STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

FINANCIAL AUDIT

For the Year Ended June 30, 2020

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

SIKICH.COM

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2020

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DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL AUDIT
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AGENCY OFFICIALS

Director	Theresa Eagleson
Assistant Director (Acting) (4/16/21 – Present)	Jenny Aguirre
Assistant Director (Through 4/15/21)	Vacant
Chief of Staff	Ben Winick
General Counsel (11/1/19 – Present)	Steffanie Garrett
General Counsel (Interim) (Through 10/31/19)	Christopher Gange
Inspector General (Acting) (4/16/21 – Present)	Brian Dunn
Inspector General (Acting) (1/1/20 – 4/15/21)	Patrick Conlon
Inspector General (11/19/19 – 12/31/19)	Vacant
Inspector General (Through 11/18/19)	Bradley Hart

DEPUTY DIRECTORS

Community Outreach	Kimberly McCullough-Starks
Administrative Operations	Vacant
Human Resources (2/16/21 – Present)	Terri Shawgo
Human Resources (Through 2/15/21)	Vacant
New Initiatives	Jane Longo

DIVISION ADMINSTRATORS

Child Support Services (Interim) (2/16/21 – Present)	Brian Tribble
Child Support Services (1/1/21 – 2/15/21)	Vacant
Child Support Services (Through 12/31/20)	Mary Bartolomucci
Finance	Michael Casey
Medical Eligibility (Recently established 12/1/20)	Vacant
Medical Programs (2/16/20 – Present)	Kelly Cunningham
Medical Programs (2/15/20)	Vacant
Medical Programs (Through 2/14/20)	Douglas Elwell

Personnel & Administrative Services (Interim) (3/17/21 – Present)	Ruth Ann Day
Personnel & Administrative Services (Acting) (Through 3/16/21)	Terri Shawgo

AGENCY OFFICES

The Department's primary administrative offices are located at:

201 South Grand Avenue East Springfield, Illinois 62763	401 South Clinton Chicago, Illinois 62607

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2019

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Healthcare and Family Services (Department) was performed by Sikich LLP.

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

SUMMARY OF FINDINGS

The auditors identified eleven matters involving the Department's internal control over financial reporting that they considered to be material weaknesses. Further, the auditors identified three noncompliance matters.

Item No.	Page	Last/First Reported	Description	Finding Type
			CURRENT FINDINGS	
2020-001	55	2019/2015	Inadequate controls over eligibility determinations and redeterminations	Material Weakness and Noncompliance
2020-002	58	2019/2017	Untimely processing of applications for benefits, redeterminations of eligibility for benefits, and eligibility change documentation	Material Weakness and Noncompliance
2020-003	60	2019/2017	Insufficient internal controls over changes to the Integrated Eligibility System (IES) and recipient data	Material Weakness
2020-004	63	New	Inadequate access review procedures for the Integrated Eligibility System (IES)	Material Weakness
2020-005	65	2019/2019	Inadequate disaster recovery controls over the Integrated Eligibility System (IES)	Material Weakness

Item No.	Page	Last/First Reported	Description	Finding Type
2020-006	67	2019/2019	Detailed agreement with the Department of Innovation and Technology (DoIT) not sufficient and inadequate interagency agreement for the IES	Material Weakness
2020-007	69	2019/2018	Inadequate general information technology controls over IMPACT	Material Weakness
2020-008	72	2019/2018	Insufficient review and documentation of provider enrollment determinations and failure to execute interagency agreements	Material Weakness and Noncompliance
2020-009	75	2019/2015	Failure to review third-party service providers' internal controls	Material Weakness
2020-010	78	New	C-97 reporting miscalculations	Material Weakness
2020-011	79	New	Inadequate internal controls over census data	Material Weakness

PRIOR FINDINGS NOT REPEATED

Item No.	Page	Last/First Reported	Description
A	81	2019/2017	Lack of security controls over the Integrated Eligibility System (IES)
B	81	2019/2016	Financial statement preparation weaknesses
C	81	2019/2017	Incorrect claim payments

EXIT CONFERENCE

The Department waived an exit conference in correspondence from Jamie Nardulli, Chief Internal Auditor, on May 18, 2021. The responses to the recommendations were provided by Theresa Eagleson, Director, on May 24, 2021.

The Department of Human Services' responses to Findings 2020-001, 2020-002, 2020-003, 2020-004, 2020-005, 2020-006, 2020-007, and 2020-008 were provided by Amy Macklin, Chief Internal Auditor, in correspondence dated May 25, 2021.

The Department of Children and Family Services' responses to Findings 2020-007 and 2020-008 were provided by Joe McDonald, Associate Deputy Director, Fiscal Accounting, in correspondence dated June 1, 2021.

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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 Healthcare and Family Services (Department), as of and for the year ended June 30, 2020, 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 Department, as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2 to the financial statements, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. These financial statements do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2020, and the respective 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 2 to the financial statements and above, the Department is not legally separate from the State of Illinois, and it relies heavily on the State's ability to appropriate resources for the continuation of the Department's health and social services programs. For the year ended June 30, 2020, approximately 28% of the Department's expenditures were funded with appropriations from the State of Illinois rather than from grants, fees and other revenues of the Department.

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis and budgetary comparison information for any of its funds and related pension and other postemployment benefit information for its Department-wide financial statements 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 opinion on the basic financial statements is 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 combining General Fund schedules and nonmajor governmental and agency funds financial statements (accompanying other information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates 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 information is 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 June 10, 2021, 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 the Department's management and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

Decatur, Illinois
June 10, 2021

State of Illinois
Department of Healthcare and Family Services

Statement of Net Position and Governmental Funds Balance Sheet

June 30, 2020 (Expressed in Thousands)

	General Fund	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Position
ASSETS					
Unexpended appropriations	$ 57,670	$ 33,164	$ 90,834	$ -	$ 90,834
Cash equity with State Treasurer	560,759	37,484	598,243	-	598,243
Cash and cash equivalents	2,410	-	2,410	-	2,410
Securities lending collateral equity with State Treasurer	96,622	1,634	98,256	-	98,256
Due from other government - federal	2,403,885	44,881	2,448,766	-	2,448,766
Due from other government - local	15,118	-	15,118	-	15,118
Taxes receivable, net	57,713	-	57,713	-	57,713
Other receivables, net	844,429	9,525	853,954	-	853,954
Notes Receivable	138,394	-	138,394	-	138,394
Due from other Department funds	26	16,320	16,346	(16,346)	-
Due from other State funds	182,697	-	182,697	-	182,697
Due from State of Illinois component units	21,152	-	21,152	-	21,152
Prepaid expenses	-	-	-	526	526
Capital assets not being depreciated	-	-	-	13,750	13,750
Capital assets being depreciated, net	-	-	-	1,545	1,545
Total assets	4,380,875	143,008	4,523,883	(525)	4,523,358
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources - SERS pensions	-	-	-	128,228	128,228
Deferred outflows of resources - OPEB	-	-	-	151,843	151,843
Total deferred outflows of resources	-	-	-	280,071	280,071
Total assets and deferred outflows of resources	$ 4,380,875	$ 143,008	$ 4,523,883	$ 279,546	$ 4,803,429
LIABILITIES					
Accounts payable and accrued liabilities	$ 2,419,830	$ 55,452	$ 2,475,282	-	2,475,282
Due to other government - federal	522,226	30,060	552,286	-	552,286
Due to other government - local	243,041	8,111	251,152	-	251,152
Due to other Department funds	16,320	26	16,346	(16,346)	-
Due to other State funds	24,328	8,555	32,883	-	32,883
Due to other State fiduciary funds	765	1,663	2,428	-	2,428
Due to State of Illinois component units	127,833	166	127,999	-	127,999
Obligations under securities lending of State Treasurer	96,622	1,634	98,256	-	98,256
Long-term obligations:					
Due within one year	-	-	-	1,204	1,204
Due subsequent to one year	-	-	-	9,115	9,115
Net pension liability - SERS	-	-	-	1,057,921	1,057,921
OPEB liability - Short-Term				21,024	21,024
OPEB liability - Long-Term	-	-	-	832,933	832,933
Total liabilities	3,450,965	105,667	3,556,632	1,905,851	5,462,483
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - Federal operating grants	1,259,033	12,421	1,271,454	(1,271,454)	-
Unavailable revenue - License and fees	1,970	322	2,292	(2,292)	-
Unavailable revenue - Medical provider assessment tax	7	-	7	(7)	-
Unavailable revenue - Other taxes	28,276	-	28,276	(28,276)	-
Unavailable revenue - Other operating grants	25,126	-	25,126	(25,126)	-
Unavailable revenue - Other revenues	246	-	246	(246)	-
Unavailable revenue - Other charges for services	5,053	-	5,053	(5,053)	-
Deferred inflows of resources - SERS pensions	-	-	-	112,659	112,659
Deferred inflows of resources - OPEB	-	-	-	160,427	160,427
Total deferred inflows of resources	1,319,711	12,743	1,332,454	(1,059,368)	273,086
Total liabilities and deferred inflows of resources	$ 4,770,676	$ 118,410	$ 4,889,086	$ 846,483	$ 5,735,569
FUND BALANCES (DEFICITS)/NET POSITION					
Fund balances (deficits)					
Committed for health and social services	1,856,215	24,598	1,880,813	(1,880,813)	-
Unassigned	(2,246,016)	-	(2,246,016)	2,246,016	-
Net investment in capital assets	-	-	-	15,080	15,080
Unrestricted net position	-	-	-	(947,220)	(947,220)
Total fund balances (deficits)/net position	(389,801)	24,598	(365,203)	$ (566,937)	$ (932,140)
Total liabilities, deferred inflows of resources, and fund balances (deficits)	$ 4,380,875	$ 143,008	$ 4,523,883		

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Healthcare and Family Services
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
June 30, 2020
(Expressed in Thousands)

Total fund balances (deficits) - governmental funds	$ (365,203)
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	15,295
Prepaid expenses for governmental activities are current uses of financial resources for funds.	526
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.	1,332,454
Deferred outflows of resources related to pension liability are not reported in the governmental funds since they do not provide current financial resources.	128,228
Deferred inflows of resources related to pension liability are not reported in the governmental funds since they do not use current financial resources.	(112,659)
Deferred outflows of resources related to OPEB liability are not reported in the governmental funds since they do not provide current financial resources.	151,843
Deferred inflows of resources related to OPEB liability are not reported in the governmental funds since they do not use current financial resources.	(160,427)
Some 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 activities consist of:	
Capital lease obligations	(215)
Compensated absences	(10,104)
Net pension liability - SERS	(1,057,921)
Total OPEB liability	(853,957)
Net position of governmental activities	$ (932,140)

The accompanying notes to the financial statements are an integral part of this statement.

