as cash; or (c) employ the asset in any of the other ways it may provide benefit."

Department management indicated that the type and age of the various receivables were not adequately assessed in the original estimate.

Recording an allowance for doubtful accounts which is not reflective of all known events and conditions has and may continue to result in misstatements of accounts receivable and amounts due to the Federal government. Lack of sufficient, detailed information supporting these balances hampers management's ability to determine a suitable allowance. (Finding Code No. 2018-002, 2017-004)

Recommendation

We recommend the Department continue to analyze all available collection data annually and adjust the methodology for calculating the allowance for doubtful accounts, as necessary, so balances are accurately reported in the financial statements. Significant changes in the allowance amount should be analyzed to determine the reasonableness and necessity of the change. In addition, the Department should maintain sufficient detail to support the age and collectability of receivable amounts recorded in its financial statements.

Department Response

The Department accepts the recommendation. The Department will continue to analyze all available collection data annually and will adjust the methodology as necessary.

Current Findings – *Government Auditing Standards*

Finding 2018-003 Lack of Adequate Controls over the Review of Internal Controls over Service Providers

The Department of Human Services (Department) does not maintain a complete listing of its external service providers and it did not sufficiently monitor the internal controls of the external services used during the audit period.

The Department could not provide us with a complete population (listing) of all the third party service providers it used during the audit period. Due to these conditions, we were unable to conclude the Department's population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C § 530, and AT-C § 205.35).

Even given the population limitations noted above, we performed testing over the Department's identified third party service providers utilized by the Department for programs that are considered material to the Department's financial statements. These third party service providers included providers of services for the Illinois Link Program, which distributes SNAP and TANF benefits, and a third party banking/processor (TPP) that assists the Department with a system of payment for all food benefits, including the review and reconciliation of Supplemental Food and Nutrition Program for Women, Infants, and Children (WIC) and WIC Farmer's Market and Senior Farmer's Market benefits.

During testing, we noted the following exceptions related to the Department's review of the WIC TPP's internal control governing the services it provides to the State:

- For Fiscal Year 2018 (July 1, 2017 through June 30, 2018), the Department did not obtain the appropriate SOC reports (SOC 1 Type 2), and did not conduct an independent internal control review of the TPP for the WIC program, in lieu of obtaining the reports.

- As previously reported in the WIC TPP's SOC reports, it typically utilizes subservice organizations in order to carry out their contractual duties for the Department. However, as a result of the Department obtaining inappropriate SOC reports, as noted above, the Department did not conduct an analysis of any subservice organizations.

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Current Findings – *Government Auditing Standards*

Finding 2018-003 Lack of Adequate Controls over the Review of Internal Controls over Service Providers (Continued)

Department management indicated that SOC 2 Type 2 reports were provided to the Department by the WIC TPP (the first dated December 28, 2017 (for the period April 1, 2017 through September 30, 2017) and the second dated February 1, 2019 (for the period October 1, 2017 through September 30, 2018)), instead of the previously provided SOC 1 Type 2 report. Management believed the SOC 2 Type 2 reports would be sufficient for purposes of reviewing internal controls over the TPP's control environment related to financial reporting.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

The Department is responsible for the design, implementation, and maintenance of internal controls related to information systems and operations to assure its critical and confidential data are adequately safeguarded. The Department is also responsible for the design and maintenance of internal controls relevant to financial reporting. These responsibilities are not limited due to the processes being outsourced.

The industry standard for understanding business processes, internal control, and the suitability and operating effectiveness of internal controls provided by a TPP is through obtaining a SOC 1 Type 2 report. A SOC 1 Type 2 report provides:

a. TPP management's description of the service organization's system;

b. A written assertion by TPP management about whether in all material respects and, based on suitable criteria, including:
    i. TPP management's description of the service organization's system fairly presents the service organization's system that was designed and implemented throughout the specified period,
    ii. the controls related to the control objectives stated in TPP management's description of the service organization's system were suitably designed throughout the specified period to achieve those control objectives, and,
    iii. the controls related to the control objectives stated in TPP management's description of the service organization's system operated effectively throughout the specified period to achieve those control objectives; and,

Current Findings – *Government Auditing Standards*

Finding 2018-003 Lack of Adequate Controls over the Review of Internal Controls over Service Providers (Continued)

c. A service auditor's report that:
   i. expresses an opinion on the matters in b (i–iii), and
   ii. includes a description of the service auditor's tests of controls and the results thereof.

Without obtaining, reviewing, and monitoring a SOC 1 Type 2 report, or another form of independent internal control review, the Department does not have assurance the external service providers' or any subservice organizations' internal controls are adequate to ensure program payments and claims are accurate and secure. (Finding Code No. 2018-003, 2017-005)

Recommendation

We recommend the Department strengthen its controls to confirm all external service providers are considered when compiling a population. Further, we recommend the Department obtain SOC 1 Type 2 reports, or perform independent reviews of internal control associated with external party service providers, at least annually.

The independent reviews should include an assessment of the following five key system attributes, as applicable:

- Security - The system is protected against both physical and logical unauthorized access.
- Availability - The system is available for operation and use as committed or agreed.
- Processing integrity - System processing is complete, accurate, timely and authorized.
- Confidentiality - Information designated as confidential is protected as committed or agreed.
- Privacy - Personal information is collected, used, retained, disclosed, and disposed of in conformity with Department requirements.

An independent review should also encompass the design and effectiveness of controls over the processing of Department transactions such as WIC voucher processing, reconciliations, and check returns.

When SOC 1 Type 2 reports are obtained, the Department should perform a timely review of the reports, assess the effect of any noted deficiencies, and identify and implement any compensating controls. The Department's reviews and corrective actions taken by the service provider should be documented and maintained. In addition, the Department should perform an analysis to determine the need to obtain information as to any subservice organization's internal controls and perform reviews as needed.

Current Findings – *Government Auditing Standards*

Finding 2018-003 Lack of Adequate Controls over the Review of Internal Controls over Service Providers (Continued)

Department Response

The Department accepts the recommendation. The Department agrees that internal controls associated with external party service providers should be strenghtened to include:

- Ensuring all external service providers are considered when compiling a population;
- Obtaining the appropriate reports, or performing independent reviews, to comply with Department of Human Services and Department of Innovation and Technology policies and professional standards such as those of the American Institute of Certified Public Accountants.
- Ensuring said reports/reviews are submitted and reviewed on time and annually; and
- Confirming all corrective actions taken by the service provider are documented and maintained.

Current Findings – *Government Auditing Standards*

Finding 2018-004 Statewide Failure to Execute Interagency Agreements and Perform Essential Project Management Functions over Provider Enrollment in the Medicaid Program

The Department of Healthcare and Family Services (HFS), the Department of Human Services (DHS), the Department of Children and Family Services (DCFS), and the Department on Aging (DoA) (collectively, the "Departments") failed to execute adequate internal controls over the implementation and operation of the State of Illinois' Illinois-Michigan Program Alliance for Core Technology system (IMPACT). Specifically, management of the Departments did not enter into interagency agreements (IA) defining each agency's roles and responsibilities, and did not perform essential project management functions over the implementation of IMPACT.

<u>Project Background</u>

Throughout calendar years 2012-2015, the Departments and the State of Michigan's Department of Community Health (DCH) began studying possible modifications to Michigan's existing Medicaid Management Information System (MMIS) to allow Illinois to share it and its related infrastructure with the goal being to eventually replace HFS' outdated MMIS to accommodate the processing of the State of Illinois' Medicaid provider enrollment determinations and all Medicaid claim payments to such providers. In 2015, HFS and DCH signed an intergovernmental agreement formally establishing IMPACT. The implementation of IMPACT was scheduled to be rolled out in three phases. Phase 1 was placed in service in November 2013 and March 2014, and encompassed providing financial assistance for the development and implementation of the Electronic Health Record Medicaid Incentive Payment Program (eMIPP) module. Phase 2 was placed in service in July 2015, and encompassed the development and the implementation of the Provider Enrollment (PE) module. The PE module was designated by HFS to be the State of Illinois' book of record for the eligibility determinations of providers offering services for and on-behalf of the State of Illinois' Medicaid recipients. Both the eMIPP and PE modules interface with the existing State of Illinois' MMIS and are the basis for which providers are determined eligible to provide Medicaid services and receive Medicaid claim payments. Phase 3 includes the final development and implementation stages of IMPACT and was scheduled to be placed in service in calendar year of 2018; however, implementation had not taken place as of the end of our fieldwork. HFS staff stated IMPACT is not ready to accommodate the managed-care-rate payment structure and is currently targeted to be placed in service in March 2020. According to filings with the U.S. Department of Health & Human Services, the IMPACT project was expected to cost the State of Illinois approximately $103 million. As of September 30, 2018, after only implementing two phases of the project, HFS had expended over $50 million with the largest part of the system conversion outstanding. As of the end of our fieldwork, HFS has increased the original budget to approximately $173 million.

Current Findings – *Government Auditing Standards*

Finding 2018-004 Statewide Failure to Execute Interagency Agreements and Perform Essential Project Management Functions over Provider Enrollment in the Medicaid Program (Continued)

<u>HFS' and Delegated Agencies' Roles</u>

As set by the State of Illinois' State Plan under Title XIX of the *Social Security Act* (State Plan) (Section 1.1), the State's designated agency responsible for administering and supervising the administration of the Medicaid Program is HFS. However, Section 1.1 of the State Plan also allows for HFS to delegate specific functions to other State entities to assist with the administration of the Medicaid Program, pursuant to a written IA defining each agency's roles and responsibilities. During our testing, we identified the following delegated agencies, which we will refer to as HFS' Delegated Agencies, and examples of the Medicaid services they provide which utilizes IMPACT for enrollment of their providers. DHS administers several human service programs under the Medicaid Program, including developmental disabilities support services, rehabilitation services, and substance abuse (prevention and recovery) services. DCFS administers the State's child welfare program which includes cooperating in the establishment of Medicaid eligibility for children who are wards of the State. DoA administers the State's programs for residents aged 60 and older, including Home and Community Based Services to Medicaid recipients who meet Community Care Program requirements.

<u>Auditor Testing and Results</u>

In order to determine if the Departments complied with federal and State laws, rules, and regulations when they developed, implemented, and operated IMPACT, we reviewed the Departments' applicable policies and procedures governing IMPACT. Our testing identified the following material weaknesses in internal control:

- The Departments did not have current, formal written agreements defining the roles and responsibilities of HFS or its Delegated Agencies of the Medicaid Program.

- While DHS utilized IMPACT to formally approve providers for the purposes of granting payments of their Medicaid claims, it did not utilize IMPACT as its book of record or rely on it to verify the providers met certain federal requirements. In this instance, the book of record means the mandatory system designated by HFS to be used for the tracking of the State's activities, events, or decisions when approving or denying the enrollment of Medicaid providers. When we inquired of DHS as to why it did not retain the documentation within IMPACT to support its determination of enrollment, DHS management stated it chose to maintain the supporting documentation outside of IMPACT as it could not rely on IMPACT.

Current Findings – *Government Auditing Standards*

Finding 2018-004 Statewide Failure to Execute Interagency Agreements and Perform Essential Project Management Functions over Provider Enrollment in the Medicaid Program (Continued)

- When we inquired of DCFS and DoA as to what their processes were regarding the use of IMPACT, they both stated they did not use IMPACT after formally approving the providers for the purpose of granting payments of their Medicaid claims. They both believed HFS was doing the subsequent review of, and maintenance of, provider enrollment information for them. After asking HFS to confirm if DCFS' and DoA's statements were accurate, HFS management stated that was not the case and both DCFS and DoA had the responsibility to subsequently review their providers' eligibility for enrollment in the Medicaid program.

- The Departments implemented IMPACT despite the inability of IMPACT to allow Illinois officials to generate customary and usual system internal control reports, including such information as provider data, security measures, or updates made to IMPACT. The Departments must go through the third party service provider (TSP) in order to obtain any reports needed by the State.

- Based on testing of the documented procedures governing IMPACT, we noted the following:
    - ➢ the procedures only addressed the actions that should have been taken by HFS and did not include the procedures to be followed or taken by the Delegated Agencies;
    - ➢ the procedures contained contradictory provisions; and,
    - ➢ the procedures did not depict the actual actions taken by HFS staff during the audit period.

- The Departments failed to establish and maintain adequate general information technology controls over IMPACT. (See Finding 2018-005 for further details.)

- The Departments had inadequate project management over the implementation of IMPACT. According to the Intergovernmental Agreements, Amendments, and Statements of Work signed between HFS and the TSP, who maintains and hosts IMPACT, the TSP was to provide HFS various deliverables throughout the implementation of the project for its timely review and approval. During our testing of the deliverables required to be provided, we noted the following:

    - ➢ HFS did not receive 9 of the 60 (15%) required deliverables,
    - ➢ For 39 of the 51 (76%) deliverables received, there was no supporting documentation to demonstrate HFS had approved them, and

Current Findings – *Government Auditing Standards*

Finding 2018-004 Statewide Failure to Execute Interagency Agreements and Perform Essential Project Management Functions over Provider Enrollment in the Medicaid Program (Continued)

- ➢ One of the 51 (2%) deliverables received, the PE Implementation Plan, was noted as "draft". As a result, HFS does not have supporting documentation to show it received and approved the "final" version of the deliverable. The purpose of the PE Implementation Plan was to define the overall approach for the implementation of the PE module of IMPACT.

- As a result of inadequate project management, the Departments did not implement adequate security controls over IMPACT. (See Finding 2018-005 for further details)

- The Departments did not design and establish an adequate internal control structure over provider enrollment determination such that sufficient and appropriate evidence, maintained in a paperless format, existed to support each provider met various compliance requirements at the time when the Departments determined each provider's eligibility. Further, management at the Departments failed to adequately monitor manual provider enrollment determinations, as (1) staff did not consistently document their review of the provider applications in accordance with HFS' Process Checklists and (2) HFS did not establish a system of supervisory reviews of work performed by staff. (See Finding 2018-006 for further details.)

