



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**DEPARTMENT OF HUMAN SERVICES**

**Financial Audit  
 For the Year Ended June 30, 2023**

**Release Date: December 19, 2024**

<b>FINDINGS THIS AUDIT: 9</b>				<b>AGING SCHEDULE OF REPEATED FINDINGS</b>			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	<u>Repeated Since</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
<b>Category 1:</b>	<b>3</b>	<b>6</b>	<b>9</b>	2022	<b>1</b>		
<b>Category 2:</b>	<b>0</b>	<b>0</b>	<b>0</b>	2019	<b>5</b>		
<b>Category 3:</b>	<b>0</b>	<b>0</b>	<b>0</b>	2018	<b>8, 9</b>		
<b>TOTAL</b>	<b>3</b>	<b>6</b>	<b>9</b>	2017	<b>2, 6</b>		
<b>FINDINGS LAST AUDIT: 8</b>							

**INTRODUCTION**

The digest covers the Department’s Financial Audit as of and for the year ended June 30, 2023. A separate digest covering the Department’s State Compliance Examination for the two years ended June 30, 2023, will be released at a later date.

**SYNOPSIS**

- **(23-01)** The Department does not have sufficient internal control over accounting for grant transactions resulting in material misstatements to the draft financial statements.
- **(23-02)** The Department does not have an adequate understanding of the suitability of the design of internal control or the operating effectiveness of internal control in place over all data recorded in its financial statements for transactions initiated by other State agencies and recorded in the Department’s financial statements.
- **(23-03)** The Department does not have sufficient internal control over accounting for intergovernmental expense transactions.

**Category 1:** Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).  
**Category 2:** Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.  
**Category 3:** Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

**DEPARTMENT OF HUMAN SERVICES  
FINANCIAL AUDIT  
For the Year Ended June 30, 2023**

FINANCIAL INFORMATION - Governmental Funds (in thousands)	FY 2023	FY 2022
<b>REVENUES</b>		
Program revenue: charges for service.....	\$ 145,917	\$ 46,299
Program revenue: operating grants.....	9,334,668	9,408,202
General revenue: taxes, interest and other.....	132,355	165,202
Total revenues.....	9,612,940	9,619,703
<b>EXPENDITURES</b>		
Health and social services.....	15,252,907	14,443,369
Debt service - principal.....	3,516	3,140
Debt service - interest.....	181	228
Capital outlays.....	55,287	39,691
Total expenditures.....	15,311,891	14,486,428
<b>OTHER SOURCES (USES)</b>		
Appropriations from State resources.....	6,907,589	6,120,520
Transfers in.....	565,037	416,562
Transfers out.....	(475,450)	(329,160)
Receipts collected & transmitted to the State treasury.....	(358,861)	(392,448)
Lapsed appropriation.....	(685,989)	(875,831)
Other.....	(25,434)	(9,202)
Total other sources (uses).....	5,926,892	4,930,441
<b>Increase in fund balance.....</b>	<b>227,941</b>	<b>63,716</b>
<b>Fund balance July 1.....</b>	<b>285,785</b>	<b>223,251</b>
Increase (Decrease) for change in inventories.....	2,019	(1,182)
<b>Fund balance (deficit) June 30.....</b>	<b>\$ 515,745</b>	<b>\$ 285,785</b>
<b>SELECTED ACCOUNT BALANCES - June 30,</b>		
Governmental funds (in thousands)	<b>FY 2023</b>	<b>FY 2022</b>
<b>ASSETS</b>		
Cash and cash equivalents & investments.....	\$ 917,298	\$ 584,728
Due from other governments - federal & local.....	250,436	191,241
Loans, taxes and other receivables, net.....	451	420
Due from other Department and State funds.....	110,617	110,801
Inventories.....	8,827	6,808
Other (Prepaid expenses, Recipient services and other receivables).....	439,447	106,112
Unexpended appropriations.....	560,857	471,295
Total assets.....	\$ 2,287,933	\$ 1,471,405
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>		
Accounts payable and other liabilities.....	\$ 913,860	\$ 667,495
Unearned revenue.....	100,638	99,798
Due to other funds - State, federal, local & Department.....	273,282	249,884
Total liabilities and deferred inflows of resources.....	1,287,780	1,017,177
<b>DEFERRED INFLOWS OF RESOURCES.....</b>	<b>484,408</b>	<b>168,443</b>
<b>FUND BALANCE.....</b>	<b>515,745</b>	<b>285,785</b>
<b>TOTAL LIABILITIES AND FUND BALANCE.....</b>	<b>\$ 2,287,933</b>	<b>\$ 1,471,405</b>
<b>SECRETARY</b>		
During Audit Period: Grace B. Hou (7/1/22 - 8/31/23)		
Currently: Dulce Quintero, Secretary Designate (9/1/23 - Present)		

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**INADEQUATE INTERNAL CONTROLS OVER  
ACCOUNTING FOR FEDERAL AWARDS**

The Department of Human Services (Department) does not have sufficient internal control over accounting for grant transactions resulting in material misstatements to the draft financial statements.