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

For the Year Ended June 30, 2020 (Expressed in Thousands)

	General Fund	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
Expenditures/expenses:					
Health and social services	$ 21,148,905	$ 354,739	$ 21,503,644	$ (116,901)	$ 21,386,743
Debt service principal	97	50	147	(147)	-
Debt service interest	24	16	40	-	40
Capital outlays	6,334	155	6,489	(6,489)	-
Total expenditures/expenses	21,155,360	354,960	21,510,320	(123,537)	21,386,783
Program revenues:					
Charges for services:					
Licenses and fees	30,178	373	30,551	(5,480)	25,071
Other, net	-	41,012	41,012	(1,142)	39,870
Total charges for services	30,178	41,385	71,563	(6,622)	64,941
Operating grant revenue:					
Federal, net	14,233,687	165,707	14,399,394	277,398	14,676,792
Other	1,057,162	-	1,057,162	(69,955)	987,207
Total operating grant revenue	15,290,849	165,707	15,456,556	207,443	15,663,999
Net program revenues (expenses)	(5,834,333)	(147,868)	(5,982,201)	324,358	(5,657,843)
General revenues:					
Interest and investment income	6,911	86	6,997	-	6,997
Medical provider assesment tax	2,956,445	-	2,956,445	(25,780)	2,930,665
Other taxes, net	329,498	-	329,498	28,276	357,774
Other	262,356	-	262,356	246	262,602
Total general revenues	3,555,210	86	3,555,296	2,742	3,558,038
Other sources (uses):					
Appropriations from State resources	7,903,598	200,610	8,104,208	-	8,104,208
Lapsed appropriations	(2,151,071)	(14,589)	(2,165,660)	-	(2,165,660)
Receipts collected and transmitted to State Treasury	(3,581,282)	(95,135)	(3,676,417)	-	(3,676,417)
Capital transfers to other State agencies	-	-	-	(7,613)	(7,613)
Amount of SAMS transfers-out	27,594	-	27,594	-	27,594
Transfers-in	-	28,320	28,320	(28,320)	-
Transfers-out	(68,320)	-	(68,320)	28,320	(40,000)
Capital lease financing	47	103	150	(150)	-
Total other sources (uses)	2,130,566	119,309	2,249,875	(7,763)	2,242,112
Change in fund balances/net position	(148,557)	(28,473)	(177,030)	319,337	142,307
Fund balances (deficits)/net position, July 1, 2019	(241,244)	53,071	(188,173)	(886,274)	(1,074,447)
Fund balances (deficits)/net position, June 30, 2020	$ (389,801)	$ 24,598	$ (365,203)	$ (566,937)	$ (932,140)

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Healthcare and Family 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, 2020
(Expressed in Thousands)

Net change in fund balances - governmental funds	$ (177,030)
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. This is the amount by which capital outlays exceeded depreciation and losses on disposals in the current period.	5,563
Transfers of capital assets to other State agencies are not recorded in governmental funds. This amount represents the net transfers of capital assets at no cost to other State funds in the Statement of Activities.	(7,613)
Prepaid expenses in the Statement of Activities are not reported as expenses in governmental funds. This amount represents the increase in prepaid expenses over the prior year.	159
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the increase in unavailable revenue over the prior year.	203,563
Deferred outflows of resources related to pension liability in the Statement of Activities that do not provide current financial resources are not reported in the governmental funds. This amount represents the decrease in deferred outflows over the prior year.	(6,558)
Deferred inflows of resources related to pension liability in the Statement of Activities that do not use current financial resources are not reported in the governmental funds. This amount represents the decrease in deferred inflows over the prior year.	29,945
Deferred outflows of resources related to OPEB liability in the Statement of Activities that do not provide current financial resources are not reported in the governmental funds. This amount represents the increase in deferred outflows over the prior year.	37,763
Deferred inflows of resources related to OPEB liability in the Statement of Activities that do not use current financial resources are not reported in the governmental funds. This amount represents the decrease in deferred inflows over the prior year.	29,587
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	147
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.	(150)
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. These include:	
Increase in compensated absences obligation	(1,313)
Decrease in Federal disallowances liability	121,054
Increase in net pension liability - SERS	(10,160)
Increase in total OPEB liability	(82,650)
Change in net position of governmental activities	$ 142,307

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Healthcare and Family Services

Statement of Fiduciary Net Position

June 30, 2020 (Expressed in Thousands)

		Agency Funds
ASSETS		
Cash equity with State Treasurer	$	31,426
Cash and cash equivalents		1,605
Other receivables, net		205,163
Total assets	$	238,194
LIABILITIES		
Accounts payable and accrued liabilities	$	32,529
Other liabilities		205,665
Total liabilities	$	238,194

The accompanying notes to the financial statements are an integral part of this statement.

(1) Organization

The Department of Healthcare and Family Services (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 generally operates under a budget approved by the General Assembly in which resources primarily from the State's General Revenue 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, with the exception of the Child Support Enforcement Trust Fund – SDU.

The Department is organized to provide for the improvement of the lives of Illinois' families through healthcare coverage and child support enforcement.

(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

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2) Fiscal dependence on the primary government and the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the required criteria, the Department has no component units and is not a component unit of any other entity. However, because 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 of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Healthcare and Family Services, are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, major fund, 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, 2020, and the changes in financial position for the year then ended in conformity with GAAP.

The financial activities of the Department, which consist only of governmental activities, are reported under the health and social services function in the State of Illinois' 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 the 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 financial activities of the Department consist of governmental activities, which are generally financed through taxes and intergovernmental 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. 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 in more than one year.

The statement of activities presents a comparison between direct expenses and program revenues for the functions 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 all taxes, 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 on fund financial statements is the major governmental fund, which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Department administers the following major governmental fund (or portions thereof in the case of shared funds – 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, promoting access to quality healthcare and child support. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements. The Department's portion of the General Fund is composed of seven primary sub-accounts (General Revenue, U of I Hospital Services, County Provider Trust, Long-Term Care Provider, Hospital Provider, Drug Rebate, and Healthcare Provider Relief) and eight secondary sub-accounts.

Additionally, the Department reports the following fund types:

Governmental Fund Types:

> **Special Revenue** – These funds account for transactions related to resources obtained from specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The Department does not have any major special revenue funds to disclose.

Fiduciary Fund Types:

> **Agency** – These funds account for transactions related to assets 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 (except for agency funds which do not have a 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 nursing home assessments, hospital assessments and intergovernmental grants. On an accrual basis, revenues from the nursing home assessments are recognized in the fiscal year in which the underlying exchange transaction occurs. 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 are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State 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 formal debt issues, claims and judgments, and compensated absences are recorded only when the payment is due. Capital asset acquisitions 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 the nursing home assessment, hospital assessments, federal matching revenues, drug rebates, intergovernmental transfer agreement revenues, and child support. Other miscellaneous revenue sources are considered to be measurable and available only when cash is received.

(d) Shared Fund Presentation

The financial statement presentation for the General Fund accounts, General Revenue, Care Provider for Persons with Developmental Disabilities, and the Trauma Center, as well as the nonmajor governmental funds, the Department of Corrections Reimbursement and Education Fund and the Tobacco Settlement Recovery Fund, represent 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:

<u>Unexpended Appropriations</u>

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

<u>Appropriations from State Resources</u>

The "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. Lapsed appropriations for certain Medicaid expenditures are the legally adopted appropriations less net warrants issued for the up to 18 month period from July to December of the following year, although HFS generally adheres to an October lapse period close-out for Medicaid expenditures. For fiscal year 2020, the state's general lapse period was extended through September 2020. The Department also considers the effect of the change in the amount of warrants held by the State Comptroller's Office in the current and prior years on both unexpended appropriations described above and amounts reported as lapsed appropriations; as a result, the amount reported as lapsed appropriations for fiscal year 2020 reduced the Department's net position/fund balance by $2.2 billion.

Receipts Collected and Transmitted to State Treasury

This "other financing use" account represents all cash receipts received during the fiscal year from 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 provision from the corresponding fund during the fiscal year per SAMS records in which a legally adopted appropriation was not charged.

(e) Eliminations

Eliminations have been made in the government-wide statement of net position to minimize the "grossing-up" effect on assets and liabilities within the governmental activities column 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. 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 less than 90 days at the time of purchase. Cash and cash equivalents include cash on hand and cash in banks 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.

(h) Interfund Transactions and Transactions with State of Illinois Component Units

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

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 and the government-wide statement of net position.

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 financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

The Department also has activity with various component units of the State of Illinois for medical programs, intergovernmental transfer agreements and payments for services.

(i) Capital Assets

Capital assets, which includes property, plant, and equipment, and intangible assets, are reported at cost or estimated historical cost based on appraisals. Contributed assets are reported at acquisition value at the time received. Capital assets are depreciated and amortized using the straight-line method. Intangible assets (purchased computer software and internally generated computer software) are assets that do not have a physical existence, are nonfinancial in nature, are not in a monetary form, and have a useful life of over one year.

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Equipment	$ 5,000	3-10
Purchased Computer Software	$ 25,000	3-5
Internally Generated Computer Software	$1,000,000	5-20

(j) 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 position 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 net 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 position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Department has recorded deferred outflows and inflows of resources in the government-wide financial statements in connection with the net pension liability reported and explained in Note 9 and the total post-employment benefits liability reported and explained in Note 10. Unavailable revenues in governmental funds include receivables not “available” to finance the current period.

(k) 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 has been calculated based on the employees' current salary level and includes salary related cost (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.

(l) Pensions

In accordance with the Department's adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, 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 plan's 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 recognition of outflows and inflows of resources due to pension assets and liabilities.

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 plan and additions to/deductions from the plan's 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.

(m) Postemployment 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 OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and OPEB expense have been recognized in the government-wide financial statements.

(n) Fund Balances

In the fund financial statements, governmental funds report fund balances in the following categories:

Nonspendable- This consists of amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact.

Restricted – This consists of amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

Committed – This consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Department's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Department removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Department's highest level of decision-making authority rests with the Illinois State legislature and the Governor. The State passes "Public Acts" to commit their fund balances.

Assigned – This consists of net amounts that are constrained by the Department's intent to be used for specific purposes, but that are neither restricted nor committed.

Unassigned – This consists of residual fund balance that has not been restricted, committed, or assigned within the General Fund and deficit fund balances of other governmental funds.

In the General Fund, it is the Department's policy to consider restricted resources to have been spent first when an expenditure is incurred for which both restricted and unrestricted (i.e. committed, assigned or unassigned) fund balances are available, followed by committed and then assigned fund balances. Unassigned amounts are used only after the other resources have been used.

In other governmental funds (special revenue), it is the Department's policy to consider restricted resources to have been spent last. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Department first utilizes any assigned amounts, followed by committed and then restricted amounts.

(o) Net Position

In the government-wide statement of net position, net position is displayed in three components as follows:

Net investment in capital assets – This consists of capital assets, net of accumulated depreciation 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. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

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

(p) 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, 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.

(q) Adoption of New Accounting Pronouncements

Effective for the year ended June 30, 2020, the Department adopted the following GASB statements:

Statement No. 92, Omnibus 2020, which is intended to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit OPEB plan, the applicability of Statement No. 73 and Statement No. 74 to reporting assets accumulated for postemployment benefits, the applicability of Statement No. 84 to postemployment benefit arrangements, measurement of liabilities and assets related to asset retirement obligations in a government acquisition, and reference to nonrecurring fair value measurements of assets and liabilities in authoritative literature. The topics within this Statement that were not effective for the Department's fiscal year ended June 30, 2020 were, upon the Department's adoption of GASB Statement No. 95, delayed for the Agency until the fiscal year ended June 30, 2022.

Statement 95, Postponement of the Effective Dates of Certain Authoritative Guidance, issued in May 2020. The Statement provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The effective dates of certain provisions in Statements that were scheduled to become effective for periods beginning after June 15, 2018, and later have been postponed by one year.

Statement 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32, which is intended to (1) increase consistency and comparability related to the reporting of fiduciary component units when a potential component unit does not have a governing board and the primary government performs those duties; (2) mitigate costs associated with reporting; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans. The topics within this Statement that were not effective for the Department's fiscal year ended June 30, 2020 are effective for the Department's fiscal year ended June 30, 2022.

(r) Future Adoption of GASB Statements

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

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 postemployment 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.