Auditing standards applicable to financial audits and compliance examinations contained in the Government Auditing Standards issued by the Comptroller General of the United States Sections 1.01-1.02 state:

> The concept of accountability for use of public resources and government authority is key to our nation's governing processes. Management and officials entrusted with public resources are responsible for carrying out public functions and providing service to the public effectively, efficiently, economically, ethically, and equitably within the context of the statutory boundaries of the specific government program. As reflected in applicable laws, regulations, agreements, and standards, management and officials of government programs are responsible for providing reliable, useful, and timely information for transparency and accountability of these programs and their operations. Legislators, oversight bodies, those charged with governance, and the public need to know whether (1) management and officials manage government resources and use their authority properly and in compliance with laws and regulations; (2) government programs are achieving their objectives and desired outcomes; and (3) government services are provided effectively, efficiently, economically, ethically, and equitably.

Current Findings – *Government Auditing Standards*

Finding 2018-004 Statewide Failure to Execute Interagency Agreements and Perform Essential Project Management Functions over Provider Enrollment in the Medicaid Program (Continued)

Further, the Code of Federal Regulations (2 C.F.R. § 200.303), Internal Controls, requires the Departments to: (1) establish and maintain effective internal control over the Medicaid Program to provide reasonable assurance that the Departments are managing the Medicaid Program in compliance with federal statutes, regulations, and the terms and conditions; and (2) comply with federal statutes, regulations and terms and conditions of the Medicaid Program. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" (otherwise commonly referred to as the Green Book) issued by the Comptroller General of the United States or the "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO).

In addition, the Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) requires all agencies to establish and maintain a system of internal fiscal and administrative controls, which shall provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable laws; (2) obligations and costs are in compliance with applicable laws; and (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. In addition, generally accepted information technology guidance endorses the implementation of project management techniques to certify computer system development activities meet management's objectives.

The Departments' management indicated the above control deficiencies were due to the limited reporting capabilities of IMPACT and employee oversight.

Failure to execute IAs and failure to perform essential project management functions could expose the State to unnecessary and avoidable litigation, approval of ineligible providers, excessive expenditures, over-reliance on contractors, and could result in a system that does not meet the needs of the State and the individuals dependent on the State for Medicaid services. In addition, the Departments' lack of due diligence in performing project management responsibilities has contributed to a significant increase in project timeline and associated costs. (Finding Code No. 2018-004)

Current Findings – *Government Auditing Standards*

Finding 2018-004 Statewide Failure to Execute Interagency Agreements and Perform Essential Project Management Functions over Provider Enrollment in the Medicaid Program (Continued)

Recommendation

We recommend management of the Departments execute detailed IAs which define the roles and responsibilities of each agency regarding the Medicaid Program. The IAs should sufficiently address necessary procedures to enforce monitoring and accountability provisions over IMPACT as required by the Code of Federal Regulations, the State Plan, and the Act so the enrollment of providers offering services to recipients of the Medicaid program is carried out in an effective, compliant, efficient, and economical manner. We further recommend the Departments obtain and review/approve the remaining deliverables from the TSP and, in the future, the Departments should establish adequate controls over project management for the development and implementation of major projects, such as IMPACT.

Department of Healthcare and Family Services' Response

The Department of Healthcare and Family Services (HFS) accepts the recommendation. The above control deficiencies were due to management not prioritizing creation of new interagency agreements in line with the new system and performing quality checks of employee performance.

HFS currently has interagency agreements with the agencies processing provider medical claims through HFS. HFS will update these agreements to include the roles and responsibilities of each agency that is using the Provider Enrollment module of the IMPACT system as necessary.

The Department processes payments for deliverables and contractual obligations via invoice vouchers which include the statement "I certify that the goods or services specified on this voucher were for the use of this agency and that the expenditure for such goods or services was authorized and lawfully incurred; that such goods or services meet all the required standards set forth in the purchase agreement or contract to which this voucher relates; and that the amount shown on this voucher is correct and is approved for payment. If applicable, the reporting requirements of Section 5.1 of the Governor's Office of Management and Budget Act have been met." The invoice vouchers are signed by the receiving officer, head of unit and agency head. All deliverables were received, reviewed and paid in accordance with State requirements; however, this particular contract outlined additional requirements for deliverable approval and the Department could not provide all items due to staff turnover. Additional processes were implemented in response to a previous audit finding related to this same issue; however, the deliverables and approvals noted by the auditor during this audit pre-date the new process that was implemented.

Current Findings – *Government Auditing Standards*

Finding 2018-004 Statewide Failure to Execute Interagency Agreements and Perform Essential Project Management Functions over Provider Enrollment in the Medicaid Program (Continued)

Auditor's Comment to Department of Healthcare and Family Services' Response

As noted above, the Department had not received all the required deliverables, therefore, the auditors are unclear as to how the Department of Healthcare and Family Services could have reviewed and paid for all contract deliverables in accordance with the State requirements.

Department of Human Services' Response

The Department of Human Services (DHS) agrees with the recommendation. DHS will work with the Department of Healthcare and Family Services (HFS) to execute a detailed Intergovernmental Agreement (IGA) which defines the roles and responsibilities of each agency to enforce monitoring and accountability provisions over IMPACT as required. In addition, DHS will work with HFS to establish adequate controls over project management for the development and implementation of major projects, such as IMPACT.

Department of Children and Family Services' Response

The Department of Children and Family Services (DCFS) agrees with the auditor's recommendation. DCFS looks forward to discussions and will work towards executing agreement(s) that will define its role, responsibilities and cooperation with other State agencies with regard to IMPACT and the State's Medicaid Program.

Department on Aging's Response

The Illinois Department on Aging (IDoA) partially agrees with the finding. IDoA believes that HFS, as the State Medicaid Agency, should be the Agency that initiates an Interagency Agreement (IA) with the operating agencies. However, the Department will coordinate with HFS to enter into an IA related to IMPACT.

IDoA disagrees with other elements of the finding. IDoA is a limited user within IMPACT, having just one employee who accesses the system. In the third bullet, the finding states that IDoA believes HFS was completing subsequent review of provider enrollment information. IDoA has controls in place that are used when a provider is certified by the Department. These controls are outside of IMPACT and are performed in accordance with IDoA rules to become a provider for the Department. IDoA is not party to the enrollment information review. The Department, in accordance with internal rules and ultimately its Medicaid Waiver, certifies providers for programs administered by the Department. Additionally, IDoA doesn't classify providers as Medicaid or not, IDoA classifies participants in their programs.

Current Findings – *Government Auditing Standards*

Finding 2018-004 Statewide Failure to Execute Interagency Agreements and Perform Essential Project Management Functions over Provider Enrollment in the Medicaid Program (Continued)

There are elements of the finding, such as receipt of deliverables, security controls, and policies and procedures that would not be items that would exist within IDoA. When an IA is entered into with HFS, IDoA will focus on including items in the IA that would affect the way that the system is currently utilized and controls necessary to certify to HFS that IDoA is fulfilling their responsibility as it relates to IMPACT.

Current Findings – *Government Auditing Standards*

Finding 2018-005 Inadequate General Information Technology Controls over IMPACT

The Department of Healthcare and Family Services (HFS), the Department of Human Services (DHS), the Department of Children and Family Services (DCFS), and the Department on Aging (DoA) (collectively, the "Departments") failed to execute adequate internal controls over the implementation and operation of the State of Illinois' Illinois-Michigan Program Alliance for Core Technology system (IMPACT). Specifically, the Departments did not establish and maintain general information technology controls (general IT controls) over IMPACT which was developed to document and monitor provider enrollment for those providers offering services to recipients of the Medicaid Program administered throughout the State of Illinois.

Auditor's Note: In this finding, we want to point out to the reader that our testing was mostly conducted at and through HFS, as it is the State's designated Medicaid agency and has the ultimate responsibility for administering and supervising the Medicaid Program. However, as described in Finding 2018-004, HFS is allowed to and has delegated certain responsibilities to other State agencies to carry out the Medicaid Program. In addition, each of the listed above State agencies expends and/or receives a material amount of federal and State dollars which is accounted for in either its entity-wide financial statements or is essential to the auditors opining on its compliance assertions. Finally, when reviewing documentation of the development and implementation of IMPACT, we identified that management of both HFS and the delegated State agencies took part in the discussions. As a result of this reasoning and the material weaknesses in internal control we noted in Finding 2018-004 that describe managements' failure to formally outline each of the State agencies' responsibilities, we believe there is a shared fiduciary responsibility to guarantee the Medicaid services administered at each of the listed State agencies are provided in accordance with federal and State laws, rules, and regulations and that management of each of the State agencies failed to perform those essential fiduciary responsibilities.

<u>Auditor Testing and Results</u>

During our testing, we noted the Departments did not have access to or control over IMPACT and its infrastructure. IMPACT and its infrastructure is hosted by and maintained through a third party service provider (TSP). As a result, we were unable to perform adequate procedures to satisfy ourselves that certain general IT controls (i.e. security over the environment, disaster recovery assurance, and change management procedures) over IMPACT were operating effectively during the audit period. The TSP did not obtain or provide the Departments with a System and Organization Control (SOC) report, which would provide the State and the auditors information on the design and effectiveness of internal control over IMPACT.

Current Findings – *Government Auditing Standards*

Finding 2018-005 Inadequate General Information Technology Controls over IMPACT (Continued)

<u>Security over Illinois Users Testing</u>

As part of the audit process, we requested HFS provide us the population of all State staff who had access to IMPACT. Although HFS provided a population to us, documentation demonstrating the completeness and accuracy of the population could not be provided. HFS stated it could not provide the necessary documentation, as the TSP controls it. Due to these conditions, we were unable to conclude that the population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C § 530, and AT-C § 205.35).

Even given the population limitations noted above, we tested a sample of State users who had access to IMPACT. Our testing revealed the following:

- 28 of the 49 (57%) users tested had access rights to IMPACT as of June 30, 2018, however, we noted the users had in fact terminated employment prior to June 30, 2018; and,
- Due to both 1) the lack of reporting functionality within IMPACT and 2) the Departments not requesting the TSP to develop and provide ad hoc reports, the Departments' management did not perform access reviews on an ongoing basis during the audit period.

As a result of the Department's failure to establish appropriate security controls over IMPACT, we cannot determine if IMPACT and the State's data contained within the system are adequately protected from unauthorized access and accidental or intentional destruction or alteration.

<u>Edits Testing</u>

As part of the audit process, we requested HFS provide us the population of all active edits from IMPACT. In response to this request, HFS provided us the Detailed System Design Document (DSDD). Upon reviewing the 359 individual documents which comprised the DSDD, we noted the DSDD did not contain a concerted listing of active edits, as the documents outlined the overall system design assuming all edits would be implemented. Our testing revealed not all of the design features included in the DSDD had been implemented. Further, in order to use the DSDD for population purposes, we would have to have the knowledge as to which "edits" were active and were not during the audit period.

Current Findings – *Government Auditing Standards*

Finding 2018-005 Inadequate General Information Technology Controls over IMPACT (Continued)

An edit check, or test, checks data entered into a system for validity before it is processed. It is commonly used by businesses, organizations, and agencies that need to perform numerous checks on information before it is passed along to someone who can process the data. An edit check can verify the eligibility of applicants or claims. Submissions that fail an edit check often are returned so that they can be corrected. As the Departments were unable to provide us a complete listing of active edits, we cannot test them to determine if they are functioning properly, which would provide some assurance that the data in IMPACT is accurate and in accordance with applicable laws, rules, and regulations governing providers of services for the Medicaid Program of the State.

<u>Disaster Recover Testing</u>

In response to our requests to review the Departments' disaster recovery plan related to IMPACT, HFS provided a preliminary Business Continuity Plan which we noted was a "draft" version; and, therefore, had not been finalized and approved by HFS management.

We also requested documentation demonstrating the Departments had conducted disaster recovery activities during the audit period. HFS provided the State of Michigan's Department of Health and Human Services, NGDICloudDisaster Recovery Report (Report), dated October 26, 2017. Our review of the Report noted the following weaknesses as it related to the State of Illinois's portion of IMPACT:

- A significant amount of information had been redacted; therefore, we were unable to determine the extent of the disaster recovery exercise and its relationship to Illinois data.
- The Departments had neither reviewed the Report nor been involved in the actual recovery exercise.

In addition, we requested documentation regarding the backup (including due diligence in ensuring backups were successfully generated) of the Departments' IMPACT data; however, HFS management stated, per the intergovernmental agreement, the State of Michigan is responsible for providing the State of Illinois with sufficient storage for operations and backups, along with establishing the disaster recovery environment.

Current Findings – *Government Auditing Standards*

Finding 2018-005 Inadequate General Information Technology Controls over IMPACT (Continued)

As a result of the Departments' failure to obtain, review, and fully understand the TSP's disaster recovery controls, including guaranteeing backups were successfully completed, and because we were not able to determine the extent of the TSP's disaster recovery exercise as it related to Illinois' data covered by the Report, we believe the Departments failed to adequately protect IMPACT and the State's data against the possibility of major disruptions of services and loss of data, and we are unable to determine if IMPACT and the State's data were adequately protected during the audit period.

<u>Change Management</u>

As a result of the Departments' failure to obtain a SOC report, as noted above, or conduct their own timely independent internal control reviews over how changes were made by the TSP to IMPACT and its environment, we are unable to determine that changes made to IMPACT during the audit period were proper and approved.

The Code of Federal Regulations (42 C.F.R. § 95.621(f)(1)), *Automated Data Processing (ADP) System Security Requirements*, requires State agencies to be responsible for the security of all ADP projects under development, and operational systems involved in the administration of the U.S. Department of Health & Human Services programs. State agencies are required to determine the appropriate security requirements based on recognized industry standards or standards governing security of federal ADP systems and information processing.