For financial reporting purposes, the Department (Fiscal Services) tracks grant data for purposes of accruing grant receivables, unearned revenue, unavailable revenue and payable balances, all of which impact Federal Operating Grant Revenue, using Office of Comptroller required SCO forms including SCO-563 *Grant/Contract Analysis*, SCO-567 *Interfund Transfers – Grantee Agency*, and SCO-568 *Interfund Transactions – Grantor Agency*.

In preparing the SCO forms, the Department made errors in reporting expenditure amounts, including expenditure adjustments, and cash receipts, including lapse period receipts, for its federal awards programs, resulting in errors in the financial statements for grant transactions. Additionally, based on audit procedures performed, the SCO forms required multiples revisions throughout calendar year 2024. Some of the most significant errors are as follows:

**Expenditures overstated and grant receipts understated in Fund 0001**

**Inaccurate opening balances on SCO-563 form**

**Unearned Revenue overstated and Federal Operating Grant Revenue understated in Fund 0001**

- In the General Revenue Fund (0001), expenditures were overstated by \$476 thousand and grant receipts were understated by \$2.7 million in the SCO-563 form. This resulted in an understatement of unearned revenue and overstatement of Federal Operating Grant Revenue by \$3.2 million. Further, certain opening balances in the SCO-563 form were not accurate, which resulted in an understatement of unearned revenue and overstatement of Federal Operating Grant Revenue of \$1.1 million.
- In the General Revenue Fund (0001), assistance listing number (ALN) 10.561 included COVID-related funding with the non-COVID related funding. When working with the Department to split the activity between COVID-related funding and non-COVID related funding, an overstatement of Unearned Revenue and understatement of Federal Operating Grant Revenue of \$2.7 million was identified.
- In the Employment and Training Fund (0347), expenditures in the SCO-563 form were overstated by \$94.5 million resulting in an overstatement of Federal

**Expenditures overstated in Fund 0347 resulting in various overstatements**

Operating Grant Revenue, Unavailable Revenue and Due from Other Governments – Federal.

**Improper inclusion of expenditures and grant receipts resulted in overstatement in Fund 0347**

- In the Employment and Training Fund (0347), expenditures in the SCO-563 form were overstated by \$68.8 million due to inclusion of expenditures and grant receipts to be reported by the Department of Children and Family Services in Fund 0220. This resulted in an overstatement of Due from Other Governments – Federal by \$7.4 million and Federal Operating Grant Revenue by \$68.8 million, and an understatement of Unearned Revenue by \$61.4 million.

**Incomplete SNAP expenditure activity used for reporting purposes**

- In the Food Stamp and Commodity Fund (1245), the SNAP major program expenditure report for ALNs 10.551 and 10.542 did not include June activity. This resulted in an understatement of Federal Operating Grants Revenue and Health and Social Services Expenses of \$376.8 million. Further, the activity recorded for fiscal year 2024 did not include emergency allotment funding. This resulted in an understatement of Federal Operating Grant Revenue and Health and Social Services expenditures of \$91 million. (Finding 1, pages 73-76)

We recommended the Department strengthen its internal control over preparing the SCO Forms by including a reconciliation of Federal grant receipts and expenditures by ALN included in each SCO Form to the general ledger for each fund (the ERP System). Deposits of Federal draws should be recorded in the fund(s) that incurred the associated expenditures. Once prepared, balances reported in the SCO forms should be compared to the draft financial statements, by fund, to conclude if amounts are reasonable. Additionally, large balances in Due from Other Governments – Federal, Unearned Revenue and Unavailable Revenue should be investigated as they are unusual for reimbursement type grant awards in which the Department can generally draw funds monthly upon the incurrence of qualifying expenditures.

**Department accepted the recommendation**

The Department accepted our recommendation and indicated corrective action is planned.

**MEDICAL ASSISTANCE PROGRAM FINANCIAL INFORMATION**

The Department of Human Services (Department) does not have an adequate understanding of the suitability of the design of internal control or the operating effectiveness of internal control in place over all data recorded in its financial

statements for transactions initiated by other State agencies and recorded in the Department's financial statements.

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

**Could not provide documentation supporting expenditure reconciliations for its Federal MAP funds**

- The Department could not provide documentation of the preparation or the Department's review of expenditure reconciliations for Federal Medical Assistance Program (MAP) funds or the State Children's Health Insurance Program (CHIP) (Funds 0120, 0142, 0211, 0365, 0502, 0509, 0718) between amounts reported in the Department's general ledger system (ERP) and amounts reported in the Grant/Contract Analysis Forms (Form SCO-563s) provided to the Office of Comptroller (IOC) which support the receivable and revenue calculation for financial reporting. The amount per the Form SCO-563s (totaling approximately \$424 million for total reimbursable costs "TRC" for Assistance Listing Numbers (ALN) 93.767 and 93.778), is a computed amount (a formula), essentially the amount needed to achieve the reported receivable balance provided by the Department of Healthcare and Family Services (HFS), a separate State agency, or a maximum amount for funds which have a statutory deposit limit. The Department does not retain a reconciliation between what is reported on the Form SCO-563s (claimable expenditures) and within ERP (all expenditures) for each fund which identifies which expenditures were used for claiming the federal award. Additionally, there is no documentation maintained by the Department to support the calculation and methodology used by HFS in preparing the net federal receivable amount (approximately \$16.1 million for the two ALNs).