Statement No. 93, Replacement of Interbank Offered Rates, the primary provision of which is intended to address accounting and financial reporting implications that result from the replacement of an interbank offered rate as an appropriate benchmark interest rate.

Effective for the year ending June 30, 2022, 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.

Effective for the year ending June 30, 2023, the Department will adopt the following GASB statements:

Statement No. 91, Conduit Debt Obligations, which is intended to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

Statement No. 94, Public-Private and Public-Public Partnerships and Available Payment Arrangements, which is intended to improve financial reporting by addressing issues related to public-private and public-public partnerships (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs).

Statement No. 96, Subscription-Based Information Technology Arrangements, which is intended to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments).

The Department has not yet determined the impact of adopting these statements on its financial statements.

(3) Deposits and Investments

(a) Deposits

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in 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. Detail on the nature of these deposits and investments are available within the State of Illinois' Comprehensive Annual Financial Report.

Cash on deposit for locally held funds of fiduciary activities had carrying amounts and bank balances of $1.605 million and $1.308 million, respectively, at June 30, 2020. Balances in excess of FDIC depository insurance were covered by collateral held by the Department's agent in the Department's name.

(b) Investments

Section 2 of the Public Funds Investment Act limits the State's investments outside the State Treasury to securities of the U.S. government or its agencies, short-term obligations of domestic corporations exceeding $500 million in assets that are rated in the three highest categories by at least two nationally recognized statistical ratings organizations not to exceed ten percent of the domestic corporations outstanding obligations, money market mutual funds invested in the U.S. government and/or its agencies, and repurchase agreements securities of the U.S. government or its agencies or money market mutual funds invested in the U.S. government or its agencies. Investments of public funds in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act are also permitted.

As a governmental sponsored investment pool, The Illinois Funds is not eligible to register with the Securities and Exchange Commission ("SEC") and thus is not a registrant with the SEC; however, The Illinois Funds has adopted operating procedures consistent with those required of an SEC 2a-7 Fund (2a-7-like Fund). The Illinois Funds has a policy that it will, and does, operate in a manner consistent with SEC Rule 2a-7, which governs the operation of SEC regulated money market funds. While the Illinois Funds operates in accordance with SEC Rule 2a-7, for valuation purposes it complies with GASB Statement No. 79.

As of June 30, 2020, the Department had $2.410 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 Statement No. 79 qualified external investment pool that measures, for financial reporting purposes, all its investments are reported at amortized cost. The fair value of the pool position is the same as the value of pool shares. There are no limitations or restrictions on withdrawals from the pool.

Interest Rate Risk: The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: The Department does not have a formal investment policy that limits investment choices. The Illinois Funds were rated AAAm by Standard & Poor's.

(c) Reconciliation to Statement of Net Position and Statement of Fiduciary Net Position

The Statement of Net Position and the Statement of Fiduciary Net Position cash and cash equivalents account contains certain short-term investments (included as investments above) to reflect their liquidity. A reconciliation (amounts expressed in thousands) follows:

	Deposits	Investments
Governmental Activities		
Amount per note	$ -	$ 2,410
Cash equivalents	2,410	(2,410)
Amounts per Statement of Net Position	$ 2,410	$ -
Fiduciary Funds		
Cash on deposit	$ 1,308	$ -
Cash Due to Fund 0957	297	-
Amounts per Statement of Fiduciary Net Position	$ 1,605	$ -

(4) Accounts Receivable

(a) Taxes Receivable

Taxes receivable (amounts expressed in thousands) at June 30, 2020 are as follows:

	General Fund
Taxes receivable	$ 59,938
Less: allowance for uncollectible taxes	(2,225)
Taxes receivable, net	$ 57,713

(b) Other Receivables

Other receivables (amounts expressed in thousands) at June 30, 2020 are as follows:

	General Fund	Nonmajor Governmental Funds	Fiduciary Funds
Other receivables	$ 1,160,322	$ 670,247	$5,368,338
Less: allowance for uncollectible accounts	(315,893)	(660,722)	(5,163,175)
Other receivables, net	$ 844,429	$ 9,525	$ 205,163

(5) Notes Receivable

Notes Receivable at June 30, 2020, consisted of amounts owed to the Department for advances issued to long-term care providers and hospitals with a 0% interest rate charged. The balances consisted of the following (amounts expressed in thousands):

	General Fund
Notes Receivable Due Within One Year	$ 113,702
Notes Receivable Due After One Year	24,692
Total	$ 138,394

(6) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2020 represent amounts due from Department funds, other State funds, and other State fiduciary funds.

Fund	Due from: Other Department Funds	Due from: Other State Funds	Description/Purpose
General	$ 26	$ 182,697	Due from other State funds for subgrants received and for unapplied credits.
Nonmajor governmental funds	16,320	-	Due from other Department funds for subgrants received and for unapplied credits.
	$ 16,346	$ 182,697	

The following balances (amounts expressed in thousands) at June 30, 2020 represent amounts due to Department funds, other State funds, and other State fiduciary funds for purchases of services.

Fund	Due to: Other Department Funds	Due to: Other State Funds	Due to: Other State Fiduciary Funds
General	$ 16,320	$ 24,328	$ 765
Nonmajor governmental funds	26	8,555	1,663
	$ 16,346	$ 32,883	$ 2,428

(b) Transfers to/from Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2020 were as follows:

Fund	Transfers in from Other Department Funds	Description/Purpose
Nonmajor governmental funds	$ 28,320	Transfer from General Fund per State appropriation.
	$ 28,320	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2020 were as follows:

	Transfers out to		
Fund	**Other Department Funds**	**Other State Funds**	**Description/Purpose**
General	$ 28,320	$ 40,000	Transfers to Department nonmajor governmental funds and other State agencies' funds per State appropriation.
	$ 28,320	$ 40,000	

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

The following balances (amounts expressed in thousands) at June 30, 2020 represent amounts due from State of Illinois Component Units to the General Fund for intergovernmental agreement reimbursements.

	Due From
Component Unit	**General Funds**
Southern Illinois University	$ 962
University of Illinois	20,190
	$ 21,152

The following balances (amounts expressed in thousands) at June 30, 2020 represent amounts due to State of Illinois Component Units for medical reimbursements.

	Due To	
Component Unit	**General Funds**	**Nonmajor Governmental Funds**
Illinois State University	$ 2	$ -
Northern Illinois University	496	-
Southern Illinois University	9,557	19
University of Illinois	117,778	147
	$ 127,833	$ 166

(7) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2020 is as follows:

	Balance July 1, 2019	Additions	Deletions	Net Transfers	Balance June 30, 2020
Governmental Activities:					
Capital assets not being depreciated/amortized:					
Internally generated intangible assets in development	$ 15,076	$ 6,287	$ -	$ (7,613)	$ 13,750
Total capital assets not being depreciated/amortized:	15,076	6,287	-	(7,613)	13,750
Capital assets being depreciated:					
Equipment	5,007	202	63	-	5,146
Non-internally generated software	4,498	-	-	-	4,498
Less accumulated depreciation:					
Equipment	(3,412)	(603)	(63)	-	(3,952)
Non-internally generated software	(3,824)	(323)	-	-	(4,147)
Total capital assets being depreciated, net	2,269	(724)	-	-	1,545
Governmental activity capital assets, net	$ 17,345	$ 5,563	$ -	$ (7,613)	$ 15,295

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2020 was charged as follows:

Health and social services	$ 926

(8) Long-Term Obligations

Changes in Long-Term Obligations
Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2020 were as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Amounts Due Within One Year
Governmental Activities:					
Compensated absences	$ 8,791	$ 9,865	$ 8,552	$ 10,104	$ 1,061
Capital leases	211	150	146	215	143
Repayment to federal government for Disallowance Letters	121,054	-	121,054	-	-
Net OPEB liability	771,308	82,649	-	853,957	21,024
Net pension liability	1,047,761	10,160	-	1,057,921	-
Total Governmental Activities	$ 1,949,125	$ 102,824	$ 129,752	$ 1,922,197	$ 22,228

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 net OPEB liabilities will be liquidated through the General Revenue Fund, and the special revenue funds that report wages.

Capital Lease Obligations

The Department has acquired certain office equipment through capital lease arrangements. Future debt service requirements under capital leases (amounts expressed in thousands) at June 30, 2020 were as follows:

Year Ending June 30,	Principal	Interest	Total
2021	$ 143	$ 22	$ 165
2022	72	6	78
	$ 215	$ 28	$ 243

(9) Defined Benefit Pension Plan

Plan *description.* 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), which is a single-employer defined benefit pension trust fund in the State of Illinois reporting entity. SERS is governed by article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). The plan consists 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. The SERS issues a separate Comprehensive Annual Financial Report available at www.srs.illinois.gov or that may be obtained by writing to the SERS, 2101 South Veterans Parkway, PO Box 19255, Springfield, Illinois, 62794-9255.

Benefit provisions. 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 for regular employees and 80% for alternative formula employees. 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 Tier 1 and Tier 2 receive the following levels of benefits based on the respective age and years of service credits.

<table>
<tr><th>Regular Formula Tier 1</th><th>Regular Formula Tier 2</th></tr>
<tr><td>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 8 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</td><td>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</td></tr>
</table>

Regular Formula Tier 1	Regular Formula Tier 2
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.	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 2019 rate is $114,952. 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 non-covered 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 the System. Certain nonoccupational death benefits vest after 18 months of credited service. Occupational death benefits are provided from the date of employment.

Contributions. 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 lesser of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2020, this amount was $115,929.

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 2020, 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 2020, the employer contribution rate was 54.290%. The Department's contribution amount for fiscal year 2020 was $40.37 million. In addition, the Department recorded $31.323 million of revenue and expenditures in the General Revenue account of the General Fund to account for payments to SERS for Department employees that were paid from statewide General Revenue Fund appropriations.

Pension liability, deferred outflows of resources, deferred inflows of resources and expense related to pensions. At June 30, 2020, the Department reported a liability of $1,057,921 million 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, 2019 (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, 2019. As of the current year measurement date of June 30, 2019, the Department's proportion was 3.1680%, which was a decrease of 0.0015% from its proportion measured as of the prior year measurement date of June 30, 2018.

For the year ended June 30, 2020, the Department recognized pension expense of $54.597 million. At June 30, 2020, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2019, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 13,228
Changes of assumptions	60,810	15,272
Net difference between projected and actual investment earnings on pension plan investments	-	1,554
Changes in proportion	27,048	82,615
Department contributions subsequent to the measurement date	40,370	-
Total	$ 128,228	$ 112,669

$40.370 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 to the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

Year ending June 30,		
2021	$	(17,657)
2022		(31,587)
2023		(8,763)
2024		1,883
Thereafter		-
Total	**$**	**(56,124)**

Actuarial methods and assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.25%

Investment Rate of Return: 6.75%, net of pension plan investment expense, including inflation.

Projected salary increases: 2.75% - 7.17%, salary increase rates based on age related productivity and merit rates plus inflation.

Post-retirement benefit increases of 3.00%, compounded, for Tier 1 and the lesser of 3.00% or one-half of the annual increase in the Consumer Price Index for Tier 2.

Retirement Age: Experience-based table of rates specific to the type of eligibility condition. Table was last updated for the June 30, 2019 valuation pursuant to an experience study of the period July 1, 2015 – June 2018.

Mortality: Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018.

The actuarial assumptions used to calculate the total pension liability as of the current year measurement date are consistent with the actuarial assumptions used to calculate the total pension liability as of the prior year measurement date except for the following:

The rate of inflation decreased from 2.50% to 2.25%.

The investment rate of return decreased from 7.00% to 6.75%.