Generally accepted information systems technology guidance (including the National Institute of Standards and Technology and Government Accountability Office) endorses the development of well-designed and well-managed controls to protect computer systems and data, and endorse the formal development and testing of disaster recovery plans. Tests of disaster recovery plans (and the associated documentation of the test results) verify that the plan, procedures, and resources provide the capability to recover critical systems within the required timeframe. Generally accepted information technology guidance endorses the implementation of suitable change management procedures to control changes to computer systems. Effective change management procedures reduce the risk of unauthorized, improper, or erroneous changes to computer systems.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Current Findings – *Government Auditing Standards*

Finding 2018-005 Inadequate General Information Technology Controls over IMPACT (Continued)

The Departments' management indicated the above control deficiencies were due to limited reporting capabilities of IMPACT and employee oversight.

As a result of the Departments' failure to obtain, review, and fully understand the TSP's general IT controls as it related to IMPACT and because we were not able to determine the adequacy of the TSP's general IT controls over IMPACT, we are not able to rely on IMPACT with respect to our testing of provider eligibility and related compliance requirements over the enrollment of providers and subsequent payments made to approved providers who provide services to recipients of the State's Medicaid Program. (Finding Code No. 2018-005)

Recommendation

We recommend management of the Departments implement adequate internal control over the implementation and design of IMPACT, including regular reviews of user access rights, reviews of edit checks on data integrity, disaster recovery activities, and change management procedures.

Department of Healthcare and Family Services' Response

The Department of Healthcare and Family Services (HFS) accepts the recommendation. The above control deficiencies were due to management not prioritizing negotiating appropriate documentation from its third-party service provider (TSP) and the differences in audit requirements between the two states.

IMPACT provider enrollment and the electronic Medicaid Incentive Payment Program (eMipp) were implemented in a modular fashion from the rest of the IMPACT Core Medicaid Management Information System (MMIS) functionality. The modular implementation did not include a reporting tool for general reports. When the core IMPACT MMIS components are fully implemented these reports will exist and will be available to Illinois state staff to generate on demand. However, while the Department is still operating in production with the two live modules only, Illinois will obtain these reports from the third-party service provider and periodically review user access.

Illinois is sharing, with the TSP, a single code base with two separate instances of the database. For provider enrollment there is a change management process that is in place for making changes to the IMPACT code base. There are Tier 1 and Tier 2 approvals from Illinois before any changes are made. Illinois recognizes there was no System and Organization Controls (SOC) report obtained from the TSP. In lieu of a SOC report, the TSP will be sharing a copy of the TSP Centers for Medicare and Medicaid Services Security Assessment Report when it is completed.

Current Findings – *Government Auditing Standards*

Finding 2018-005 Inadequate General Information Technology Controls over IMPACT (Continued)

The Department will continue to work with the TSP to obtain documentation to support general IT controls are adequate. The disaster recovery tests performed for the Illinois provider enrollment and eMipp servers will be obtained and reviewed by the Department on a routine basis.

Auditor's Comment to Department of Healthcare and Family Services' Response

The Department states the State of Illinois and the State of Michigan have different audit requirements which resulted in part to the noted deficiencies. When being audited, both States are considered governmental entities whose auditing standards are set forth by the American Institute of Certified Public Accountants (AICPA) and the United States Government Accountability Office (GAO). In the case of IMPACT, for the State of Illinois, IMPACT is hosted and maintained by a TSP. As a result, the Departments are required to obtain a SOC report or perform another type of independent review over the system's general IT internal control (as mentioned in the above finding). For the State of Michigan, IMPACT is hosted and maintained by the State itself and, therefore, the State of Michigan is not required to obtain a SOC report or perform another type of independent review over IMPACT's general IT internal controls as the State of Michigan has control over it. In summary, as required by auditing standards, the State of Illinois needs an independent review over IMPACT's general IT internal control and the State of Michigan does not.

Department of Human Services' Response

The Department of Human Services agrees with the recommendation. DHS will work with the Department of Healthcare and Family Services (HFS) to implement adequate internal controls over the implementation and design of IMPACT.

Department of Children and Family Services' Response

The Department of Children and Family Services (DCFS) accepts this finding and will cooperate with HFS in determining what, if any, responsibilities related to the auditor's recommendation apply to DCFS and will ensure those responsibilities are defined in the interagency agreement referenced in Finding 2018-004. DCFS will develop processes or procedures to comply with the roles and responsibilities defined in the agreement.

Current Findings – *Government Auditing Standards*

Finding 2018-005 Inadequate General Information Technology Controls over IMPACT (Continued)

Department on Aging Responses

The Illinois Department on Aging (IDoA) disagrees with the applicability of this finding to IDoA. The finding asserts that internal controls over the implementation and operation of the system were lacking. IDoA does not have any purview over implementation or operation of the system and therefore has no responsibility in establishing and maintaining general information technology controls over the system.

Auditor's Comment to Department on Aging's Response

As noted in Finding 2018-004, the Departments do not have current, formal written agreements defining the roles and responsibilities of HFS or its Delegated Agencies of the Medicaid Program. Until such time as the Departments define the roles and responsibilities of each agency, we are unable to determine which agency is responsible for what actions.

Current Findings – *Government Auditing Standards*

Finding 2018-006 Insufficient Review and Documentation of Provider Enrollment Determinations

The Department of Healthcare and Family Services (HFS), the Department of Human Services (DHS), the Department of Children and Family Services (DCFS), and the Department on Aging (DoA) (collectively, the "Departments") failed to design and implement adequate internal controls over the implementation and operation of the State of Illinois' Illinois-Michigan Program Alliance for Core Technology system (IMPACT) sufficient to prevent inaccurate determinations and approvals of provider enrollment for those providers offering services to recipients of the Medicaid Program administered throughout the State. Specifically, we noted the Departments did not sufficiently review and document approval for provider enrollments and, as a result, did not maintain all necessary documentation supporting provider enrollment approvals.

Auditor's Note: In this finding, we want to point out to the reader that our testing was mostly conducted at and through HFS, as it is the State's designated Medicaid agency and has the ultimate responsibility for administering and supervising the Medicaid Program. However, as described in Finding 2018-004, HFS is allowed to and has delegated certain responsibilities to other State agencies to carry out the Medicaid Program. In addition, each of the listed above State agencies expends and/or receives a material amount of federal and State dollars which is accounted for in either its entity-wide financial statements or is essential to the auditors opining on its compliance assertions. Finally, when reviewing documentation of the development and implementation of IMPACT, we identified that management of both HFS and the delegated State agencies took part in the discussions. As a result of this reasoning and the material weaknesses in internal control we noted in Finding 2018-004 that describe managements' failure to formally outline each of the State agencies' responsibilities, we believe there is a shared fiduciary responsibility to guarantee the Medicaid services administered at each of the listed State agencies are provided in accordance with federal and State laws, rules, and regulations and that management of each of the State agencies failed to perform those essential fiduciary responsibilities.

The Departments implemented the Provider Enrollment module of IMPACT in July 2015 for the intake and processing of applications in order to determine enrollment for providers offering services to recipients of the Medicaid Program administered throughout the State.

<u>Auditor Testing and Results</u>

Quality/Supervisory Reviews Not Conducted
We noted the Departments do not have a process for supervisors to perform, at least on a sample basis, quality reviews of the activities performed by staff to obtain independent evidence that staff members are acting within the scope of their authority and that transactions and events comport with management's expectations.

Current Findings – *Government Auditing Standards*

Finding 2018-006 Insufficient Review and Documentation of Provider Enrollment Determinations (Continued)

Population Completeness
We requested HFS management to provide us the population of all provider applications approved during Fiscal Year 2018. Although HFS provided a population, it could not provide documentation demonstrating the completeness and accuracy of the population. Due to these conditions, we were unable to conclude the population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C § 530, and AT-C § 205.35).

Even given the population limitations noted above, we performed testing on a sample of the approved provider applications from the population provided.

Detail Sample Testing
Based on the population provided by HFS, during Fiscal Year 2018, the Departments approved 27,886 provider applications. In order to determine if the providers' applications were approved in accordance with federal and State laws/rules/regulations, a sample of 138 approved applications were selected for testing. Our testing of the 138 provider files revealed that 26 of the provider files contained multiple exceptions, 74 provider files contained 1 exception, and 38 of the provider files contained no exceptions. The specific exceptions noted are as follows:

- Seventy of the 138 (51%) provider files sampled were for providers who requested the applicable Department to backdate their eligibility beginning dates. Our testing revealed that all 70 (100%) of those provider files did not contain documentation of the applicable Department's exception for allowing the backdating of eligibility for the providers. As a result, it could not be determined if the backdating of eligibility, and the subsequent payments made by the State for the providers' retroactive billings, were proper.

  The *Medicaid Provider Enrollment Compendium* notes it is incumbent on the Departments to mitigate the risk of an improper enrollment, as payments for the backdated period are improper unless an exception applies.

- Forty-two of the 138 (30%) provider files sampled did not contain documentation or comments of the applicable Department's staff review of the providers' required professional licenses to confirm the licenses were valid at the time the application was approved. After our initial testing results were provided to the Departments, the Departments were subsequently able to provide us with documentation demonstrating that each of the 42 providers were appropriately licensed at the time of application.

Current Findings – *Government Auditing Standards*

Finding 2018-006 Insufficient Review and Documentation of Provider Enrollment Determinations (Continued)

The Code of Federal Regulations (Code) (42 C.F.R. § 455.412(a)) requires the Departments to have a method for verifying that any provider claiming to be licensed in accordance with the laws of any State is licensed by such State.

In addition, HFS' *Approval Process Document, applicable to Atypical Individuals and Individuals,* requires Department staff reviewing licenses to document their review of ensuring the licenses were valid and current in the comments section in IMPACT.

- Nine of the 138 (7%) provider files sampled contained a license or certification which had an open ended expiration date. As such, when the provider file was compared to the monthly screenings, IMPACT registered an error that the provider was not properly licensed/certified at that specific point in time. We noted the provider file did not contain documentation to demonstrate Department staff followed up on the results of these matches to verify enrollment when the review was performed by staff. After our initial testing results were provided to the Departments, the Departments were subsequently able to provide us with documentation demonstrating that each of the nine providers were appropriately licensed/certified during the audit period.

  The Code (42 C.F.R. § 455.412(b)) requires the Departments to confirm the provider's license has not expired and that there are no current limitations on the provider's license/certification. In addition, HFS' Approval Process Document, applicable to Atypical Individuals and Individuals, requires the end date for required licenses/certifications to be current in IMPACT.

- Four of the 138 (3%) provider files sampled did not contain documentation of the applicable permanent professional license(s). The providers' profile contained the applicable temporary professional license(s) which had expired. As such, when the provider file was compared to the monthly screenings, IMPACT registered an error that the provider was not properly licensed since the temporary license(s) was expired. We noted the provider file did not contain contemporaneous documentation to demonstrate Department staff followed up on the results of these matches to verify proper licensure. After our initial testing results were provided to the Departments, the Departments were subsequently able to provide us with documentation demonstrating that each of the four providers were appropriately licensed during the audit period.

  The Code (42 C.F.R. § 455.412(b)) requires the Departments to confirm that the provider's license has not expired and that there are no current limitations on the provider's license.

Current Findings – *Government Auditing Standards*

Finding 2018-006 Insufficient Review and Documentation of Provider Enrollment Determinations (Continued)

- One of the 138 (1%) provider files sampled indicated a significant risk existed that the provider had been sanctioned; however, the Department lacked contemporaneously prepared documentation the provider was appropriately approved after the sanction was reviewed and disposed of by either a supervisor or HFS' Office of the Inspector General (OIG). As a result, we cannot determine if the provider was appropriately approved.

  HFS' *Approval Process Document, applicable to Atypical Individuals and Individuals,* requires Department staff to send applications with sanctions to their supervisor or the OIG for review and determination.

- One of the 138 (1%) provider files sampled, who would provide transportation services, did not contain documentation that the provider's driver's license was reviewed to confirm it was valid and current at the time of approval. As a result, we cannot determine if the provider was appropriately approved.

  HFS' *Handbook for Providers of Medical Services, Chapter 100, General Policy and Procedures* requires IMPACT to verify the driver's license to determine validity at a specific point in time.

- One of the 138 (1%) provider files sampled showed the provider had the potential to be deceased as a result of IMPACT's database checks; however, the provider file did not contain documentation to demonstrate Department staff followed up on the error to determine if the provider was in fact deceased. After our initial testing results were provided to the Departments, the Departments were subsequently able to provide us with documentation demonstrating that the provider was not deceased and properly approved.

  HFS' *Approval Process Document, applicable to Atypical Individuals and Individuals,* requires Department staff to manually review all screening results that return a 90% or less precision match. The precision rate percentage of less than 100% indicates that when the provider entered its information into IMPACT to enroll in the Medicaid program, the information entered did not match certain attributes in the IMPACT verification process.

- One of the 138 (1%) provider files sampled showed "no results were found" when the IMPACT screenings were performed on the provider; however, the provider file did not contain documentation to demonstrate Department staff followed up on the results prior to verifying enrollment. As a result, we cannot determine if the provider was appropriately approved.

Current Findings – *Government Auditing Standards*

Finding 2018-006 Insufficient Review and Documentation of Provider Enrollment Determinations (Continued)

HFS' Approval Process Document, applicable to Atypical Individuals and Individuals, requires Department staff to review the results of all screenings. Any screenings that are documented as invalid are to be manually verified.

- In addition to our testing of the 138 provider applications and their related files, we tested information systems which interfaced with IMPACT during the audit period. Our testing revealed that for the months of December 2017, January 2018, and February 2018, none of the provider profiles were checked against the National Council for Prescription Drug Program (NCPDP) database to determine if the applicable licenses and certifications were valid and current, as required.