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

- 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 ERP. An employee in the Department's Office of Fiscal Services reconciles the payments between ERP and the IOC before accepting them into ERP. Although the Department has documented their understanding of how transactions for DHS programs are processed within HFS, the Department was unable to provide auditors with documentation of their

monitoring performed over the amounts reported in the Department's financial statements.

**Placed reliance on HFS systems that have not been recently independently verified**

- Additionally, the Department is placing reliance on the internal control over the applicable HFS system without recent independent verification of the system. Currently, the Department receives summarized information from HFS and records the transactions into ERP and the SCO-563 forms without performing sufficient procedures to determine the accuracy of the information. (Finding 2, pages 77-79)

We recommended the Department assume more responsibility for the transactions and balances reported in its financial statements that are initiated/estimated by other State agencies, including the following:

- The Department should enter into an interagency agreement (IA) with HFS that details the responsibilities of each agency with regards to initiating, processing and recording transactions, and how the sufficiency of internal control over Department transactions will be monitored (i.e. annual internal audit, SOC 1 Type 2 audit, or other).
- Once an IA is executed, on a regular basis, the Department should determine if the control system and related monitoring agreed to through the IA is sufficient to prevent and detect significant financial statement errors. The sufficiency of internal control should be monitored each time there is a major change to Federal MAP/CHIP programs or IT systems used for those programs.
- Expenditure and accrual amounts provided by HFS in connection with year-end reporting of Federal MAP receivables should be reconciled to ERP or agreed to reports and source data compiled by HFS.

**Department accepted recommendation**

The Department accepted our recommendation and indicated corrective action is planned.

**INTERGOVERNMENTAL EXPENSES**

The Department of Human Services (Department) does not have sufficient internal control over accounting for intergovernmental expense transactions.

**Contractual services expenditures incurred in FY22 recorded in FY23**

In contractual services expenditures for the General Revenue Fund (0001), three transactions totaling \$9 million out of 46 transactions totaling \$97.3 million tested for the year ended June 30, 2023, were expenditures incurred in the year ended

June 30, 2022. Of the three transactions, two were intergovernmental charges from the Department of Innovation and Technology (DoIT).

**Equipment expenditures incurred in FY22 recorded in FY23**

In equipment expenditures for the General Revenue Fund (0001), two transactions totaling \$6.2 million out of 12 transactions totaling \$13.6 million tested for the year ended June 30, 2023, were expenditures incurred in the year ended June 30, 2022. Both transactions were intergovernmental charges from the DoIT.

**\$16.6 million of contractual services and other expenditures incurred by DoIT in FY22 to be billed out to Department recorded in FY23**

Upon further investigation, it was determined there were approximately \$53.5 million of contractual services and other expenditures incurred by DoIT to be billed out to the Department, of which only approximately \$37.5 million had been recognized in accounts payable during fiscal year 2022. The Department reported nearly \$15.9 million in expenditures for the year ended June 30, 2023, that were incurred for data center charges, supplemental IT charges and communication charges in the year ended June 30, 2022.

As a result of the errors noted above, expenditures in the prior year financial statements were understated and expenditures in the current year financial statements were overstated by \$15.9 million. (Finding 3, page 80)

We recommended the Department utilize information provided by the Illinois Office of Comptroller (IOC) SCO-565 Inter-Fund Payable/Receivable form in preparing and reviewing its final inter-fund balances.

**Department accepted the recommendation**

The Department accepted our recommendation and indicated corrective action is planned.

**OTHER FINDINGS**

The remaining findings pertain to improper classification of fund balance, inadequate disaster recover controls over the Integrated Eligibility System (IES), inadequate general information technology (IT) controls over IES, inadequate controls over eligibility determinations and redeterminations, insufficient review and documentation of provider enrollment, and inadequate general IT controls over the Illinois Medicaid Program Advanced Cloud Technology (IMPACT) system. We will review the Department's progress towards the implementation of our recommendations in our next financial audit.

**AUDITOR'S OPINION**

The auditors stated the financial statements of the Department of Human Services as of and for the year ended June 30, 2023 are fairly stated in all material respects.

This financial audit was performed by RSM US LLP.

**SIGNED ORIGINAL ON FILE**

JANE CLARK  
Division Director

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

**SIGNED ORIGINAL ON FILE**

FRANK J. MAUTINO  
Auditor General

FJM:kjm