The projected salary increase range changed from 3.00% - 7.42% to 2.75% - 7.17%.

The retirement age experience study was updated to July 2015 – June 2018.

The mortality rate was updated from using the 105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added.

The long-term expected real rate of return on pension plan investments is 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, 2019, the best estimates of geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	23.0%	4.80%
Developed Foreign Equity	13.0%	4.60%
Emerging Market Equity	8.0%	6.90%
Private Equity	7.0%	6.80%
Intermediate Investment Grade Bonds	14.0%	0.70%
Long-term Government Bonds	4.0%	1.00%
TIPS	4.0%	0.80%
High Yield and Bank Loans	5.0%	2.70%
Opportunistic Debt	8.0%	4.20%
Emerging Market Debt	2.0%	2.70%
Real Estate	10.0%	4.40%
Infrastructure	2.0%	4.10%
Total	**100%**	

Discount rate. A discount rate of 6.47% was used to measure the total pension liability as of the measurement date of June 30, 2019 as compared to a discount rate of 6.81% used to measure the total pension liability as of the prior year measurement date. The June 30, 2019 single blended discount rate was based on the expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 3.13%, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made based on the statutorily required rates under Illinois law. 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 2073. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2073, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the net pension liability to changes in the discount rate. The net pension liability for the plan 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):

	1% Decrease 5.47%	Discount Rate 6.47%	1% Increase 7.47%
Department's proportionate share of the net pension liability	$ 1,279,430	$ 1,057,921	$ 875,801

Payables to the pension plan. At June 30, 2020, the Department reported a payable of $1.725 million to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

(10) Postemployment 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 General Assembly Retirement System (GARS), Judges Retirement System (JRS), State Employees' Retirement System of Illinois ("SERS"), Teachers' Retirement System (TRS), and State Universities Retirement System of Illinois ("SURS") are eligible for these other post-employment benefits (OPEB). The eligibility provisions for each of the retirement systems are defined within Note 8. 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.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (GARS, JRS, SERS, TRS and SURS). 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 retirement 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. 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.

For fiscal year 2020, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $11,681.04 ($6,703.92 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $14,959.44 ($5,592.24 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, 2020, was measured as of June 30, 2019, with an actuarial valuation as of June 30, 2018. At June 30, 2020, the Department recorded a liability of $853.957 million 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, 2019. As of the current year measurement date of June 30, 2019, the Department's proportion was 1.9456%, which was an increase of 0.0218% from its proportion measured as of the prior year measurement date of June 30, 2018.

The Department recognized OPEB expense for the year ended June 30, 2020, of $28.746 million. At June 30, 2020, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2019, from the following sources (amounts expressed in thousands):

Deferred outflows of resources	
Differences between expected and actual experience	$ 1,226
Changes of assumptions	29,689
Changes in proportion and differences between employer contributions and proportionate share of contributions	99,904
Department contributions subsequent to the measurement date	21,024
Total deferred outflows of resources	$ 151,843
Deferred inflows of resources	
Changes of assumptions	$ 13,027
Changes in proportion and	52,696
differences between employer contributions and proportionate share of contributions	94,704
Total deferred inflows of resources	$ 160,427

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 ending June 30, 2021. Other amounts 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,	
2021	$ (17,190)
2022	(17,190)
2023	(5,241)
2024	8,657
2025	1,356
Total	$ (29,609)

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 GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2018, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2018.

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.50%
Projected Salary Increases*	2.75% - 12.25%
Discount Rate	3.13%
Healthcare Cost Trend Rate:	
Medical (Pre-Medicare)	8.00% grading down 0.50% in the first year to 7.50%, then grading down 0.11% in the second year to 7.39%, followed by grading down of 0.50% per year over 5 years to 4.89% in year 7
Medical (Post-Medicare)	9.00% grading down 0.50% per year over 9 years to 4.50%
Dental and Vision	6.00% grading down 0.50% per year over 3 years to 4.50%
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 2019 and 2020 are based on actual premiums. Premiums after 2020 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.

Since the last measurement date on June 30, 2019, the State has not made any significant changes to the benefit terms affecting the measurement of the collective total OPEB liability. On December 20, 2019, the *Further Consolidated Appropriations Act, 2020* (Public Law 116-94) was signed into law repealing the federal excise taxes of 40% on total employer premium spending in excess of specified dollar amounts, also known as the "Cadillac Tax." The impact of this repeal to the State's financial statements, which could be significant, is not known at this time.

Additionally, the demographic assumptions used in the this OPEB valuation are identical to those used in the June 30, 2018 valuations for GARS, JRS, SERS, TRS, and SURS 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 2012 - June 2015	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 2014 - June 2017	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017
SURS	July 2014 - June 2017	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 w as completed for SERS for the 3-year period ending June 30, 2015. Changes w ere 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. Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. 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 3.62% at June 30, 2018, and 3.13% at June 30, 2019, 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 3.13%, 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 (4.13%) or lower (2.13%) than the current rate (amounts expressed in thousands):

	1% Decrease (2.13%)	Current Single Discount Rate Assumption (3.13%)	1% Increase (4.13%)
Department's proportionate share of total OPEB liability	1,005,759	853,957	732,530

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 in table expressed in thousands). The key trend rates are 8.00% in 2020 decreasing to an ultimate trend rate of 4.89% in 2027, for non-Medicare coverage, and 9.00% decreasing to an ultimate trend rate of 4.50% in 2029 for Medicare coverage.

	1% Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
Department's proportionate share of total OPEB liability	716,046	853,957	1,032,573

(11) Fund Deficits

The following fund had a deficit balance at June 30, 2020 (amounts expressed in thousands):

Major Governmental Funds:	Fund Deficit
General Fund	$ 389,801

The deficit is expected to be recovered from future years' State appropriations and federal funds.

(12) Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e., self-insured) for these risks except computer equipment insurance purchased by the Department.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claims liabilities are based upon the estimated ultimate cost of settling the claims including specific, incremental claim adjustment expenses, salvage, and subrogation and considering the effects of inflation and recent claim settlement trends including frequency and amount of payouts and other economic and social factors.

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, 2020.

(13) Commitments and Contingencies

(a) Operating Leases

The Department leases equipment, buildings and office space under terms of noncancelable operating lease agreements not extending past the end of the fiscal year, that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was $3.8 million for the year ended June 30, 2020.

(b) Litigation

A class action lawsuit existed at June 30, 2020. This is a class action consisting of "all Medicaid eligible children under the age of 21 who have been diagnosed with a mental health or behavior disorder; and for whom a licensed practitioner of the healing arts has recommended intensive home and community based services to correct or ameliorate their disorders". The Plaintiffs seek to require the provision of appropriate services and support to qualified persons in the community, including community-based services and residential treatment of children in Psychiatric Residential Treatment Facilities (PRTF's), under Early and Periodic Screening, Diagnostic and Treatment (EPSDT). This case has been resolved by a Consent Decree, entered January 16, 2018 and is in the early stages of implementation. An implementation plan was filed with the court on December 2, 2019. An estimate of the possible loss cannot be made.

A class action lawsuit existed at June 30, 2020 consisting of Medicaid-eligible children under the age of 21 who have been approved for in-home shift nursing services by the Department, but who are not receiving in-home shift nursing at the level approved. The class includes children participating in the Medically Fragile Technology Dependent Waiver (MFTD) program and children in the Nursing and Personal Care Services (NPCS) program. This suit sought to require the Department to take all steps necessary to ensure class members receive all nursing services for which they are approved. A consent decree was entered by the court on November 14, 2019. The consent decree commits the Department to raising agency-based shift nursing rates and taking other actions to address nurse staffing for class members. An estimate of the possible loss cannot be made.

A class action lawsuit existed at June 30, 2020. This is a class action consisting of "all individuals who on or after February 1, 2015, have applied to be determined eligible for long-term care Medicaid benefits from the State of Illinois, and have not received a final eligibility determination or notice of an opportunity for a hearing within 45 days of the date of application in non-disability cases or 90 days in disability cases." On March 29, 2018, the Court entered a Preliminary Injunction Order requiring the Defendants to (1) determine, on or before June 28, 2018, the eligibility of class members for long-term care benefits for which they have applied, (2) implement policies and processes to ensure Defendants prospectively comply with the Medicaid Act's deadlines for eligibility determinations, and (3) beginning June 28, 2018, pay the long-term care and other benefits to (or for the benefit of) class members while their applications remain pending beyond the Medicaid Act's deadlines for eligibility determinations. Relief in other similar individual federal lawsuits will be subsumed in this case. An interlocutory appeal has been filed but the preliminary injunction is not stayed pending appeal. The Department has estimated the outstanding costs at June 30, 2020 to be $33.4 Million.

A class action lawsuit existed at June 30, 2020. This is a class action consisting of a Plaintiff class seeking enforcement of a consent order that was entered in this class action in 1980. The order provides that Class members, whose Medicaid (without a cash grant) applications are pending at least 15 days over federally established time limits due to the State's delay, and who make a request pursuant to a notice sent by the State informing them that their application is beyond the federal time limits, are entitled to a temporary medical card providing coverage for the full range of Medicaid benefits (except long-term care benefits) during the remaining period during which their applications are pending. The class is alleging the Defendants (the Department of Healthcare and Family Services and the Department of Human Services) are not in compliance with the consent order. An estimate of the possible loss cannot be made.

A lawsuit existed at June 30, 2020. The plaintiff hospital is alleging the Department is in violation of federal law due to purported payment delays from Medicaid Managed Care Organizations (MCO's) to the hospital. The plaintiff's requested relief includes an injunction requiring the Department to make payments owed by MCO's and termination of the Medicaid MCO contracts. The plaintiff is seeking a preliminary injunction. The Department has moved to dismiss the case. An estimate of the possible loss cannot be made.

(c) Disproportionate Share Hospital Payments

In October 2004, the U.S. Department of Health and Human Services, Office of Inspector General (OIG) issued its reports, "Review of Illinois Medicaid Disproportionate Share Hospital Payments to the University of Illinois at Chicago Hospital" and "Review of Illinois Medicaid Disproportionate Share Hospital Payments to Mount Sinai Hospital of Chicago". The reports recommended that the State refund \$140.282 million and \$4.516 million respectively, in federal financial participation (FFP) to the federal government because of alleged overpayment to the hospitals of \$280.6 million and \$9.032 million above the hospital-specific limitation on Disproportionate Share Hospital (DSH) payments to the hospitals during State fiscal years 1997-2000. The U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (Federal CMS) concurred with the audit findings but stated "we interpret this recommendation as a prospective resolution and not a requirement to recoup any Federal payments associated with these findings". After approximately 12 years of no official action, in July 2016, the State received a formal disallowance from Federal CMS for these two audits. It is the State's position that it has followed Federal CMS published guidelines, and its methodology for calculating the hospital-specific limitation has been consistently been approved by Federal CMS. The Department subsequently sought reconsideration, which was denied, and appealed the disallowances to the U.S. Department of Health and Human Services' Departmental Appeals Board (DAB). On April 2, 2018, the DAB sustained both disallowances and the Department sought reconsideration of the decision on June 1, 2018. Subsequent to June 30, 2018, the DAB denied the Department's motions for reconsideration and the Department exercised its right to further appeal the disallowances in the United States District Court for the Northern District of Illinois. The state completed repayment in June 2019 to reduce potential interest costs. However, the State continues to strongly disagree with the OIG's findings. On September 25, 2020, the Court ruled in the Department's favor. The U.S. Department of Health and Human Services appealed the decision on November 24, 2020. The case was subsequently referred for mediation, which is ongoing.