  The Code (42 C.F.R. § 455.436(c)(1)) requires the Departments to consult appropriate databases to confirm identity upon enrollment and reenrollment. In addition, the Code (42 C.F.R. § 455.450(a)(3)) requires the Departments to conduct database checks on a pre- and post-enrollment basis to ensure that providers continue to meet the enrollment criteria for their provider type, in accordance with the Code (42 C.F.R. § 455.436).

In response to these matters, HFS officials indicated IMPACT's current functionality does not include a module which would allow for the retention of electronic records reviewed by staff.

The Code (2 C.F.R. § 200.303) requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include establishing procedures to ensure internal controls over eligibility determinations to ensure only eligible providers receive payments under federal programs at the time the expenditure is made. Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Departments to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance resources are utilized efficiently, effectively, and in compliance with applicable law. Inherent within this requirement is showing, at the time when eligibility was determined and payments were made, the Departments had documentation showing the provider was eligible to participate.

In addition, the Code (42 C.F.R. § 431.17) requires the Departments to maintain records necessary for the proper and efficient operations of the State's Medicaid Plan.

Current Findings – *Government Auditing Standards*

Finding 2018-006 Insufficient Review and Documentation of Provider Enrollment Determinations (Continued)

Finally, the State Records Act (5 ILCS 160/8) requires the Departments to preserve records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the State and of persons directly affected by the agency's activities.

The Departments were not able to quantify the amount of billings, including retroactive billings, paid to these providers, for each impacted State agency. As a result, we were not able to assess the potential misstatement of the financial statements caused by unsupported retroactive billings and other noncompliance with the Code.

Inadequate controls over the operation of IMPACT, such as insufficient review and approval of provider enrollment information, may result in providers being inaccurately determined eligible, the State expending federal and State funds for which provider enrollment has not been adequately demonstrated or documented, and may result in future expenditures to providers who are ineligible to provide services to recipients of the State's Medicaid Program. Noncompliance with federal laws and regulations could lead to denied claims, sanctions and/or loss of future federal funding and result in misstatement of agency financial statements. (Finding Code No. 2018-006)

Recommendation

We recommend management of the Departments improve controls to better ensure Department staff and supervisors are properly obtaining, reviewing, and retaining documentation in IMPACT to support Medicaid provider enrollment. As a part of improved controls, we recommend the Departments increase the level of staff training and oversight.

Department of Healthcare and Family Services' Response

The Department of Healthcare and Family Services (HFS) partially accepts the recommendation.

The IMPACT system requires staff to review and update any information that cannot be systematically verified. The system does not currently include functionality which allows staff to retain electronic records reviewed by staff; however, the system does retain an audit trail which indicates the portion of the system that has been updated along with a date, time and employee stamp. The Department could substantiate that staff updated the portion of the record requiring manual review as required. The Department provided post audit documentation to substantiate all providers were eligible during the time they were approved.

Current Findings – *Government Auditing Standards*

Finding 2018-006 Insufficient Review and Documentation of Provider Enrollment Determinations (Continued)

The Department, however, did not maintain an electronic copy of the documentation manually reviewed. HFS will improve controls by instituting a quality assurance program that tests whether staff are reviewing appropriate documentation and using the system appropriately. This will target any needs for additional training and oversight.

Auditor's Comment to Department of Healthcare and Family Services' Response

The Department contends they provided post audit documentation to demonstrate all providers were eligible during the time they were approved. However, as noted above, the Department did not provide documentation that seventy providers requesting the Department to backdate their eligibility beginning date had a documented exception to allow for the backdating as required by the *Medicaid Provider Enrollment Compendium*.

In addition, the Department did not provide documentation demonstrating, as required by their own process: (1) a provider had a proper driver's license; (2) proper followup action was taken for any provider who was a significant risk of having a sanction; and (3) proper followup action was taken for any provider who yielded no screening results.

Department of Human Services' Response

The Department of Human Services (DHS) agrees with the recommendation. DHS will work with the Department of Healthcare and Family Services (HFS) to improve controls to ensure DHS staff and supervisors are properly obtaining, reviewing and retaining documentation in IMPACT to support provider enrollment. As part of improved controls, DHS will also work with HFS to increase oversight and staff training where necessary.

Department of Children and Family Services' Response

The Department of Children and Family Services (DCFS) accepts this finding, and will cooperate with HFS in determining what, if any, responsibilities related to the auditors recommendation apply to DCFS and will ensure those responsibilities are defined in the interagency agreement referenced in Finding 2018-004. DCFS will develop processes or procedures to comply with the roles and responsibilities defined in the agreement.

Current Findings – *Government Auditing Standards*

Finding 2018-006 Insufficient Review and Documentation of Provider Enrollment Determinations (Continued)

Department on Aging's Response

The Illinois Department on Aging (IDoA) disagrees with the finding as it relates to IDoA. The Department maintains an All Willing and Qualified (AWAQ) certification process for all providers in the Community Care Program. That process certifies providers to be qualified under the programmatic and administrative requirements outlined in Administrative Rule. Only after the certification process is complete and an agreement to provide services to participants has been executed is a provider's information entered into IMPACT to either be located in the system or added as a Community Care Program provider.

There is no part of the certification process at IDoA that utilizes IMPACT. All provider monitoring is performed at the Department and outside IMPACT.

Auditor's Comment to Department on Aging's Response

As noted in Finding 2018-004, the Departments do not have current, formal written agreements defining the roles and responsibilities of HFS or its Delegated Agencies of the Medicaid Program. Until such time as the Departments define the roles and responsibilities of each agency, we are unable to determine which agency is responsible for what actions.

With regards to the process noted by DoA, we understand the Department performs the AWAQ certification process for its providers in the Community Care Program outside of IMPACT. However, as also noted in Finding 2018-004, IMPACT is the State's designated book of record for providers certified in the Medicaid Program.

Current Findings – *Government Auditing Standards*

Finding 2018-007 Failure to Perform Essential Project Management Functions over the Integrated Eligibility System

The Department of Healthcare and Family Services (HFS) and the Department of Human Services (DHS) (collectively, the "Departments") did not adequately execute internal controls over the implementation and operation of the State of Illinois' Integrated Eligibility System (IES) Phase II. Specifically, management of the Departments did not perform adequate project management functions over the implementation of IES Phase II.

Project Background

In order to meet the requirements of the Affordable Care Act of 2010 and the Code of Federal Regulations (Code) (45 C.F.R. § 95.626), the Departments, with the aid of a development vendor (DV), undertook a project to consolidate and modernize recipient eligibility functions for several human services programs through the use of IES. The DV took the State of Illinois' human service programs' business rules and customized IES which had been obtained from another state. The DV also maintained the environment in which IES resided until May 1, 2018. Thereafter, the responsibilities of the maintenance of IES' environment was moved to the Department of Innovation and Technology (DoIT). IES replaced the State's legacy recipient eligibility systems, including the Client Database System (CDB) and other ancillary systems. The implementation of IES was scheduled to be rolled out in two phases.

IES Phase I was placed into service on October 1, 2013, and encompassed a self-service application and initial eligibility determination intake for recipients of the State's medical programs, cash programs (including the Temporary Assistance for Needy Families (TANF) program), and Supplemental Nutrition Assistance Program (SNAP). Utilizing IES Phase I, caseworkers either approved or denied the initial application for benefits. After the initial determination of eligibility was made, the recipient's information was transferred into CDB. Once the information was in CDB, any subsequent changes to eligibility requirements (referred to as "maintenance" of the case) or redeterminations were documented in CDB by the caseworkers. As such, prior to IES Phase II, the Departments considered CDB the book of record for the human service programs' recipient eligibility determinations, maintenance, and redeterminations.

Auditor's Note: As detailed in Findings 2015-001 and 2015-006 reported in HFS' and DHS' Fiscal Year 2015 financial statement audit reports, respectively, the Departments went live with IES Phase I even though it had known problems, required manual workarounds, and encountered data integrity and downtime issues. In addition, we have reported a significant number of material weaknesses in internal control over IES Phase I since Fiscal Year 2015. Finally, as noted above, IES Phase II is maintained and hosted by DoIT. The Auditor General's Service Organization Control Report and Reports Required under Government Auditing Standards – 2018 for DoIT contained an adverse opinion. This opinion covered the environment in which IES Phase II resides, including each of the material weaknesses in internal control identified within that report. As a result, we are unable to rely on the general information technology controls for IES Phase II.

Current Findings – *Government Auditing Standards*

Finding 2018-007 Failure to Perform Essential Project Management Functions over the Integrated Eligibility System (Continued)

According to the original project timeline communicated to the Federal government, IES Phase II was scheduled to go live in October 2015; however, it was not placed into service until October 25, 2017. IES Phase II replaced IES Phase I, as well as CDB. As a result of IES Phase II going live, IES was designated by the Departments as the State's book of record for the eligibility determinations of new applicants as well as for the maintenance and redeterminations of eligibility for recipients receiving benefits for the medical, SNAP, and TANF programs.

According to HFS' filings with the U.S. Department of Health and Human Services (HHS), the development of IES was expected to cost the State approximately $136.9 million. As of February 9, 2018, the Departments reported to HHS that projected development costs had increased to approximately $320 million. In addition, the Departments stated in this same report the State anticipated to incur roughly $200 million in annual operating costs, primarily for caseworker personnel who use IES to administer benefits for the State's residents, in order to obtain enhanced federal reimbursement of such costs. Also, because IES has gone live, IES requires expanded maintenance costs in addition to the annual operating costs. As reported in the filing on February 9, 2018, maintenance and operating costs are estimated to total approximately $1.2 billion over the life of the project. An unknown portion of these costs would have been incurred, regardless, under the CDB and ancillary systems. The federal financial participation (FFP) rate for these expenditures ranges from 50% to 90% depending on the type of cost incurred.

<u>Auditor Testing and Results</u>
In order to determine if the Departments had complied with Federal and State laws, rules, and regulations when the Departments developed, implemented, and operated IES Phase II, we tested the Departments' applicable policies and procedures governing IES Phase II. Our testing identified the following:

- The Departments did not have current, formal written agreements, policies, or procedures defining the roles and responsibilities of HFS, DHS, and DoIT regarding the operation of IES.

  HFS management believed existing policies and procedures were sufficient. DHS management stated the finding was caused by transitions in staffing.

Current Findings – *Government Auditing Standards*

Finding 2018-007 Failure to Perform Essential Project Management Functions over the Integrated Eligibility System (Continued)

- During our analysis and review of IES Phase II data, 128 individuals were identified in which each individual's Social Security number had been overwritten when a data update was done after the conversion to IES Phase II. These identified errors, when coupled with the fact officials at the Departments were not previously aware of this matter, indicates an increased risk that the Departments' internal controls to prevent the loss of data were not always operating effectively during the audit period and that other data losses could have occurred and not been detected by the Departments during Fiscal Year 2018.

  Departments' management indicated the overlaying of the data was due to a technical error.

- During our review of the Departments' User Acceptance Test Plan (Plan) which was used to implement IES Phase II into production, we noted the Plan did not document the Departments' controls over all aspects of the Departments' user testing. Specifically, the Plan did not address controls governing the Departments' Adverse Action Testing and the Requirements Traceability Matrix (RTM) Scripts for Test Scripts for Technology. As such, we are unable to determine if the testing was properly conducted and if any problems noted during the testing were subsequently corrected before being moved into the IES' production environment. (*Auditor's Note: User acceptance testing (UAT) is the last phase of the software testing process. During UAT, actual software users test the software to make sure it can handle required tasks in real-world scenarios, according to specifications. UAT is one of the final and most critical software project procedures that must occur before newly developed software is rolled out to the market. UAT is also known as beta testing, application testing, or end user testing. A well-managed UAT process will give the project management team and end users confidence that the software being delivered meets the requirements for which it was built.*)

  Departments' management indicated the reason for the two aspects not being included in the Plan was due to oversight when writing the Plan.

- The Departments' review and approval of required contract deliverables for the implementation of IES Phase II were inadequate. Specifically:

  - During our review of the contract amendments and the Task Orders, we noted five Task Orders were executed after the services had started.

Current Findings – *Government Auditing Standards*

Finding 2018-007 Failure to Perform Essential Project Management Functions over the Integrated Eligibility System (Continued)

- We also reviewed the vendor's contract and Task Orders to determine if the DV provided the required deliverables and the Departments reviewed and approved such deliverables. Our review of the 205 required deliverables noted:
  - 3 (2%) of the deliverables were not received from the vendor;
  - 2 (1%) of the deliverables received were marked draft or dated after the Departments' approval; and,
  - 82 (40%) of the deliverables were not approved by the Departments.

According to the contract signed between the Departments and the DV (Section 2.9), the State was responsible for reviewing the DV's deliverables to ensure compliance with the contract and applicable Federal and State laws. In addition, the contract (Section 4.21) states **all decisions** related to, or in connection with, the implementation were the responsibility of the State. In addition, good internal controls over a system development require the approval of amendments and Task Orders prior to the start of services.

Departments' management indicated the above exceptions were due to staffing turnover and human error.

- The Departments implemented IES Phase II even though IES Phase II did not take into consideration information being retained by a third party service provider (TSP) that was sending and accepting redetermination paperwork and reporting functions for the State. Management at the Departments indicated a decision was made to extend the redetermination dates within IES (medical case redeterminations) to prevent the recipients' benefits from being systematically terminated on each recipient's original redetermination date.

Management at the Departments indicated the reason for these actions was because the documentation for redeterminations, sent in by the recipients, resided in the TSP's system prior to IES Phase II implementation. As the data in the TSP's system was not converted into IES Phase II, the documentation was not available to stop the automated cut-off feature contained in IES Phase II. Further, management claims the subsequent expenditures would have been incurred even if the TSP data was converted into IES Phase II, as these cases would have been added to the existing redetermination backlog and benefits may not cease until the Departments' staff actually performs the redetermination (see Finding 2018-009).