(d) Backlog of Applications within the Integrated Eligibility System (IES)

The State implemented a new IES for the intake and processing of applications in order to determine eligibility for various health and human services programs in October 2013. 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, 2020, the Department, along with the Department of Human Services, had 33,605 unprocessed applications. A portion of these unprocessed applications seek Medicaid long-term care benefits. A preliminary order in a class-action lawsuit was issued on March 29, 2018 indicating the Department was to give provisional eligibility and ordered the Department to begin paying for those benefits beginning on June 28, 2018. The value of the estimated liability associated with the backlogged applications, including the applications for which provisional eligibility was granted as well as the remaining unprocessed applications, is assumed to be in the historic data used in the calculation of the Department's overall medical accrual liability estimate recorded in the financial statements as accounts payable.

(e) Noncompliance with Federal Regulations

During Fiscal Year 2018, the Department and the Department of Human Services implemented additional functionality within the automated eligibility system. Resulting from this transition, the State has experienced several significant issues, including problems with (1) the transfer of data files, (2) documentation of eligibility decisions, and (3) noncompliance with federal regulations requiring the timely determination and redetermination of eligibility for programs. Due to these problems, the U.S. Department of Health & Human Services, Centers for Medicare & Medicaid Services (Federal CMS) required the Department to finalize and submit a corrective action plan for approval. On August 30, 2019 the Department received notification from Federal CMS that it had approved Part 1 of the Corrective Action Plan. Approval of Part 2 of the Corrective Action Plan remains outstanding.

Federal CMS has indicated to the Department that, provided an acceptable corrective action plan is implemented by the State and the State adheres to the timeframes and milestones contained therein, no disallowances or withholding of FFP is anticipated; however, if Federal CMS determines the State either ultimately (1) does not submit an acceptable corrective action plan or (2) does not adhere to the requirements of the corrective action plan, Federal CMS may initiate formal compliance proceedings.

Federal CMS also conducted its Payment Error Rate Measurement (PERM) program to determine improper payment rates for Illinois and 16 other states for the Reporting Year 2019 (RY2019) for the Medicaid and the Children's Health Insurance Program (CHIP). On November 26, 2019, the Department was notified of its results of the RY2019 PERM. With respect to eligibility errors identified in the PERM, Federal CMS stated that no recoveries or disallowances would be required. However, Federal CMS also noted that had the Department not met the good faith effort requirement established by section 1903(u) of the Social Security Act (i.e., complying with the Medicaid Eligibility Quality Control and corrective action plan requirements outlined in 82 Federal Register 31158), the total extrapolated dollars would have been available for disallowance for the Medicaid and CHIP programs. The report reflected an improper payment rate estimate of 35.37%. The report further notes that improper payments do necessarily represent expenses that should not have occurred. An improper payment could have been determined due to missing information or compliance issues. If that information had been available or the compliance requirement was met, the claim may have been a payable. With respect to other errors identified in the report, the Department has been informed of federal recoveries of $133 thousand. As a result of the PERM findings, the Department submitted a corrective action plan to Federal CMS on February 24, 2020. PERM activities were suspended by CMS in March 2020 due to COVID. The State received notification from CMS on July 20, 2020 that PERM activities were restarted and they would begin their review of the Department's CAP. CMS returned the CAPs to the Department on February 26, 2021 and asked for their return within 30 days. The Department submitted a response to CMS questions on March 26, 2021. The Department's error rates will be measured again in RY2022.

(f) Communication of Denied Admission Reports

The State has experienced ongoing challenges in determining eligibility for long-term care services, primarily care provided in nursing homes. Each individual recipient must be (1) eligible for Medicaid and (2) functionally needing assistance performing certain activities of daily living, including bathing, dressing, and eating. As a part of this process, a long-term care admission report must be filed with the Department for the Department of Human Services to determine eligibility. From March 2016 until the implementation of Public Act 100-0665 by the Department and the Department of Human Services in October 2018, long-term care providers were not always notified the admissions report had been rejected. Given this condition, the Department has allowed the long-term care providers to resubmit admission reports that were rejected without notification being sent to the providers. The Department of Human Services is currently reviewing this information and will assure the adjudications were done correctly, notify the providers of any transactions that remain rejected, and allow providers the same recourse opportunities they would have had if notified timely. If the admission transaction gets approved, the Department will allow the provider to bill the State for unpaid claims. The Department estimates that seventy percent of the admission reports at issue had been reviewed as of June 30, 2020, and work was subsequently completed. The Department estimates that the liability related to admissions that were reviewed after June 30, 2020 was approximately $8.2 million. Approximately one-half of the liability amount will be eligible for federal financial participation.

(g) *Requested Return of Federal Financial Participation*

In December 2018, the Department received a total of four Demand Letters from the federal Centers for Medicare and Medicaid Services (CMS) for the return of federal financial participation (FFP) related to certain optical service/supply, inpatient psychiatric and Disproportionate Share Hospital (DSH) payments. The total dollar value of the FFP identified in those letters was approximately $121.5 million ($121.054 million in Disallowance Letters and $488 thousand without a Disallowance Letter). The Letters were related to services that go back as far as the year 2000 in some instances. The Demand Letters did not represent formal disallowances of the identified FFP. The Department notified CMS in writing that it did not plan to return the FFP and strongly disagreed with the assertions made within the Demand Letters. On September 27, 2019, CMS issued three Disallowance Letters related to the inpatient psychiatric and DSH payments.

While the Department is not in agreement with CMS' position, the amount of $121.054 million was repaid to the federal government through a claim offset during fiscal year 2020 pending the outcome of the case. A liability has not been accrued for the referenced $488 thousand, as a Disallowance Letter has not been issued. The Department appealed the three psychiatric hospital disallowances to HHS DAB on November 22, 2019. Per agreement of all parties, the three appeals were consolidated and stayed pending the results of two other similar disallowance cases under consideration by HHS DAB.

(h) Federal Grants

The Department receives other 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. At June 30, 2020, other than identified above, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Department believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

(14) 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 2020, 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 2020 on the amount of loans of available, 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. There were no losses during Fiscal Year 2020 resulting from a default of the borrowers or Deutsche Bank AG.

During Fiscal Year 2020, 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.

In accordance with GASB Statement No. 28, Accounting and Financial Reporting for Securities Lending Transactions, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2020 arising from securities lending agreements to the various funds of the State. The total allocated to the Agency at June 30, 2020 was $98.256 million.

(15) Coronavirus Pandemic Implication

In December 2019, a novel strain of coronavirus surfaced and spread around the world, resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The United States and the State of Illinois declared a state of emergency in March 2020. The June 30, 2020 financial statements reflect the known financial impact of the COVID-19 outbreak and related stay at home orders for fiscal year 2020. The Department anticipates continued impact to its financial position and continues to monitor and evaluate the situation. The extent to which the coronavirus may impact financial activity will depend on future developments, which are highly uncertain and cannot be predicted. New information continues to emerge concerning the severity of the coronavirus and the actions required to contain or treat it, potentially impacting operations and program management.

(16) Subsequent Events

(a) Integrated Eligibility System

In November 2020, a file handling error in the State of Illinois Integrated Eligibility System (IES) resulted in notifications being mailed to incorrect addresses. The notifications may have included personally identifiable information. The State has notified the impacted individuals. The full impact of this event continues to be evaluated but is unknown at this time.

(b) Unadjudicated Child Support Interest

In August 2019, Public Act 101-0336 was enacted to state, “The Department may provide, by rule, if, or how, the Department will enforce interest in cases in which IV-D services are being provided.” On October 14, 2020, the Administrative Code (89 Ill. Adm. Code 160.89) was amended to remove the Department’s enforcement of child support interest obligation collections for unadjudicated child support interest as of January 1, 2021. The amendment also allowed for a one-time opportunity for custodial parents to establish unadjudicated interest through the Department. As a result, the Department removed the child support interest receivables from its receivable reporting system as of December 31, 2020, and the interest will no longer be reported, subject to individual custodial parent requests.

The policy change was designed to remedy an inequity between low-income families served by the Department and families with private child support arrangements. Illinois was one of only 15 states that automatically charged interest on families served by the state. In contrast, families with private child support arrangements are only charged interest when adjudicated by a court. The Department reviewed the impact of its interest policy along racial and economic lines and determined that low-income families and families of color were disproportionately impacted by automatic interest charges. Research has shown that when an individual’s child support obligation exceeds their ability to pay, it leads to insurmountable debt and triggers disengagement rather than larger child support collections.

The Department estimates the amount of unadjudicated child support gross interest that was reported in the fiduciary and non-major funds within the 2020 financial statements and subsequently removed at December 31 was approximately $2,665 million, of which $2,656 million was deemed uncollectible, for a net receivable balance impact of $9 million.

(c) Provider File Directory Update

On February 27, 2021, the Department identified a website security breach resulting from inappropriate disclosure of private information. Each week, the Department uploads a provider file directory on the Department’s website to allow users to look up providers and ensure they are on file with the Department as referring, ordering, or prescribing practitioners. The Department determined the information uploaded to the Department’s website from January 14, 2021 through February 27, 2021 inadvertently included medical provider identifiers that included Personally Identifiable information (PII). The website was taken down on February 27, 2021, and the information was replaced with publicly available National Provider Identifiers (NPI). The Department is in the process of notifying the impacted providers. The full impact of this event continues to be evaluated but is unknown at this time.

Combining Schedule of Accounts - General Fund

June 30, 2020 (Expressed in Thousands)

	General Revenue 0001	U of I Hospital Services 0136	County Provider Trust 0329	Care Provider for Persons with DD 0344	Long-Term Care Provider 0345	Hospital Provider 0346	Special Education Medicaid Matching 0355	Trauma Center 0397	Public Aid Recoveries Trust 0421
ASSETS									
Unexpended appropriations	$ 55,923	$ -	$ -	$ 13	$ -	$ -	$ -	$ 1,734	$ -
Cash equity with State Treasurer	109	2,466	2,322	126	31,433	240,395	66	-	154,684
Cash and cash equivalents	2,410	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	489	5,002	-	6,971	46,840	-	-	-
Due from other government - federal	995,629	53,570	28,208	230	57,705	12,242	28,233	977	34,475
Due from other government - local	-	-	15,106	-	-	-	12	-	-
Taxes receivable, net	-	-	-	453	9,096	45,492	-	-	-
Other receivables, net	51,087	1	12	-	17	113	-	-	685,611
Notes receivables	-	-	-	-	-	-	-	-	-
Due from other Department funds	26	27,880	-	-	-	-	-	-	13,455
Due from other State funds	39	-	-	-	-	-	-	-	180,000
Due from State of Illinois component units	-	20,190	-	-	-	-	-	-	-
Total assets	$ 1,105,223	$ 104,596	$ 50,650	$ 822	$ 105,222	$ 345,082	$ 28,311	$ 2,711	$ 1,068,225
LIABILITIES									
Accounts payable and accrued liabilities	$ 1,487,017	$ -	$ 121	$ 8	$ 96,459	$ 7,354	$ 17	$ 1,602	$ 52,227
Due to other government - federal	188,640	-	9	1	2	-	-	-	66
Due to other government - local	30,920	-	45,415	-	1,743	138	28,294	132	1,716
Due to other Department funds	1,225,564	-	-	-	-	-	-	-	958,179
Due to other State funds	13,687	-	37	1	29	-	-	-	2,193
Due to other State fiduciary funds	-	-	66	4	18	-	-	-	676
Due to State of Illinois component units	15,428	95,715	-	-	-	-	-	-	4,812
Obligations under securities lending of State Treasurer	-	489	5,002	-	6,971	46,840	-	-	-
Total liabilities	2,961,256	96,204	50,650	14	105,222	54,332	28,311	1,734	1,019,869
DEFERRED INFLOWS OF RESOURCES									
Unavailable revenue - Federal operating grants	558,643	43,221	10,470	163	21,030	7,340	6,514	977	25,651
Unavailable revenue - License and fees	1,970	-	-	-	-	-	-	-	-
Unavailable revenue - Medical provider assessment tax	-	-	-	7	-	-	-	-	-
Unavailable revenue - Other taxes	-	-	-	-	-	-	-	-	-
Unavailable revenue - Other operating grants	-	20,190	3,974	-	-	-	-	-	-
Unavailable revenue - Other revenues	46	-	-	-	-	-	-	-	-
Unavailable revenue - Other charges for services	-	-	-	-	-	-	-	-	5,053
Total deferred inflows of resources	560,659	63,411	14,444	170	21,030	7,340	6,514	977	30,704
FUND BALANCES (DEFICITS)									
Committed for health and social services	-	-	-	638	-	-	-	-	17,652
Unassigned	(2,416,692)	(55,019)	(14,444)	-	(21,030)	283,410	(6,514)	-	-
Total fund balances (deficits)	(2,416,692)	(55,019)	(14,444)	638	(21,030)	283,410	(6,514)	-	17,652
Total liabilities, deferred inflows of resources, and fund balances (deficits)	$ 1,105,223	$ 104,596	$ 50,650	$ 822	$ 105,222	$ 345,082	$ 28,311	$ 2,711	$ 1,068,225

Combining Schedule of Accounts - General Fund

June 30, 2020 (Expressed in Thousands)

	Electronic Health Record Incentive 0503	Juvenile Rehab Services Medicaid Matching 0575	Medical Interagency Program 0720	Drug Rebate 0728	Medicaid Buy-in Program Revolving 0740	Healthcare Provider Relief 0793	Medical Special Purposes Trust 0808	Eliminations	Total
ASSETS									
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 57,670
Cash equity with State Treasurer	3	-	145	318	794	125,580	2,318	-	560,759
Cash and cash equivalents	-	-	-	-	-	-	-	-	2,410
Securities lending collateral equity with State Treasurer	-	-	244	11,862	246	24,968	-	-	96,622
Due from other government - federal	881	-	12,268	2,223	-	1,170,136	7,108	-	2,403,885
Due from other government - local	-	-	-	-	-	-	-	-	15,118
Taxes receivable, net	-	-	-	-	-	2,672	-	-	57,713
Other receivables, net	-	-	22	29	4	107,533	-	-	844,429
Notes receivables	-	-	-	-	-	138,394	-		138,394
Due from other Department funds	-	-	1,667	958,179	-	1,163,409	4,500	(2,169,090)	26
Due from other State funds	-	-	1,658	-	1,000	-	-	-	182,697
Due from State of Illinois component units	-	-	962	-	-	-	-	-	21,152
Total assets	$ 884	$ -	$ 16,966	$ 972,611	$ 2,044	$ 2,732,692	$ 13,926	$ (2,169,090)	$ 4,380,875
LIABILITIES									
Accounts payable and accrued liabilities	$ 841	$ -	$ 7,103	$ 3,921	$ 3	$ 755,771	$ 7,386	$ -	$ 2,419,830
Due to other government - federal	-	-	-	333,507	-	1	-	-	522,226
Due to other government - local	43	-	98	-	-	133,760	782	-	243,041
Due to other Department funds	-	-	-	-	-	1,667	-	(2,169,090)	16,320
Due to other State funds	-	-	-	-	1	8,352	28	-	24,328
Due to other State fiduciary funds	-	-	-	-	1	-	-	-	765
Due to State of Illinois component units	-	-	9,506	86	-	353	1,933	-	127,833
Obligations under securities lending of State Treasurer	-	-	244	11,862	246	24,968	-	-	96,622
Total liabilities	884	-	16,951	349,376	251	924,872	10,129	(2,169,090)	3,450,965
DEFERRED INFLOWS OF RESOURCES									
Unavailable revenue - Federal operating grants	-	-	11,611	-	-	566,447	6,966	-	1,259,033
Unavailable revenue - License and fees	-	-	-	-	-	-	-	-	1,970
Unavailable revenue - Medical provider assessment tax	-	-	-	-	-	-	-	-	7
Unavailable revenue - Other taxes	-	-	-	-	-	28,276	-	-	28,276
Unavailable revenue - Other operating grants	-	-	962	-	-	-	-	-	25,126
Unavailable revenue - Other revenues	-	-	-	-	-	200	-	-	246
Unavailable revenue - Other charges for services	-	-	-	-	-	-	-	-	5,053
Total deferred inflows of resources	-	-	12,573	-	-	594,923	6,966	-	1,319,711
FUND BALANCES (DEFICITS)									
Committed for health and social services	-	-	-	623,235	1,793	1,212,897	-	-	1,856,215
Unassigned	-	-	(12,558)	-	-	-	(3,169)	-	(2,246,016)
Total fund balances (deficits)	-	-	(12,558)	623,235	1,793	1,212,897	(3,169)	-	(389,801)
Total liabilities, deferred inflows of resources, and fund balances (deficits)	$ 884	$ -	$ 16,966	$ 972,611	$ 2,044	$ 2,732,692	$ 13,926	$ (2,169,090)	$ 4,380,875

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance - General Fund

For the Year Ended June 30, 2020
(Expressed in Thousands)

	General Revenue 0001	U of I Hospital Services 0136	County Provider Trust 0329	Care Provider for Persons with DD 0344	Long-Term Care Provider 0345	Hospital Provider 0346	Special Education Medicaid Matching 0355
REVENUES							
Operating grants - federal, net	$ 4,029,072	$ 122,983	$ 1,328,024	$ 19,574	$ 197,790	$ 2,035,642	$ 139,955
Other operating grants	243,700	35,390	776,075	-	-	-	-
Licenses and fees	29,827	-	-	-	-	-	-
Other charges for services, net	-	-	-	-	-	-	-
Interest and other investment income	-	95	584	-	330	3,534	-
Medical provider assessment tax	-	-	-	18,343	156,788	1,543,762	-
Other taxes, net	-	-	-	-	28,383	-	-
Other	1,486	-	-	-	-	-	-
Total revenues	4,304,085	158,468	2,104,683	37,917	383,291	3,582,938	139,955
EXPENDITURES							
Health and social services	6,517,689	157,690	2,022,974	211	394,319	3,218,283	146,469
Debt service principal	-	-	-	-	1	-	-
Debt service interest	-	-	-	-	-	-	-
Capital outlays	659	-	-	-	-	-	-
Total expenditures	6,518,348	157,690	2,022,974	211	394,320	3,218,283	146,469
Excess (deficiency) of revenues over (under) expenditures	(2,214,263)	778	81,709	37,706	(11,029)	364,655	(6,514)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	7,890,373	-	-	1,215	-	-	-
Lapsed appropriations	(2,144,839)	-	-	(1,005)	-	-	-
Receipts collected and transmitted to State Treasury	(3,538,691)	-	-	(38,340)	-	-	-
Amount of SAMS transfers-in	-	-	-	-	-	-	-
Amount of SAMS transfers-out	27,594	-	-	-	-	-	-
Transfers-in	-	47,879	-	-	30,000	-	-
Transfers-out	(830,033)	-	-	-	(20,000)	(375,000)	-
Capital lease financing	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	1,404,404	47,879	-	(38,130)	10,000	(375,000)	-
Net change in fund balances	(809,859)	48,657	81,709	(424)	(1,029)	(10,345)	(6,514)
Fund balances (deficits), July 1, 2019	(1,606,833)	(103,676)	(96,153)	1,062	(20,001)	293,755	-
FUND BALANCES (DEFICITS), JUNE 30, 2020	$ (2,416,692)	$ (55,019)	$ (14,444)	$ 638	$ (21,030)	$ 283,410	$ (6,514)

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance - General Fund

For the Year Ended June 30, 2020
(Expressed in Thousands)

	Trauma Center 0397	Public Aid Recoveries Trust 0421	Electronic Health Record Incentive 0503	Juvenile Rehab Services Medicaid Matching 0575	Medical Interagency Program 0720	Drug Rebate 0728	Medicaid Buy-in Program Revolving 0740
REVENUES							
Operating grants - federal, net	$ 2,535	$ 75,413	$ 7,247	$ 6	$ 12,146	$ 2,223	$ -
Other operating grants	-	-	-	-	1,997	-	-
Licenses and fees	-	-	-	-	-	-	351
Other charges for services, net	-	262,771	-	-	-	-	-
Interest and other investment income	-	-	-	-	7	931	22
Medical provider assessment tax	-	-	-	-	-	-	-
Other taxes, net	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total revenues	2,535	338,184	7,247	6	14,150	3,154	373
EXPENDITURES							
Health and social services	4,790	356,142	7,247	6	14,428	(184,314)	159
Debt service principal	-	26	-	-	-	-	-
Debt service interest	-	5	-	-	-	-	-
Capital outlays	-	4,466	-	-	-	-	-
Total expenditures	4,790	360,639	7,247	6	14,428	(184,314)	159
Excess (deficiency) of revenues over (under) expenditures	(2,255)	(22,455)	-	-	(278)	187,468	214
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	12,010	-	-	-	-	-	-
Lapsed appropriations	(5,227)	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	(4,251)	-	-	-	-	-	-
Amount of SAMS transfers-in	-	-	-	-	-	-	-
Amount of SAMS transfers-out	-	-	-	-	-	-	-
Transfers-in	-	4,980	-	-	-	-	-
Transfers-out	-	(16,448)	-	-	-	-	-
Capital lease financing	-	11	-	-	-	-	-
Net other sources (uses) of financial resources	2,532	(11,457)	-	-	-	-	-
Net change in fund balances	277	(33,912)	-	-	(278)	187,468	214
Fund balances (deficits), July 1, 2019	(277)	51,564	-	-	(12,280)	435,767	1,579
FUND BALANCES (DEFICITS), JUNE 30, 2020	$ -	$ 17,652	$ -	$ -	$ (12,558)	$ 623,235	$ 1,793

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance - General Fund

For the Year Ended June 30, 2020
(Expressed in Thousands)

	Healthcare Provider Relief 0793	Medical Special Purposes Trust 0808	Eliminations	Total
REVENUES				
Operating grants - federal, net	$ 6,256,218	$ 4,859	$ -	$ 14,233,687
Other operating grants	-	-	-	1,057,162
Licenses and fees	-	-	-	30,178
Other charges for services, net	-	-	(262,771)	-
Interest and other investment income	1,408	-	-	6,911
Medical provider assessment tax	1,237,552	-	-	2,956,445
Other taxes, net	301,115	-	-	329,498
Other	260,870	-	-	262,356
Total revenues	8,057,163	4,859	(262,771)	18,876,237
EXPENDITURES				
Health and social services	8,748,434	7,149	(262,771)	21,148,905
Debt service principal	70	-	-	97
Debt service interest	19	-	-	24
Capital outlays	185	1,024	-	6,334
Total expenditures	8,748,708	8,173	(262,771)	21,155,360
Excess (deficiency) of revenues over (under) expenditures	(691,545)	(3,314)	-	(2,279,123)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	-	-	-	7,903,598
Lapsed appropriations	-	-	-	(2,151,071)
Receipts collected and transmitted to State Treasury	-	-	-	(3,581,282)
Amount of SAMS transfers-in	-	-	-	-
Amount of SAMS transfers-out	-	-	-	27,594
Transfers-in	1,086,802	3,500	(1,173,161)	-
Transfers-out	-	-	1,173,161	(68,320)
Capital lease financing	36	-	-	47
Net other sources (uses) of financial resources	1,086,838	3,500	-	2,130,566
Net change in fund balances	395,293	186	-	(148,557)
Fund balances (deficits), July 1, 2019	817,604	(3,355)	-	(241,244)
FUND BALANCES (DEFICITS), JUNE 30, 2020	$ 1,212,897	$ (3,169)	$ -	$ (389,801)