Current Findings – *Government Auditing Standards*

Finding 2018-007 Failure to Perform Essential Project Management Functions over the Integrated Eligibility System (Continued)

Specifically, we noted the Departments made the decision to extend redetermination dates for medical cases, by one year, for any case that was to be redetermined in October 2017 through December 2017. For example, if a case was to be redetermined for eligibility in November 2017, the Departments changed the redetermination date to November 2018. **The Departments continued to pay existing benefits until the redetermination was performed.**

In November 2018 and again in February 2019, HFS provided differing data regarding the number of cases affected by these decisions and the subsequent results once the redetermination was completed. After HFS was provided with this draft finding on May 10, 2019, Department officials once again determined the data was inaccurate.

On July 11, 2019, HFS provided the data below for medical cases for which the redetermination date was extended. (*Auditor's Note: The data within this chart* ***does not include*** *the extended redeterminations that were subsequently worked and resulted in continued eligibility/benefits.*)

	Number of Cases	Total Expenditures	FFP (U.S. Share)
Cases Not Worked	23,748	$60,760,767	$37,194,196
Cases Closed*	147,375	$403,052,935	$287,186,307
Cases Canceled*	60,954	$148,454,459	$96,521,041
Total	232,077	$612,268,161	$420,901,544

*According to HFS, these cases were deemed ineligible or closed for various reasons; however, HFS officials were unable to provide the reason(s). Further, HFS officials stated the total expenditures for the closed and canceled cases are an **estimate** due to the inability of the Departments to timely determine and summarize the reason why a case was either closed or canceled.

Furthermore, DHS waived the requirement for the SNAP December 2017, January 2018, and February 2018 Mid-Point Reports (MPRs); however, DHS continued to pay benefits. DHS management indicated they did this in order to ensure recipients were not negatively affected during the infancy stages of system changes that would have automatically stopped SNAP benefits if the MPR wasn't returned. DHS determined they had expended $243,615,680 on 176,129 cases which had the required MPRs waived.

Current Findings – *Government Auditing Standards*

Finding 2018-007 Failure to Perform Essential Project Management Functions over the Integrated Eligibility System (Continued)

Although we understand the Departments' continuation of paying the benefits until such time as the redeterminations and the MPRs were worked, we are concerned with the:

1) significant noncompliance with federal law mandating an annual redetermination and MPR filings;
2) management override of the Departments' internal control when officials extended the original redetermination due dates and waived the MPRs within the official book of record; and,
3) potential unintended consequences of the action taken.

Federal Government Communications with the Departments

Notably, on September 4, 2018 (*see note below*), DHS received correspondence from the U.S. Department of Agriculture, Food and Nutrition Service (FNS) Program Development Division that it **did not approve** DHS' request for waiving the December 2017, January 2018, and February 2018 MPRs. In a second letter dated September 4, 2018, from the FNS Regional Administrator – Midwest Region, FNS specifically stated it was "concerned that issues arising from the implementation of IES resulted in over-issuance of benefits to a significant portion of the SNAP caseload." The letter went on to state "as provided in Section 13(b) of the Food and Nutrition Act, [DHS] is required to collect any over-issuance of benefits provided to a SNAP household. However, if the over-issuance is the result of a major systemic error by [DHS], under Section 13(b)(5), FNS is required to establish a claim in the amount of the over-issuance against the State and FNS may prohibit [DHS] from collecting over-issuances from households."

Auditor's Note: On two occasions (October 16, 2018 and January 8, 2019), we specifically requested DHS provide any and all correspondence received from the Federal government pertaining to the SNAP MPR requirement waiver request, and were either told no correspondence had been received, or DHS management did not provide a response to the request. On April 22, 2019, we discovered from an external document that correspondence had in fact been received and we asked DHS a third time to provide the correspondence. After our third request, on May 6, 2019 management provided a copy of the correspondence.

Current Findings – *Government Auditing Standards*

Finding 2018-007 Failure to Perform Essential Project Management Functions over the Integrated Eligibility System (Continued)

Further, we requested from HFS correspondence with the HHS, Centers for Medicare and Medicaid Services (Federal CMS) regarding HFS' decision to extend the redetermination date for Medicaid recipients. According to HFS, they had determined such communication was not necessary since the Code (42 C.F.R. § 435.930) required HFS to continue to furnish benefits until recipients were deemed ineligible (*see note below*).

> ***Auditor's Note: In a letter from Federal CMS dated July 2, 2019, Federal CMS stated:***
>
> > ***It is a beneficiary protection described in 42 CFR 435.930 that states not terminate eligibility for beneficiaries until the state has determined them to be ineligible. [sic] While this protection ensures that coverage is maintained until the beneficiary is determined ineligible, it does not eliminate the requirement for the state to complete renewals on the prescribed basis. CMS expects that states will conduct all renewals timely.***

- The Departments failed to establish and maintain adequate general information technology controls over IES. Specifically, we noted the Departments did not implement adequate security or change management controls over IES (see Findings 2018-010 and 2018-011 for further details).

- The Departments had insufficient review and documentation of recipient eligibility determinations (see Finding 2018-008 for further details).

The internal control requirements of the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) within the Code (2 C.F.R. § 200.303) requires the Departments to (1) establish and maintain effective internal control over the human services programs to provide reasonable assurance that the Departments are managing the human services programs in compliance with federal statutes, regulations, and the terms and conditions and (2) comply with federal statutes, regulations, and terms and conditions of the human services programs. These internal controls should be in compliance with guidance in *Standards for Internal Control in the Federal Government* (otherwise commonly referred to as the Green Book) issued by the Comptroller General of the United States or the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO). Further, it requires the Departments to take prompt action when instances of noncompliance are identified, including noncompliance identified in audit findings.

Current Findings – *Government Auditing Standards*

Finding 2018-007 Failure to Perform Essential Project Management Functions over the Integrated Eligibility System (Continued)

Further, the Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) requires the Departments to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance:

1) resources are utilized efficiently, effectively, and in compliance with applicable laws;
2) obligations and costs are in compliance with applicable laws;
3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; and,
4) funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

In addition, generally accepted information technology guidance endorses the implementation of project management techniques to certify computer system development activities meet management's objectives.

Responses of the Federal Oversight Agencies Regarding Federal Funding

In order to determine the likelihood the Departments will be required to return federal funding received for ineligible medical services and SNAP and TANF benefits claimed, or incur other types of financial sanctions due to the extension of redetermination dates for medical cases, and the waiver of MPRs for SNAP, the Departments sent correspondence on May 31, 2019, and June 3, 2019, to FNS and Federal CMS, respectively, requesting such determination.

On June 21, 2019, FNS responded stating DHS had "resumed the issuance of the [MPRs] in March 2018 to address the needed corrective action in this area." The correspondence also stated, "While FNS retains its authority under federal regulations to impose fiscal sanctions, liabilities, and suspend/disallow administrative funding to address the failure to comply with SNAP requirements, our goal is to help DHS avoid fiscal sanctions, liabilities, and suspension of administrative funding and ensure the efficient and effective administration of SNAP in Illinois and the integrity of the program."

Current Findings – *Government Auditing Standards*

Finding 2018-007 Failure to Perform Essential Project Management Functions over the Integrated Eligibility System (Continued)

Additionally, on July 2, 2019, Federal CMS responded stating "as long as Illinois continues to work with us in good faith in addressing the issues outlined in the December 26[, 2018,] request for corrective action plan letter, submits an approval [corrective action plan] to [Federal] CMS by August 31, 2019, and adheres to the timeframes and milestones approved by [Federal] CMS in the [corrective action plan], we do not anticipate having to disallow federal financial participation." (*Auditor's Note: This statement was referring to the initial request from Federal CMS for HFS to submit a corrective action plan on December 26, 2018. HFS submitted its first corrective action plan on February 25, 2019, which was rejected by Federal CMS on March 11, 2019. Subsequently, HFS was extended an August 31, 2019, due date to submit an acceptable corrective action plan to Federal CMS.*)

The Departments' lack of due diligence in performing comprehensive and effective project management functions has led to a significant increase in the project timeline and associated costs, a system that may not completely meet the needs of the State, and recipient information being incomplete or inaccurate, thus resulting in potentially inaccurate benefits. Further, due to the lack of general information technology controls, we are unable to rely on IES with respect to our testing of eligibility and related expenditures. Finally, the Departments' noncompliance with federal laws, rules, and regulations creates significant uncertainty with regards to future action that may be taken by the Federal government. (Finding Code No. 2018-007)

Recommendation

We recommend the Departments cooperate fully with FNS and Federal CMS to timely implement all corrective actions necessary to alleviate the potential for future acts of material noncompliance, which requires the immediate attention of management at the Departments.

In addition, management of the Departments should execute written agreements, policies, and procedures defining the roles and responsibilities of HFS, DHS, and DoIT regarding the operation of IES for each of the applicable human service programs. These written agreements, policies, and procedures should sufficiently address necessary actions to enforce monitoring and accountability provisions over IES as required by the Code and the Act, so the enrollment and maintenance of recipients receiving services for the human services programs is carried out in an effective, compliant, efficient, and economical manner. Further, the Departments should obtain, review, and approve the remaining deliverables from the DV and, in the future, the Departments should take action to establish adequate controls over project management for the development and implementation of major projects, such as IES.

Furthermore, the Departments should consistently provide accurate and timely responses to auditor requests.

Current Findings – *Government Auditing Standards*

Finding 2018-007 Failure to Perform Essential Project Management Functions over the Integrated Eligibility System (Continued)

Department of Healthcare and Family Services' Response

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will continue to cooperate with Federal CMS on implementation of corrective actions. The letter sent by HFS on February 25, 2019 contained an initial draft plan in response to the Federal CMS request. Their March 11, 2019 response was not a rejection, it was part of continued negotiations between HFS and Federal CMS to develop a plan that is acceptable to both agencies. The most recent draft plan was submitted by HFS on July 31, 2019.

HFS will continue to work with DHS and DoIT on improving project management. While acknowledging that written agreements, policies and procedures may not be sufficient on their own to achieve the outcomes identified in the recommendation, HFS is undertaking other actions to improve IES management and operations such as increasing staffing levels, enhancing training, policy streamlining, process simplification.

HFS feels that it has worked cooperatively to respond accurately and timely to requests from the auditors.

Department of Human Services' Response

The Department of Human Services (DHS) accepts the recommendation and defers to the Department of Healthcare and Family Services (HFS) for any oversight to the Corrective Action Plan with Federal CMS mentioned in the audit report. DHS will continue to work with FNS in the efficient and effective administration of SNAP, and to mitigate the potential for any fiscal sanctions.

DHS will work to execute written agreements, policies, and procedures defining the operational roles and responsibilities of HFS, DHS, and DoIT staff regarding the operation of IES for each of the applicable human service programs. DHS will create Corrective Action Plans to address each deficiency.

Finally, DHS will continue to work cooperatively to respond accurately and timely to auditor requests.

Current Findings – *Government Auditing Standards*

Finding 2018-008 Deletion of Four Months of Intake Eligibility Files and Significant Problems Determining Eligibility for Human Service Programs

The Department of Healthcare and Family Services and the Department of Human Services (collectively, the "Departments") lacked controls over eligibility determinations and retention of intake documentation for the State of Illinois' human service programs.

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' Integrated Eligibility System (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

Applications for Human Service Programs

Both IES Phase I and Phase II had the capability to perform automated verifications of new applicant/recipient residency, citizenship, and the validity of the Social Security number provided, through feeds to other State and Federal systems, such as systems run by the Department of Employment Security, the Secretary of State, and the Social Security Administration. At times, an applicant will assert that a negative verification is not valid, and they are instructed by the caseworker that they are allowed 45 or 90 days, under the law depending on the program, to provide documentation to support their assertion. At the time of the assertion (during the meeting between the applicant and the caseworker), the caseworker will override the negative verification result to indicate the applicant is eligible for the criteria, based solely on the applicant's assertion. However, when received, the supporting documentation is required to be scanned into IES by the caseworker and at such time the file is "certified" indicating the applicant has met all eligibility requirements and is approved for the benefit(s).

July 1, 2017 through October 24, 2017 – IES Phase I
During this timeframe, the Departments utilized IES Phase I for the intake of recipient applications and the determination of eligibility. In order to determine if the Departments' determination of applicants' eligibility was proper, we requested the population of all applications received during this period. However, on October 26, 2018, the Departments informed us the development vendor had not saved a backup of the IES Phase I database prior to the transition to IES Phase II. As such, the benefits application data was not available for testing.

After extensive discussions with the Departments, it was determined a file of approved application numbers could be provided; however, the detailed data for each application would not be available. As a result, we had to modify our audit procedures in order to determine if eligibility was properly determined.

Current Findings – *Government Auditing Standards*

Finding 2018-008 Deletion of Four Months of Intake Eligibility Files and Significant Problems Determining Eligibility for Human Service Programs (Continued)

Although, the detailed data for each approved application was not available, we selected a sample of 137 approved applications from the file provided to determine if the recipient met certain non-financial criteria: residency, citizenship, and possession of a valid Social Security number.

We worked with the Departments in reviewing legacy system reports and applicable documentation in IES Phase II (results of automated verifications as well as scanned documents supporting eligibility criteria). From the results of our testing of the non-financial criteria, we noted 16 out of 137 (11.7%) new applications did not contain sufficient documentation supporting the recipient's eligibility at time of certification. Specifically, documentation was not maintained:

- confirming the recipient's Social Security number (SSN) had been verified prior to certification;
- indicating the recipient's citizenship or alien (immigration) status had been verified prior to certification;
- confirming the recipient's residency was verified prior to certification; and,
- demonstrating the recipient's receipt of Medicare and Social Security Insurance.

For 15 of the 16 (94%) exceptions noted above, after our initial testing results were provided to the Departments, the Departments were subsequently able to provide us with documentation to support eligibility. The documentation demonstrated support of the recipients' eligibility 75 to 502 days **after** the recipients were certified.

In addition, we selected a subsample of 50 of these approved applications to determine if the recipient met the required financial criteria, noting 6 out of 50 (12%) approved applications tested did not contain documentation that the recipient's income had been verified at time of certification.

Due to the nature of the exceptions and the unique nature of each applicant, we could not use the exceptions from the testing above to accurately approximate the amount of benefits paid to all recipients who were likely certified prior to all eligibility criteria being documented.

The Departments' management indicated the exceptions were due to caseworker error.

October 25, 2017 through June 30, 2018 – IES Phase II
On October 25, 2017, the Departments implemented IES Phase II. IES Phase II not only included the intake and processing of applications, it conducted redeterminations of eligibility and case management, thus becoming the State's book of record.

Current Findings – *Government Auditing Standards*

Finding 2018-008 Deletion of Four Months of Intake Eligibility Files and Significant Problems Determining Eligibility for Human Service Programs (Continued)

Data Analysis over Approved Applications
IES Phase II data tested for this purpose was limited to information from the recipient's application, automated verification data, and caseworker entries into the system which indicate if an eligibility criterion was met or unmet, based solely on an interview with the recipient (recipient assertion), for SNAP and TANF cases and medical individuals. For instances in which the recipient was indicated as eligible based solely on their assertion to a caseworker, we did not review to determine if documentation was subsequently provided and scanned/retained in IES Phase II in support of the recipient's assertion and the caseworker's initial override.

Based on the IES Phase II data, we noted 129 of 105,820 (0.12%) SNAP and TANF cases and 406 of 188,643 (0.22%) Medicaid individuals were inappropriately approved at the time of determination, based on non-financial criteria. Specifically, the IES data analytics showed:

- The recipient did not assert that they were a citizen;
- The recipient did not assert that immigration requirements had been met;
- The recipient did not assert their physical residency was in the State of Illinois;
- The recipient's residency was not documented as the State of Illinois;
- The recipient's residency had not been verified through an automated system check or information provided by recipient;
- The recipient had claimed a SSN; however, it had not been verified through an automated system check or information provided by recipient;
- The recipient had applied for a SSN; however, verification of the applications had not been conducted;
- The recipient's SSN had not been verified; and,
- The recipient did not provide a SSN or the SSN provided was not valid.

As a result of the exceptions noted, the Departments may have improperly paid SNAP and TANF program benefits to ineligible recipients, totaling $117,153 for these 129 cases during Fiscal Year 2018. However, due to the significant backlog of unpaid Medicaid payments, at both June 30, 2018 and at the end of our fieldwork, we were unable to determine the total amount that may have been improperly paid for medical services relating to our sample of recipients with exceptions.

Current Findings – *Government Auditing Standards*

Finding 2018-008 Deletion of Four Months of Intake Eligibility Files and Significant Problems Determining Eligibility for Human Service Programs (Continued)

Detailed Testing of Sample of Approved Applications
In addition, we selected a sample of 88 cases for detailed testing to determine if the cases were properly approved based on non-financial and financial criteria. Our testing included all the documentation contained with the case, including the scanned documentation supporting caseworker overrides required prior to certification. Our testing noted 20 cases (22.7%) did not contain documentation supporting eligibility upon certification for one or more criteria.

Specifically, the cases:

- did not contain documentation of an application on file;
- did not contain documentation the residency was verified timely;
- did not contain documentation citizenship was verified timely; and,
- had a budgeted income which did not agree with the income calculations.

For 5 of the 20 (25%) cases noted above, the Departments were able to provide us with documentation to support eligibility. The documentation demonstrated support of the recipients' eligibility 1 to 238 days **after** the recipients were certified.

Due to the nature of the exceptions and the unique nature of each applicant, we could not use the exceptions from the testing above to accurately approximate the amount of benefits paid to all recipients who were likely certified prior to all eligibility criteria being documented.

The Departments' management indicated the above errors were due to caseworker error.

Redetermination of Eligibility for Human Service Programs

As noted above, as of October 25, 2017, the Departments began utilizing IES Phase II to process redeterminations of eligibility. In order to determine if recipients were properly redetermined, we requested a population of all redeterminations completed from October 25, 2017, through June 30, 2018. We performed certain data analytics of the IES Phase II data, which is comprised of information provided by the recipient for purposes of redetermination and from the automated verification data run process performed at the time of redetermination, for SNAP and TANF cases and Medicaid individuals. *(Auditor's Note: Any additional information provided by the recipient at the request of the caseworkers which may have been added to IES Phase II after the initial redetermination was performed was not included in this testing.)*

Current Findings – *Government Auditing Standards*

Finding 2018-008 Deletion of Four Months of Intake Eligibility Files and Significant Problems Determining Eligibility for Human Service Programs (Continued)

Based on the IES Phase II redetermination data, we noted 891 of 361,380 (0.25%) SNAP and TANF cases and 326 of 568,172 (0.06%) Medicaid individuals were inappropriately approved, based on non-financial criteria. Specifically, the IES data documented:

- The recipient's citizenship had not been verified;
- The recipient's immigration requirements had not been met;
- The recipient's physical residency was not the State of Illinois;
- The recipient's residency was not documented as the State of Illinois;
- The recipient's residency had not been verified;
- The recipient had applied for a SSN; however, verification of the applications had not been conducted;
- The recipient had claimed they had a SSN; however, it had not been verified;
- The recipient provided documentation of a SSN; however, recipient's SSN had not been verified; and,
- The recipient did not provide a SSN or the SSN provided was not invalid.

As a result of the exceptions noted above, the Departments may have improperly paid out SNAP and TANF benefits to recipients that were not eligible, totaling $684,819 (for the 891 exceptions noted above). As noted previously, due to the significant backlog of unpaid Medicaid payments, and due to limitations with the population provided, we are unable to estimate the amount of improper payments related to the Medicaid recipients with exceptions, or determine amounts improperly paid by the Departments during Fiscal Year 2018 for the population as a whole.

The Departments' management indicated the exceptions were due to caseworker error.

Auditor's On-site Observations of Caseworkers Processing of Recipient Cases

In May and August 2018, we conducted on-site observations at four regional offices (facilities at which the caseworkers assist recipients in the eligibility process) throughout the State. During these on-site observations, we observed specific instances of the types of issues caseworkers had regarding the utilization of IES Phase II while working recipient cases in real time. These observation procedures were designed to assist us in evaluating the operating effectiveness of the Departments' internal controls for the prevention, or detection and correction, of IES errors by the caseworker (user level), in combination with our other tests of controls.

Current Findings – *Government Auditing Standards*

Finding 2018-008 Deletion of Four Months of Intake Eligibility Files and Significant Problems Determining Eligibility for Human Service Programs (Continued)

Specifically, we noted during the observations:

1) several caseworkers stated during our interviews that they were inadequately trained;
2) changes to IES are not adequately communicated to the caseworkers by Departments' management for the caseworkers to know how to use the system effectively;
3) caseworkers have to remember numerous workarounds as a result of business rules not being coded into IES properly; and,
4) caseworkers expressed frustration that requests for help were not responded to in a timely or correct manner.

As such, these observations confirmed what our other IES testing has shown, which is that there are problematic systemic performance issues and/or defects and the end users have inadequate knowledge of the policies and procedures governing the system due to inadequate training and lack of communication from management. An information system is only effective if both the system design is working as intended and the end users have the knowledge or resources available to use it correctly.

The Code of Federal Regulations (Code) (42 C.F.R. § 435) requires recipients of Medicaid to provide documentary evidence of their citizenship, residency, SSNs and income. Additionally, the Code (7 C.F.R. § 273) requires individuals receiving SNAP and TANF to provide documentary evidence of their citizenship, residency, SSN, and income.

Further, the Code (42 C.F.R. § 431.17) requires the Medicaid agency to maintain records of each applicant and beneficiary, including records which support the determination of eligibility.

In addition, the internal control requirements of the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) within the Code (2 C.F.R. § 200.303) requires the Departments to (1) establish and maintain effective internal control over the Medicaid Program to provide reasonable assurance that the Departments are managing the Medicaid Program in compliance with federal statutes, regulations, and the terms and conditions and (2) comply with federal statutes, regulations, and terms and conditions of the Medicaid Program. These internal controls should be in compliance with guidance in *Standards for Internal Control in the Federal Government* (otherwise commonly referred to as the Green Book) issued by the Comptroller General of the United States or the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO).

Current Findings – *Government Auditing Standards*

Finding 2018-008 Deletion of Four Months of Intake Eligibility Files and Significant Problems Determining Eligibility for Human Service Programs (Continued)

Furthermore, the State Records Act (5 ILCS 160/9) requires the Departments to establish and maintain an active and continuing program for creating, maintaining, and using records and to ensure electronic records are retained in a trustworthy manner in accordance with the Electronic Commerce Security Act (5 ILCS 175/5-135), which requires electronic records and associated information:

1) remain accessible such that the records are usable for subsequent reference at all times when such information must be retained;
2) are retained either:
    a. in the format in which it was originally generated, sent, or received; or,
    b. in a format which accurately represents the information originally generated, sent, or received; and,
3) are able to:
    a. identify the origin and destination of the information;
    b. support the authenticity and integrity of the information; and,
    c. the date and time when it was sent or received, if any, is retained.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Departments to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that resources are utilized efficiently, effectively, and in compliance with applicable laws and that obligations and costs are in compliance with applicable laws.

Responses of the Federal Oversight Agencies Regarding Federal Funding

In order to determine the likelihood the Departments will be required to return federal funding received, or incur other types of financial sanctions, the Departments sent correspondence on May 31, 2019, and June 3, 2019, to the U.S. Department of Agriculture, Food and Nutrition Service (FNS) and the Department of Health and Human Services, Centers for Medicare and Medicaid Services (Federal CMS), respectively, requesting such determination.

On June 21, 2019, FNS responded stating FNS was "committed to continuing to work in partnership with [the Department of Human Services] to implement needed corrective actions to improve the efficiency and effectiveness of program administration." The response also stated FNS "retained the authority under federal regulations to impose fiscal sanctions, liabilities, and suspend/disallow administrative funding to address the failure to comply with SNAP goals."

Current Findings – *Government Auditing Standards*

Finding 2018-008 Deletion of Four Months of Intake Eligibility Files and Significant Problems Determining Eligibility for Human Service Programs (Continued)

According to the correspondence received from Federal CMS on July 2, 2019, as long as the Department of Healthcare and Family Services continued to work in “good faith” in addressing the issues identified, Federal CMS would not “anticipate having to disallow federal financial participation”.

Inadequate controls over the operation of IES have resulted in eligibility that has not been demonstrated or documented prior to recipient certification, and the State expending Federal and State funds for recipients that may not have been eligible to receive benefits. Additionally, noncompliance with Federal laws and regulations could lead to sanctions and/or loss of future Federal funding, disallowance of costs, and the requirement to return Federal funds previously received. (Finding Code No. 2018-008, 2017-009, 2016-005, 2015-009)

Recommendation

We recommend the Departments continue to work with Federal CMS and FNS to ensure all corrective actions are timely implemented as required by Federal CMS and FNS.

In addition, management of the Departments should work together to:

1) provide adequate training and supervision of caseworkers;
2) timely communicate changes to IES throughout the Departments; and,
3) implement controls to ensure appropriate documentation of eligibility is obtained at the time of certification and retained in IES.

Additionally, the Departments should work with the development vendor to ensure appropriate backups of the databases are completed and retained and that all IES data is retained in strict adherence with the State Records Act and the Electronic Commerce Security Act.

Finally, the internal audit functions of the Departments should periodically audit adherence to the established systemic IT controls and programmatic controls.

Current Findings – *Government Auditing Standards*

Finding 2018-008 Deletion of Four Months of Intake Eligibility Files and Significant Problems Determining Eligibility for Human Service Programs (Continued)

Department of Healthcare and Family Services' Response

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will continue to cooperate with Federal CMS on implementation of corrective actions. HFS is working to improve staff training and communications as well as better control documentation.

HFS has worked in conjunction with the Department of Human Services and the Department of Innovation and Technology (DoIT) to ensure that the appropriate backups of the databases are completed and retained, and that all IES data is retained in adherence with the State Records Act and the Electronic Commerce Security Act.

Department of Human Services' Response

The Department of Human Services (DHS) accepts the recommendation and will continue to partner with Federal CMS and FNS to ensure all corrective action plans are timely implemented.

DHS will review training and supervision processes; will timely communicate changes to IES to staff; and will review controls to ensure appropriate documentation of eligibility is obtained and retained properly. DHS would like to note that the observations referenced in the audit report were made at four (4) out of seventy-two (72) different Family and Community Resource Centers (FCRCs). Many of the observations viewed as system flaws or defects by the auditors are viewed as positive and intentional system features by DHS. Some of the observations noted describe the system working as designed. For DHS, the movement to a completely different system has been accompanied by a massive learning curve, ongoing training, ongoing training enhancements, and constant communication to front line staff. In addition, the level of personal reception to and understanding of training varies greatly among our 2,600 caseworkers. Temporary operating procedures (TOPs) are readily available, and sufficiently communicated to staff.

DHS will work with the development vendor to ensure appropriate backups of the databases are completed and retained and that all IES data is retained in strict adherence with the State Records Act and the Electronic Commerce Security Act. This has been completed, as the DoIT Infrastructure Team assumed the responsibility for Fiscal Year 2019.

Current Findings – *Government Auditing Standards*

Finding 2018-008 Deletion of Four Months of Intake Eligibility Files and Significant Problems Determining Eligibility for Human Service Programs (Continued)

Finally, the Department of Human Services' Office of Internal Audit will continue to audit systemic IT and programmatic controls within the internal audits as prescribed by its internal audit plan. The Office of Internal Audit will continue to function in accordance with the Fiscal Control and Internal Auditing Act and the International Standards for the Professional Practice of Internal Audit as adopted by the State Internal Audit Advisory Board.