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2020 (Expressed in Thousands)

	Special Revenue					
	Provider Inquiry Trust 0341	Money Follows the Person Budget Transfer 0522	Department of Corrections Reimbursement and Education 0523	Tobacco Settlement Recovery 0733	Child Support Administrative 0757	Total
ASSETS						
Unexpended appropriations	$ -	$ -	$ -	$ 33,164	$ -	$ 33,164
Cash equity with State Treasurer	211	5,266	-	-	32,007	37,484
Securities lending collateral equity with State Treasurer	-	1,634	-	-	-	1,634
Due from other government - federal	-	-	15	28,567	16,299	44,881
Other receivables, net	355	4	-	-	9,166	9,525
Due from other Department funds	-	-	-	-	16,320	16,320
Total assets	$ 566	$ 6,904	$ 15	$ 61,731	$ 73,792	$ 143,008
LIABILITIES						
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 47,945	$ 7,507	$ 55,452
Due to other government - federal	-	-	-	-	30,060	30,060
Due to other government - local	-	-	-	1,707	6,404	8,111
Due to other Department funds	-	-	-	-	26	26
Due to other State funds	76	-	-	10	8,469	8,555
Due to other State fiduciary funds	-	-	-	-	1,663	1,663
Due to State of Illinois component units	-	-	-	166	-	166
Obligations under securities lending of State Treasurer	-	1,634	-	-	-	1,634
Total liabilities	76	1,634	-	49,828	54,129	105,667
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - Federal operating grants	-	-	6	-	12,415	12,421
Unavailable revenue - License and fees	322	-	-	-	-	322
Total deferred inflows of resources	322	-	6	-	12,415	12,743
FUND BALANCES						
Committed for health and social services	168	5,270	9	11,903	7,248	24,598
Total fund balances	168	5,270	9	11,903	7,248	24,598
Total liabilities, deferred inflows of resources, and fund balances	$ 566	$ 6,904	$ 15	$ 61,731	$ 73,792	$ 143,008

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

For the Year Ended June 30, 2020 (Expressed in Thousands)

	Special Revenue					
	Provider Inquiry Trust 0341	**Money Follows the Person Budget Transfer 0522**	**Department of Corrections Reimbursement and Education 0523**	**Tobacco Settlement Recovery 0733**	**Child Support Administrative 0757**	**Total**
REVENUES						
Operating grants - federal, net	$ -	$ 86	$ 74	$ 87,996	$ 77,551	$ 165,707
License and fees	373	-	-	-	-	373
Other charges for services, net	-	-	-	-	41,012	41,012
Interest and other investment income	-	86	-	-	-	86
Total revenues	373	172	74	87,996	118,563	207,178
EXPENDITURES						
Health and social services	462	79	-	200,572	153,626	354,739
Debt service principal	-	-	-	-	50	50
Debt service interest	-	-	-	-	16	16
Capital outlays	-	-	-	-	155	155
Total expenditures	462	79	-	200,572	153,847	354,960
Excess (deficiency) of revenues over (under) expenditures	(89)	93	74	(112,576)	(35,284)	(147,782)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	200,610	-	200,610
Lapsed appropriations	-	-	-	(14,589)	-	(14,589)
Receipts collected and transmitted to State Treasury	-	-	(65)	(95,070)	-	(95,135)
Transfers-in	-	-	-	-	28,320	28,320
Transfers out	-	-	-	-	-	-
Capital lease financing	-	-	-	-	103	103
Net other sources (uses) of financial resources	-	-	(65)	90,951	28,423	119,309
Net change in fund balances	(89)	93	9	(21,625)	(6,861)	(28,473)
Fund balances, July 1, 2019	257	5,177	-	33,528	14,109	53,071
FUND BALANCES, JUNE 30, 2020	$ 168	$ 5,270	$ 9	$ 11,903	$ 7,248	$ 24,598

Combining Statement of Fiduciary Net Position - Agency Funds

June 30, 2020 (Expressed in Thousands)

	Child Support Enforcement Trust 0957	Child Support Enforcement Trust - SDU 2957	Total
ASSETS			
Cash equity with State Treasurer	$ 31,426	$ -	$ 31,426
Cash and cash equivalents	297	1,308	1,605
Other receivables, net	205,154	9	205,163
Total assets	$ 236,877	$ 1,317	$ 238,194
LIABILITIES			
Accounts payable and accrued liabilities	$ 31,212	$ 1,317	$ 32,529
Other liabilities	205,665	-	205,665
Total liabilities	$ 236,877	$ 1,317	$ 238,194

State of Illinois
Department of Healthcare and Family Services

Combining Statement of Changes in Assets and Liabilities - Agency Funds

For the Year Ended June 30, 2020 (Expressed in Thousands)

	Balance at July 1, 2019	Additions	Deletions	Balance at June 30, 2020
Child Support Enforcement Trust (0957)				
ASSETS				
Cash equity with State Treasurer	$ 13,344	$ 201,017	$ 182,935	$ 31,426
Cash and cash equivalents	304	71,879	71,886	297
Other receivables, net	195,525	210,646	201,017	205,154
Total assets	$ 209,173	$ 483,542	$ 455,838	$ 236,877
LIABILITIES				
Accounts payable and accrued liabilities	$ 14,489	$ 55,617	$ 38,894	$ 31,212
Other liabilities	194,684	213,802	202,821	205,665
Total liabilities	$ 209,173	$ 269,419	$ 241,715	$ 236,877
Child Support Enforcement Trust - SDU (2957)				
ASSETS				
Cash and cash equivalents	$ 6,458	$ 1,104,294	$ 1,109,444	$ 1,308
Other receivables, net	-	390,867	390,858	9
Total assets	$ 6,458	$ 1,495,161	$ 1,500,302	$ 1,317
LIABILITIES				
Accounts payable and accrued liabilities	$ 6,458	$ 1,104,303	$ 1,109,444	$ 1,317
Total liabilities	$ 6,458	$ 1,104,303	$ 1,109,444	$ 1,317
Total				
ASSETS				
Cash equity with State Treasurer	$ 13,344	$ 201,017	$ 182,935	$ 31,426
Cash and cash equivalents	6,762	1,176,173	1,181,330	1,605
Other receivables, net	195,525	601,513	591,875	205,163
Total assets	$ 215,631	$ 1,978,703	$ 1,956,140	$ 238,194
LIABILITIES				
Accounts payable and accrued liabilities	$ 20,947	$ 1,159,920	$ 1,148,338	$ 32,529
Other liabilities	194,684	213,802	202,821	205,665
Total liabilities	$ 215,631	$ 1,373,722	$ 1,351,159	$ 238,194

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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

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the 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 Healthcare and Family Services (Department), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and we have issued our report thereon dated June 10, 2021.

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 2020-001, 2020-002 and 2020-008.

Internal Control Over Financial Reporting

Management of the Department is responsible for establishing and maintaining effective internal controls over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the Department's 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 second paragraph of this section 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 2020-001 through 2020-011 to be material weaknesses.

State of Illinois, Department of Healthcare and Family Services Responses to the Findings

The Department's responses to the findings identified in our audit 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 Human Services' Responses to Findings

The State of Illinois, Department of Human Services' responses to items 2020-001 through 2020-008 are described in the accompanying Schedule of Findings. The State of Illinois, Department of Human 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.

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 2020-007 and 2020-008 are described in the accompanying Schedule of Findings. The State of Illinois, Department of Children 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

Decatur, Illinois
June 10, 2021

2020-001. **FINDING** (Inadequate controls over eligibility determinations and redeterminations)

The Department of Healthcare and Family Services (HFS) and the Department of Human Services (DHS) (collectively, the "Departments") lacked controls over eligibility determinations and redeterminations for Federal programs where such determination is documented using 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, redeterminations, Mid-Point Reports and maintenance items in order to determine eligibility and make payments for the State's human service programs.

In order to conclude if the determination of eligibility was proper, we selected a sample of 60 cases (30 new applications and 30 redeterminations) and tested whether the cases were properly certified (approved or denied) based on non-financial, financial and timeliness criteria. Our testing considered all the documentation contained within the case file, including the scanned documentation supporting caseworker overrides required prior to certification. In 13 of the 60 cases tested (21.7%), we noted 15 exceptions where either the case was not certified timely and/or the case file did not contain documentation supporting eligibility upon certification.

Specifically, we noted:

- For 2 cases (3.3%), the file did not include verification of residency;
- For 1 case (1.7%), the file did not include verification of citizenship;
- For 8 cases (13.3%), the file either did not include documentation to support the income calculation or the income was calculated improperly;
- For 3 cases (5.0%), the date verification documentation was received was either late or the date was not documented;
- For 2 cases (3.3%), the file did not contain an application or the application was incomplete; and
- For 5 cases (8.3%), the certification was not completed timely. For 1 SNAP case, the certification was 479 days late, and for 4 Medicaid cases, the certification was between 21 and 215 days late.

The Code of Federal Regulations (Code) (42 C.F.R. § 435.403), *Eligibility in the States, District of Columbia, the Norther Mariana Islands, and American Samoa*, requires recipients of Medicaid to provide documentary evidence of their citizenship, residency, SSNs, and income. Further, the Code (42 C.F.R. § 431.17), *Maintenance of Records*, requires the Departments to maintain records of each applicant and beneficiary, including records which support the determination of eligibility.

The Code (7 C.F.R. § 273.2), *Office Operations and Application Process*, requires the application or reapplication form (form) for individuals requesting SNAP be signed to establish a filing date and to determine DHS' deadline for acting on the form. DHS shall not certify a household without a signed form. The application process includes filing and completing an application form, being interviewed, and having certain information verified. States must meet application processing timelines. All SNAP applications, regardless of whether they are joint applications or separate applications, must be processed for SNAP purposes in accordance with SNAP procedural, timeliness, notice and fair hearing requirements. State agencies shall verify the following information prior to certification for households initially applying" gross nonexempt income, alien eligibility, utility expenses, medical expenses, social security numbers, residency, identity, and disability.

The Code (7 C.F.R. § 273.10), *Determining Household Eligibility and Benefit Levels*, requires the household's eligibility be determined for the month of application by considering the household's circumstances for the entire calendar month in which the household filed its application. Eligibility for recertification shall be determined based on circumstances anticipated for the certification period starting the month following the expiration of the current certification period.

The Code (7 C.F.R. § 273.14), *Recertification*, requires DHS to establish procedures for notifying SNAP households of expiration dates, providing application forms, scheduling interviews, and recertifying eligible households prior to the expiration of certification periods.

The Code (7 C.F.R. § 274.1 and §274.2), *Issuance System Approval Standards* and *Providing Benefits to Participants*, indicates DHS is responsible for the timely and accurate issuance of SNAP benefits to certified eligible households, and that all newly certified households (except those given expedited service) shall be given the opportunity to participate no later than 30 calendar days following the date the application was filed.

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 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 comply with federal statutes, regulations, and terms and conditions of the human services programs.