Current Findings – *Government Auditing Standards*

Finding 2018-009 Backlog of Applications and Redeterminations for Human Service Programs

The Department of Healthcare and Family Services (HFS) and the Department of Human Services (DHS) (collectively, the "Departments") did not maintain adequate controls to ensure applications for human service programs were reviewed and approved or denied within the mandated 45 or 30 day timeframes. Additionally, the Departments did not conduct timely redeterminations of eligibility for the Supplemental Nutrition Assistance Program (SNAP), the Temporary Assistance for Needy Families (TANF) Program, and the Medicaid (medical) Program recipients.

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' Integrated Eligibility System (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.

As part of our audit procedures, we tested the Departments' compliance with the federal time requirements for approving or denying applications, conducting redeterminations, and working any changes communicated by recipients for the SNAP, the TANF, and the medical programs.

Initial Applications

According to the Code of Federal Regulations (Code) (42 C.F.R. § 435.912(c)(3)), the Departments are required to determine eligibility of applicants to medical programs within 45 days of receipt of the application for assistance. Also according to the Code (7 C.F.R. § 273.2(g)), the Departments are required to determine eligibility of applicants for SNAP benefits no later than 30 calendar days following the date the applications are received.

As of June 30, 2018, the Departments had a backlog of 125,044 medical applications and 24,859 SNAP applications for which eligibility was not yet determined (worked) within the 45 day or 30 day requirements, as applicable. The oldest medical applications dated back to 2013 and the oldest SNAP applications dated back to 2014.

- As of November 1, 2018, the Departments had worked 59,192 of the 125,044 (47%) backlogged medical applications.

- As of November 1, 2018, the Departments had worked 9,686 of the 24,859 (39%) backlogged SNAP applications.

Current Findings – *Government Auditing Standards*

Finding 2018-009 Backlog of Applications and Redeterminations for Human Service Programs (Continued)

For the 9,686 SNAP applications that were subsequently worked by November 1, 2018, for Fiscal Year 2018 benefits, it was determined the State had unpaid benefits owed to recipients totaling $695,478. For the 59,192 medical applications that were subsequently worked by November 1, 2018, for Fiscal Year 2018 benefits, it was determined the State owed medical providers or capitation payments totaling at least $31.6 million. (*Auditor's Note: Because medical providers have 18 months to submit billings for services and the State has a backlog of unpaid warrants for medical providers and MCO capitation payments being held at the Office of the Comptroller as a result of the State's cash flow crisis, the Departments are unable to provide a full estimated amount of underpayment as of the end of fieldwork. The $31.6 million represents the amount the State paid on behalf of the 59,192 applications for Fiscal Year 2018 services which were paid after June 30, 2018, but before the end of fieldwork.*)

Redeterminations

According to the Code (42 C.F.R. § 435.916(a)(1) and 7 C.F.R § 273.14), the Departments are required to redetermine eligibility of the SNAP, the TANF, and the medical programs every 12 months. Additionally, the Code (42 C.F.R. § 435.916(d)(1)) states the Departments must promptly redetermine eligibility upon receipt of information affecting eligibility.

As of June 30, 2018, the Departments had incurred a backlog of 96,979* medical redeterminations and 23,199* SNAP and TANF redeterminations (*see note on the next page)*. The oldest medical redetermination dated back to 2016 and the oldest SNAP and TANF redetermination dated back to 2017.

- As of November 1, 2018, the Departments had worked 42,277 of these 96,979 (44%) redeterminations.

- As of November 1, 2018, the Departments had worked 12,766 of these 23,199 (55%) SNAP and TANF redeterminations.

For the 12,766 SNAP and TANF redeterminations that were subsequently worked by November 1, 2018, for Fiscal Year 2018 benefits, it was determined the State owed benefits to recipients totaling $1.29 million. For the 42,277 medical redeterminations that were subsequently worked by November 1, 2018, because medical providers have 18 months to submit billings for services and the State has a backlog of unpaid warrants for medical providers and capitation payments being held at the Office of the Comptroller as a result of the State's cash flow crisis, the Department was unable to provide an estimated amount of the underpayment/overpayment as of the end of fieldwork.

Current Findings – *Government Auditing Standards*

Finding 2018-009 Backlog of Applications and Redeterminations for Human Service Programs (Continued)

****Auditor's Note: As described in the Finding 2018-007, upon implementation of IES Phase II, the Departments extended the due dates for cases that were to be redetermined in October 2017 through December 2017. As of June 30, 2018, there were 173,331 such cases that had not yet been redetermined. These cases were not included in the 120,178 redetermination cases (96,979 medical and 23,199 SNAP) discussed in this finding. As a result, our testing indicated a total known redetermination backlog of 293,509 cases.***

Change Documentation Received by the Departments (a/k/a Maintenance)

According to the Code (42 C.F.R. § 435.916(d) and 42 C.F.R. § 435.952(a)), the Departments must promptly redetermine eligibility between regular renewals of eligibility whenever information is received about a change in a beneficiary's circumstances that may affect eligibility.

As of June 30, 2018, there were 85,736 backlogged documents (60,992 medical and 24,744 SNAP and/or TANF documents) on hand that have been received from active recipients to update eligibility information pertaining to their cases, which were not related to either their initial application or annual redetermination. For example, a recipient who got a new job between the date of original application, but before his/her scheduled annual redetermination date, would need to supply the Departments with new income information, which would in turn likely impact their benefit levels.

- As of November 1, 2018, the Departments had worked 64,245 of these 85,736 (75%) documents.

Departments' management indicated staff turnover and availability contributed to the delays in working the applications, redeterminations, and other information.

Responses of the Federal Oversight Agencies Regarding Federal Funding

In order to determine the likelihood the Departments will be required to return federal funding received for ineligible medical services and SNAP and TANF benefits claimed, or incur other types of financial sanctions, the Departments sent correspondence on May 31, 2019, and June 3, 2019, to the U.S. Department of Agriculture, Food and Nutrition Service (FNS) and the Department of Health and Human Services, Centers for Medicare and Medicaid Services (Federal CMS), respectively, requesting such determination. On June 21, 2019, FNS responded stating they had "initiated the formal warning process in our letter dated March 22, 2019 related to DHS' failure to comply with program requirements for the timely processing of SNAP applications." FNS went on to state that "if the State meets all established milestones and sustains an acceptable timeliness rate, FNS will terminate the formal warning process."

Current Findings – *Government Auditing Standards*

Finding 2018-009 Backlog of Applications and Redeterminations for Human Service Programs (Continued)

Additionally, on July 2, 2019, Federal CMS responded stating "as long as Illinois continues to work with us in good faith in addressing the issues outlined in the December 26[, 2018,] request for corrective action plan letter, submits an approval [corrective action plan] to [Federal] CMS by August 31, 2019, and adheres to the timeframes and milestones approved by [Federal] CMS in the [corrective action plan], we do not anticipate having to disallow federal financial participation." (*Auditor's Note: This statement was referring to the initial request from Federal CMS for HFS to submit a corrective action plan on December 26, 2018. HFS submitted its first corrective action plan on February 25, 2019, which was rejected by Federal CMS on March 11, 2019. Subsequently, HFS was extended an August 31, 2019, due date to submit an acceptable corrective action plan to Federal CMS.*)

Significant delays in meeting the Code's requirements for timely processing of applications and redeterminations and other information is noncompliance with the Code and could result in the loss of future federal awards, disallowed costs, and/or fines and penalties. Additionally, untimely eligibility determinations and redeterminations may cause hardships on the applicants. Finally, by not conducting redeterminations or reviews of changes in a timely manner, the Departments may have incurred expenditures for ineligible individuals and claimed federal financial participation in connection therewith inappropriately. (Finding Code No. 2018-009, 2017-007)

Recommendation

We recommend management of the Departments provide significant oversight to ensure the corrective action plans are submitted and approved within the required timeframe. Further, the Departments should ensure every provision within the corrective action plans is strictly adhered to and fully implemented.

Additionally, management of the Departments should work together to implement controls to comply with the requirement that applications are reviewed and approved or denied within 45 or 30 days, as applicable. Furthermore, the Departments should establish appropriate controls to both monitor the progress of eligibility redeterminations and ensure those redeterminations occur timely. Additionally, the internal audit functions of the Departments should periodically audit adherence to the established systemic IT controls and programmatic controls.

Finally, the Departments should assign and train any additional personnel necessary so that initial applications are worked and redeterminations and maintenance of eligibility are performed within the timeframes required by the Code.

Current Findings – *Government Auditing Standards*

Finding 2018-009 Backlog of Applications and Redeterminations for Human Service Programs (Continued)

Department of Healthcare and Family Services' Response

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will continue to cooperate with Federal CMS on implementation of corrective actions. Negotiations with Federal CMS on developing a corrective action plan that is acceptable to both agencies continues. The most recent draft plan was submitted by HFS on July 31, 2019. HFS will continue to work with DHS on implementing system and business process improvements to meet federal requirements on processing timeframes. In addition, as of this response, August 1, 2019, staffing levels are being increased and training enhanced to improve both quality and timeliness.

Department of Human Services' Response

The Department of Human Services (DHS) accepts the recommendation and defers to the Department of Healthcare and Family Services (HFS) for any oversight to the Corrective Action Plan with Federal CMS mentioned in the audit report. DHS will properly monitor the SNAP timeliness rate in order to address the formal warning process imposed by FNS.

DHS will continue to work with HFS to implement controls to comply with the requirement that applications are reviewed and approved or denied timely. DHS will assign and train additional personnel to ensure initial applications are worked and redeterminations and maintenance of eligibility are performed within the timeframes required by the Code. DHS has implemented Special Processing Centers to handle workloads from larger offices with heavy caseloads, and effectively redistribute tasks to areas of the field that have the capacity to handle additional assignments. The expected result is timely performance of task completion within IES; increased SNAP application timeliness; a reduction in the backlog of medical applications; lower wait times for customers who enter the Family and Community Resource Center (FCRC); and improved customer service in the distribution of timely and accurate benefits.

Finally, the Department of Human Services' Office of Internal Audit will continue to audit systemic IT and programmatic controls within the internal audits as prescribed by its internal audit plan. The Office of Internal Audit will continue to function in accordance with the Fiscal Control and Internal Auditing Act and the International Standards for the Professional Practice of Internal Audit as adopted by the State Internal Audit Advisory Board.

Current Findings – *Government Auditing Standards*

Finding 2018-010 Lack of Controls over Changes to the Integrated Eligibility System

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

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.

As first reported by us beginning in the Departments' Fiscal Year 2015 financial statement audit reports, management of the Departments had not developed IES change control policies and procedures. As such, we were unable to determine if IES system changes were properly controlled. For the current audit, the Departments had not developed IES change control policies and procedures until April 2018.

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.

In April 2018, the Departments developed an IES change process document. However, the document contains substantial deficiencies. Specifically,

- Defects, enhancements, or incidents were not defined;
- Individuals authorized to enter the changes into the tracking system, or what information should be entered, was not defined;
- Individuals who were authorized to approve defects or enhancements were not defined;
- Requirements for prioritization of changes were not defined;
- Individuals responsible for carrying out the various activities, reviewing the activities, or the documentation requirements of the activities were not documented;
- Requirements for the Departments' approval prior to movement to the various environments were not defined;
- Testing or documentation requirements were not defined; and,
- Requirements for post implementation reviews were not defined.

Due to substantial deficiencies in the document as outlined above, we could not design suitable audit procedures to test managements' compliance with the IES change control document. As such, we were unable to determine if changes made to IES during the audit period were properly controlled.

Current Findings – *Government Auditing Standards*

Finding 2018-010 Lack of Controls over Changes to the Integrated Eligibility System (Continued)

The Code of Federal Regulations (Code) (45 C.F.R. § 95.621(f)(1)), *Automated Data Processing (ADP) System Security Requirements*, requires State agencies to be responsible for the security of all ADP projects under development, and operational systems involved in the administration of the U.S. Department of Health & Human Services programs. State agencies are required to determine the appropriate security requirements based on recognized industry standards or standards governing security of federal ADP systems and information processing.

The internal control requirements of the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) within the Code (2 C.F.R. § 200.303) requires the Departments to: (1) establish and maintain effective internal control over the Medicaid Program to provide reasonable assurance that the Departments are managing the Medicaid Program in compliance with federal statues, regulations, and the terms and conditions; and (2) comply with federal statutes, regulations and terms and conditions of the Medicaid Program. These internal controls should be in compliance with guidance in *Standards for Internal Control in the Federal Government* (otherwise commonly referred to as the Green Book) issued by the Comptroller General of the United States or the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO).

Additionally, generally accepted information technology guidance (National Institute of Standards and Technology, Internal Organization for Standardization, CoBiT, etc.) states:

- The type of change should be defined in order to properly prioritize and classify the change.
- The policies/procedures are to define the information required to be provided with each change in order to ensure a complete depiction of the change is maintained and properly reviewed.
- The individuals authorized to enter changes should be documented.
- The individuals who are responsible for the initial review of the changes, and the type of changes they are to review should be documented.
- Changes are to be prioritized at initiation, thus defined, in order to assist in the determination of the impact to the system/application.
- Policies/procedures are to define the specific requirements of each stage of the changes to complete and the individuals responsible for completing the activities of each change.
- Requirements for approvals at each stage of the change and the individuals authorized to make such approval should be documented.
- Requirements for testing of changes, format, and type of information (test plan/scripts, schedule, and detailed testing results) should be documented.

Current Findings – *Government Auditing Standards*

Finding 2018-010 Lack of Controls over Changes to the Integrated Eligibility System (Continued)

- Requirements for post implementation reviews are to be documented to confirm that the change to the application/infrastructure was implemented as approved and to determine the impact, if any, to applications/systems.

Departments' management agreed that a change control policy was not formally documented prior to April 2018, however they believe the process they had in place as of April 2018 was sufficient.

Failure to establish and document robust change controls over the IES hampers managements' ability to secure the IES system as well as recipients' data which should be adequately protected against unauthorized changes and accidental or intentional destruction or alteration. (Finding Code No. 2018-010, 2017-010)

Recommendation

We recommend management of both Departments work together to implement robust controls over changes to IES. The Departments should develop policies and procedures which conform to industry standards or standards governing security of federal ADP systems.

Department of Healthcare and Family Services' Response

The Department of Healthcare and Family Services (HFS) accepts the recommendation. Documentation of policy and procedures for IES applications changes need to be completed to support the application change control procedures that have been followed since the system went live. Infrastructure changes have controls and documentation in place as they follow the current Department of Innovation and Technology (DoIT)/Department of Human Services (DHS) infrastructure using Remedy, the same as all technical systems at DHS. All access to IES have controls and documentation in place as they follow the current DoIT/DHS access controls through the 4144 form as do all other technical systems at DHS.

Department of Human Services' Response

The Department of Human Services (DHS) accepts the recommendation. DHS will complete documentation of policies and procedures for IES applications changes to support the Application Change Control Procedures that DHS has followed since the system went live. Infrastructure changes have controls and documentation in place as they follow the current DoIT/DHS Infrastructure using Remedy, the same as all technical systems at DHS.

Current Findings – *Government Auditing Standards*

Finding 2018-010 Lack of Controls over Changes to the Integrated Eligibility System (Continued)

All access to IES has controls and documentation in place as such access follows the current DoIT/DHS access controls through the Request for MIS Hardware, Software, and Services form (IL 444-4144), as do all other technical systems at DHS.

Current Findings – *Government Auditing Standards*

Finding 2018-011 Lack of Security Controls over the Integrated Eligibility System (IES)

The Department of Healthcare and Family Services and the Department of Human Services (collectively, the "Departments") failed to implement adequate security controls over the Integrated Eligibility System (IES).

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

On October 25, 2017, IES Phase II became the State's book of record for a recipient's eligibility for the State's various human service programs. As such, IES Phase II contains personal and medical information of individuals and families (recipients) who have submitted benefit applications and/or redetermination information to the State, including individuals who were denied benefits.

Our testing of security controls over IES required that we obtain complete populations of certain information in order to select a representative sample to test. We requested that management provide the following populations:

1) All IES servers;
2) All individuals who terminated employment during Fiscal Year 2018;
3) All individuals who had rights as an IES developer or database administrator; and,
4) All network administrator accounts.

Although management of the Departments provided the populations requested above, management was unable to provide sufficient evidence for us to conclude the populations were complete and accurate under the Professional Standards promulgated by the American Institute of Certified Accountants (AU-C § 330, AU-C § 530, and AT-C § 205.35). Even given the population limitations noted, we performed testing over security controls using the populations provided as described more fully below.

<u>Environment</u>
In order to determine the adequacy of security over the environment in which IES resides, we tested 100% of IES servers identified by the Departments. The results of our testing noted:

- Several servers being used for IES which were not on the population listing provided by management;
- 216 of 332 (65%) servers were running operating systems that were no longer supported by the vendor; and,
  50 of 332 (15%) servers were not running the latest version of antivirus software.

Current Findings – *Government Auditing Standards*

Finding 2018-011 Lack of Security Controls over the Integrated Eligibility System (IES) (Continued)

As a result of the exceptions noted above, we believe there is a risk IES and the recipients' data are susceptible to possible malicious attacks and exposure.

User Access Security
In order to determine if the Departments had adequate internal control over logical security of IES, we requested the policies governing access provisioning. However, the Departments **did not have documented policies governing access provisioning, approving access, maintaining access, or deactivation of access.**

In order to determine if individuals who were hired during the audit period had been approved to have access to IES, we tested a sample of individuals who were newly hired during the fiscal year and who had had access to IES as of June 30, 2018. Our testing of user security for the population provided noted:

- 2 of 90 (2%) IES users tested were not approved to have access to IES.

In order to determine if individuals who had terminated employment during the audit period had their access deactivated on the date of termination, we tested a sample of individuals who were terminated during the fiscal year. Our testing of user security for the population provided noted:

- 11 of 52 (21%) IES users' access tested was not timely deactivated. In fact, access was terminated up to 128 days after termination of employment.

As a result of the exceptions noted above, there is a risk that unauthorized and/or inappropriate individuals could gain access to recipients' data in IES.

Developer and Database Administrator Security
In order to determine if developer rights and database administrator rights were appropriate, we tested all individuals with these rights from the population provided and noted:

- 1 of 12 (8%) IES developers tested had access to production accounts for the period from April through June 2018, thus allowing the individual the opportunity to introduce malicious code or to make unauthorized changes.

Current Findings – *Government Auditing Standards*

Finding 2018-011 Lack of Security Controls over the Integrated Eligibility System (IES) (Continued)

- We were unable to test the appropriateness of the database administrator accounts due to **the vendor hardcoding their employees' names into the database administrator accounts**. For example, the account name was Fred Jones, rather than service account XYZ. As a result, the Departments are unable to determine ownership or modify the database administrator accounts without a major disruption to IES' performance. Further, this vendor's contract was terminated on May 1, 2018; however, as of June 30, 2018, the vendor's access remained active.

<u>Network Administrator Security</u>
We tested the network administrators identified by the Departments to determine the appropriateness of their accounts. During testing of all network administrators' security for the population provided, we noted:

- 12 of 36 (33%) network administrator accounts were no longer required. The 12 network administrator accounts had been assigned to a vendor whose contract had terminated on May 1, 2018; however, the Departments had not removed their access, thus continuing to allow the vendor access to IES' environment and databases.

<u>Departments' Security Review</u>
During the Departments' own security review it did as a part of its *Federal CMS Plan of Action: Milestones from FY2018* report it was required to prepare for the Federal government, they noted the following significant security threats:

- Protected health information is exposed to shared service areas;
- Audit logs are not generated;
- Inadequate access provisioning;
- Inadequate server configurations; and,
- Inadequate system performance.

Additionally, soon after IES Phase II went live, the Chief Information Security Officer wrote, "There were many individual issues regarding [personally-identifiable information] exposure in the months following Phase II Go-live [sic]."

The Code of Federal Regulations (Code) (45 C.F.R. § 95.621(f)(1)), *Automated Data Processing (ADP) System Security Requirements*, requires State agencies to be responsible for the security of all ADP projects under development, and operational systems involved in the administration of the U.S. Department of Health & Human Services programs. State agencies are required to determine the appropriate security requirements based on recognized industry standards or standards governing security of federal ADP systems and information processing.

Current Findings – *Government Auditing Standards*

Finding 2018-011 Lack of Security Controls over the Integrated Eligibility System (IES) (Continued)

The National Institute of Standards and Technology (NIST), Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, states an entity is to define within policies and procedures personal security transactions, establishment and termination of access, based on assessed risk of the entity's environment. Additionally, the U.S Department of Health and Human Services' *Security Rule* adopted pursuant to the Health Information Portability and Accountability Act and published within the Code (45 C.F.R. § 164.308(a)(3)(ii)(C)) requires the Departments to implement "procedures for terminating access to electronic protected health information when the employment of, or other arrangement with, a workforce member ends."

Furthermore, the Department of Innovation and Technology's (DoIT) Enterprise Security Policy, Access Control, which applies to each agency utilizing DoIT, requires the Departments to establish standards and/or procedures for the creation, modification, and disabling of information system accounts.

Additionally, the Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) requires the Departments to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance:

1) resources are utilized efficiently, effectively, and in compliance with applicable laws;
2) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; and,
3) funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Finally, the State Records Act (5 ILCS 160/8) requires the Departments to preserve records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the Departments designed to furnish information to protect the legal and financial rights of the State and of persons directly affected by the Departments' activities.

Departments' management indicated that a lack of resources and a lack of oversight contributed to the weaknesses.

Due to the Departments' failure to maintain internal controls over the security of IES, the Departments have left the IES environment, application, and data exposed to malicious attacks, security breaches, and the possibility of unauthorized changes to the IES application and data. (Finding Code No. 2018-011, 2017-011)

Current Findings – *Government Auditing Standards*

Finding 2018-011 Lack of Security Controls over the Integrated Eligibility System (IES) (Continued)

Recommendation

We recommend management of the Departments enhance security controls over the IES environment, application, and databases. Further, the Departments should adopt and document policies governing access provisioning and rights. Finally, the Departments should ensure it can show the completeness and accuracy of populations provided to auditors.

Department of Healthcare and Family Services' Response

The Department of Healthcare and Family Services (HFS) accepts the recommendation.

General Controls – DoIT-DHS, along with IES partners (development vendor, DoIT-Central and DoIT-HFS) has worked to obtain complete and accurate list of IES servers, users with IES admin rights as Developers, Database Administrators and Network Administrators.

Environment – DoIT-DHS will work with DoIT-Central, the consolidated data center, to reduce the risk of malicious attacks and data exposure.

IES Change Management – DoIT-DHS staff is currently working to develop and publish standardized Change Management policy and procedures documentation for IES.

User Access Security – DoIT-DHS is currently assisting DHS Family and Community Services Division to develop documented policies governing access provisioning, approving access, maintaining access, and deactivation of access to reduce risk of unauthorized and/or inappropriate access to recipients' data in IES.

Developer and Database Security – DoIT-DHS will work with IES developer (vendor) to remove all hard-coded employee names from the Administrator Database.

Network Administrator Security – DoIT-DHS will work with DoIT-Central to closely monitor Network Administrator listings to be sure access is removed for offboarded individuals in a timely manner.

Departments' Security Review – DoIT-DHS currently has POA&M items in place to remediate issues found during the IES Security Review. These POA&M items are updated and shared with Federal CMS quarterly.

Current Findings – *Government Auditing Standards*

Finding 2018-011 Lack of Security Controls over the Integrated Eligibility System (IES) (Continued)

Department of Human Services' Response

The Department of Human Services (DHS) accepts the recommendation.

General Controls – DoIT-DHS, along with IES partners (development vendor, DoIT-Central and DoIT-HFS) has worked to obtain a complete and accurate list of IES servers, users with IES administrative rights as Developers, Database Administrators and Network Administrators.

Environment – DoIT-DHS will work with DoIT-Central, the consolidated data center, to reduce the risk of malicious attacks and data exposure.

IES Change Management – DoIT-DHS staff is currently working to develop and publish standardized Change Management policy and procedures documentation for IES.

User Access Security – DoIT-DHS is currently assisting DHS Family and Community Services Division to develop documented policies governing access provisioning, approving access, maintaining access, and deactivation of access to reduce the risk of unauthorized and/or inappropriate access to recipients' data in IES.

Developer and Database Security – DoIT-DHS will work with IES developer (vendor) to remove all hard-coded employee names from the Administrator Database.

Network Administrator Security – DoIT-DHS will work with DoIT-Central to closely monitor Network Administrator listings to be sure access is removed for offboarded individuals in a timely manner.

Departments' Security Review – DoIT-DHS currently has POA&M items in place to remediate issues found during the IES Security Review. These POA&M items are updated and shared with Federal CMS quarterly.

Prior Year Findings Not Repeated

A. **<u>FINDING</u>** **(Weaknesses in Preparation of Year-End Department Financial Statements)**

During the prior engagement, the draft financial statements of the Department of Human Services (Department) contained errors and inaccurate information.

During the current engagement, the Department did not have material unrecorded balances for certain liabilities, pension disclosures were corrected, cash receipt reconciliations were completed and reviewed timely, CARS automated controls were utilized, no material errors in the calculation of grant receivables were noted and the Department obtained statutory clarification for deposits to the DCFS Children's Services Fund through P.A. 100-0587. As such, this finding was not repeated. (Finding Code No. 2017-001, 2016-001, 2015-003, 2014-003, 2013-001, 12-1, 11-1, 10-1, 09-1)

B. **<u>FINDING</u>** (**SNAP Overpayment Referrals Not Completed Timely**)

During the prior engagement, the Department did not have sufficient controls over the tracking and processing of Supplemental Nutrition Assistance Program (SNAP) potential overpayments resulting in significant delays in processing overpayment referrals for the program.

During the current engagement, the Department provided documentation from the U.S. Department of Agriculture, Food and Nutrition Service (FNS) which clarified the timing for establishing claims that originate through an earnings cross-match. Additionally, the Department provided documentation FNS requires a 90% success rate for the timely establishment of claims and the Department demonstrated that it achieved greater than a 90% rate during Fiscal Year 2018. As such, this finding was not repeated. (Finding Code No. 2017-003)

C. **<u>FINDING</u>** (**System Reconciliations Not Regularly Performed**)

During the prior engagement, the Department did not document the performance of any reconciliations between its Consolidated Accounting and Reporting System (CARS) and three systems that electronically interface into CARS.

During the current engagement, the Department provided documentation of reconciliations being performed for the three systems. As such, this finding was not repeated. (Finding Code No. 2017-006, 2016-003)

Prior Year Findings Not Repeated (Continued)

D. **FINDING** **(Untimely Redetermination of Eligibility)**

During the previous engagement, the Department of Healthcare and Family Services and the Department of Human Services did not conduct timely redeterminations of eligibility for Medicaid recipients. The Code of Federal Regulations (42 C.F.R. § 435.916) requires states to conduct redeterminations of an individual's eligibility every 12 months.

During the current engagement, we noted timely redeterminations of eligibility for Medicaid recipients had still not occurred; however, the description of the redeterminations not completed were included in the Integrated Eligibility System (IES) backlog as IES Phase II was implemented, merging the testing that was conducted. For further details, see Finding No. 2018-009. (Finding Code No. 2017-008)