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 that resources are utilized efficiently, effectively, and in compliance with applicable laws.

Departments' management indicated contributing factors for the exceptions noted include worker errors in manual processes, the high volume of work, and the complexity of the programs involved.

<u>Conditions noted in the FY2019 audit that were impacted due to COVID-19</u>

In the previous fiscal year, we tested SNAP cases to determine whether the Mid-Point Report (MPR) was timely certified, where applicable. For the current audit period, the U.S. Department of Agriculture, Food and Nutrition Services (FNS) granted waiver approval, under the Families First Coronavirus Response Act of 2020, which allows DHS to extend approval periods an additional 6 months for SNAP households whose benefits were due to expire March 2020, April 2020, and May 2020. As such, DHS did not have a backlog of MPRs as of June 30, 2020. For the other nine months of FY 2020, we did not note any exceptions for MPRs in our SNAP sample that were due before the waiver period.

In order to understand the functions performed by the caseworkers more fully, during the FY 2019 audit we conducted on-site observations at three of DHS' local offices and noted various issues the caseworkers encountered in their utilization of IES while working with recipients. Due to safety measures related to COVID-19, we did not perform on-site observations during the FY 2020 audit.

Due to the impact of COVID-19 on the current audit, we were not able to determine if the Departments implemented sufficient corrective actions to address the MPR and Caseworker IES utilization issues noted in the FY 2019 audit. However, we do not believe any potential noncompliance related to the MPR reports, or Caseworker utilization issues, would have a material impact on the financial statements of DHS or HFS.

During the FY 2019 audit, we noted the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (Federal CMS) issued a report with findings, resulting from its Payment Error Rate Measurement (PERM) audit, in 2019. Although that report disclosed exceptions similar to those noted above from our testing, Federal CMS did not impose eligibility recoveries or disallowances based on its projected results. The next PERM audit to be conducted by Federal CMS will be for the 2022 reporting year.

Inadequate controls over eligibility determinations resulted in determinations of eligibility that were not 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. 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. 2020-001, 2019-001, 2018-005, 2017-008, 2016-001, 2015-002)

RECOMMENDATION

We recommend the Departments work together to:

- implement additional controls to ensure appropriate documentation of eligibility is obtained at the time of certification and retained in IES,
- complete certifications of applications and redeterminations timely, and
- correct IES application errors.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will work with the Department of Human Services to develop policy guidance to remind eligibility workers of verification requirements, update and distribute training materials to clearly communicate and reinforce verification requirements and correct the medical processing errors noted.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. Management staff will review current guidelines and quality checks for maintaining accurate and thorough case records as well as training resources on proper entry of income. To ensure case processing within required timeframes, statewide processing management will be utilized to review and assign outstanding requests coming due to certification. IDHS has worked to improve its processing timeliness by adding two statewide processing centers and increasing caseworker headcount and is in the process of adding a third statewide processing center.

2020-002. **FINDING** (Untimely processing of applications for benefits, redeterminations of eligibility for benefits, and eligibility change documentation)

The Department of Healthcare and Family Services (HFS) and the Department of Human Services (DHS) (collectively, the "Departments") did not maintain adequate internal control to ensure change documentation and applications for benefits and redeterminations of eligibility for benefits were reviewed and/or completed timely.

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, TANF, and Medical programs.

Change Documentation

The Code of Federal Regulations (Code) (42 C.F.R. § 435.916(d)(1)), *Periodic Renewal of Medicaid Eligibility*, requires the Departments to promptly redetermine eligibility upon receipt of information affecting eligibility.

When a recipient encounters a change in their situation, which may have an impact on eligibility, the recipient is to notify the Departments of such change. As of June 30, 2020, the Departments had a backlog of 70,466 cases in which information had been received; however, not reviewed. Because the information had not been reviewed, the Departments did not know the program(s) which might be impacted. As such, we were unable to determine the timeliness of processing the information.

Although the Departments showed significant improvement in the timeliness of processing applications and redeterminations compared to the backlog we noted in the prior year engagement, we noted the following for the current year:

Initial Applications

The Code (42 C.F.R. § 435.912(c)(3)), *Timely Determination of Eligibility,* requires the Departments to determine the eligibility of applicants for medical program benefits within 45 days of receipt of the application for benefits. Additionally, the Code (7 C.F.R. § 273.2(g)), *Office Operations and Application Processing*, requires DHS to determine the eligibility of applicants for SNAP benefits no later than 30 calendar days following the date the application was received. Furthermore, the Code (45 C.F.R. §206.10) requires DHS to determine the eligibility of applicants for TANF benefits within 45 days of receipt of the application.

At June 30, 2020, the Departments had a backlog of 20,511 medical applications, 4,208 SNAP applications, and 2,223 TANF applications, for which the determination of eligibility to receive benefits was not completed timely.

Additionally, there were 8,989 applications in which the applicant did not specify the program; therefore, we were unable to determine the timeliness of the application.

Redeterminations

The Code (42 C.F.R. § 435.916(a)(1) and 7 C.F.R. § 273.14), *Periodic Renewal of Medicaid Eligibility* and SNAP *Recertification*, requires the Departments to redetermine eligibility for SNAP, TANF, and medical programs every 12 months.

As of June 30, 2020, DHS had not timely redetermined the eligibility of 881 SNAP and/or TANF recipients to continue receiving benefits upon receipt of redetermination information from the recipient. In addition, DHS had received redetermination information from 1,145 SNAP and/or TANF recipients; however, due to a defect within IES, the date the information was received was not documented. Because the received date was missing, we were unable to determine the timeliness of these redeterminations.

On March 26, 2020, the President of the United States signed into law the Families First Coronavirus Response Act which allowed States to systematically update certification dates for individuals receiving medical services, in order to ensure services continued. As such, HFS did not have a backlog of medical redeterminations as of June 30, 2020.

Departments' management indicated the lack of staff contributed to the delays in completing the applications, redeterminations and other information within the required timeline.

Untimely determination of eligibility, redetermination of eligibility and processing of change documentation is a violation of the Code. Failure to make timely determinations of eligibility could result in hardships for the applicants. Furthermore, failure to timely redetermine eligibility for benefits could result in the Departments paying benefits to ineligible individuals as well as then receiving federal financial participation in connection with those ineligible benefits paid. (Finding Code No. 2020-002, 2019-003, 2018-006, 2017-006)

RECOMMENDATION

We recommend management of the Departments 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, we recommend the Departments establish appropriate controls to both monitor the progress of eligibility redeterminations and ensure those redeterminations occur timely along with any change documentation received.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will work with the Department of Human Services to maintain eligibility staffing levels to assure continued reductions in applications pending over 45 days and to be prepared to handle work associated with, once again, sending redeterminations forms after the public health emergency ends. If necessary, HFS will develop additional strategies based on Federal CMS guidance to the State regarding requirements for resuming full redetermination processing at the end of the public health emergency.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. To ensure case processing within required timeframes, statewide processing management will be utilized to review and assign outstanding requests coming due to certification. IDHS has worked to improve its processing timeliness by adding two statewide processing centers and increasing caseworker headcount and is in the process of adding a third statewide processing center.

2020-003. **FINDING** (Insufficient internal controls over changes to the Integrated Eligibility System (IES) and recipient data)

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

Management of the Departments have shared responsibility for various human service programs in the State and for internal controls over the manual and automated processes relating to eligibility for these programs. The Departments' IES is the automated system used by the Departments which intakes, processes (with the assistance of caseworkers), and approves recipient applications, maintenance items, and redeterminations in order to determine eligibility and make payments for the State's human service programs.

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

IES Application Changes Policies and Procedures
Based on our review of the April 20, 2020 IES Change Management Plan (Plan), we noted the Plan did not:

- Define the requirements for the prioritization or classification of changes,
- Define the numerical grading for determining impact,
- Define the detailed documentation requirements for test scripts and results, impact analysis, design documentation, or other required documentation, and
- Define when changes were required to include a specific requirement, who was to review the various steps and when and by whom approvals were required.

Testing of IES Application Changes
Due to the IES Change Management Plan limitations noted above, the scope of our audit procedures was limited to the Departments' testing and approval of IES changes, prior to placing them into production. We could not perform other change management controls, which would otherwise be typically tested, as they were not included in the Plan.

In our testing of IES application changes, we were unable to identify the approval of production data fix change for 1 of 40 (2.5%) changes tested.

The internal control requirements of the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) within the Code of Federal Regulations (Code) (2 C.F.R. § 200.303) requires the Departments to 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 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).

The Code (45 C.F.R. § 95.621(f)(1)), *ADP System Security Requirement*, requires the Departments to be responsible for the security of all automated data processing (ADP) projects under development, and operational systems involved in the administration of the U.S. Department of Health and Human Services programs. The Departments 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 National Institute of Standards and Technology (NIST), Special Publication 800-128, *Guide for Security-Focused Configuration Management of Information Systems*, states critical elements are to include:

- Developed and documented policies, plans, and procedures, and
- Properly authorized, tested, approved and tracking of all changes.

Furthermore, NIST, Special Publication 800-53, *Security and Privacy controls for Federal Information Systems and Organizations*, states policies and procedures should be in place detailing who can authorize modifications and how the authorizations are to be documented. Additionally, documentation of authorizations should be obtained prior to implementation.

The Departments' Change Management Policy and Procedure requires each change to IES have impact scores completed, Departments' approval of the requirements and design documents, Remedy ticket, release notes, and be approved by the IES Bureau Chief to move the change to the production environment.

The Departments' management indicated they believed the existing change management plan was sufficient. In addition, the Departments' indicated the weaknesses identified during detailed testing was due to human error.

Failure to establish and adhere to robust internal controls over changes to IES diminishes the Departments' ability to secure IES as well as the recipient data from unauthorized changes and accidental or intentional destruction or alteration. (Finding Code No. 2020-003, 2019-004, 2018-007, 2017-009)

<u>RECOMMENDATION</u>

We recommend management of both Departments work together to strengthen controls in the Change Management Policy and Procedure by including:

- Specific requirements for the prioritization or classification of changes,
- Definitions of the numerical grading for determining impact,
- Detailed documentation requirements for test scripts and results, impact analysis, design documentation, or other required documentation, and
- Definitions of when changes are required to include a specific requirement, who should review the various steps, and when, and by whom approvals are required.

We also recommend the Departments improve monitoring of established internal control to improve adherence to the control system by Department employees and consultants.

<u>DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE</u>

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will work with the Department of Human Services (DHS) to review its Change Management policy and procedure to assure it meets the auditor recommendations. In addition, HFS will work with DHS to review and modify, as needed, its documentation of the various steps and the responsible individuals, in the change approval process.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. IDHS will review its Change Management policy and procedure to assure it meets the auditor recommendations regarding prioritization of changes, impact (numeric grading) designation, test scripts and results, impact analysis, design and other documentation. IDHS will also review and modify, as needed, its documentation of the various steps and the responsible individuals, in the change approval process.

2020-004. **FINDING** (Inadequate access review procedures for 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 procedures over the user access review process for 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.

During our audit, we noted the following deficiencies in the user access review procedures performed by the Departments:

- Evidence of timely affirmative responses from the regional monitors, noting IES access has been corrected and validated, was not tracked or documented.
- Validation was not retained showing required cleanups of access reviews were completed, except for manually reviewing month to month reports which is not documented.
- There is insufficient evidence retained to conclude the access review included a review of entitlements.

Additionally, during our testing of the Departments' access provisioning policies, we noted the policies did not define the time period in which the Departments were required to disable a terminated individual's system access.

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

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)), *Security and Privacy Controls for Federal Information Systems and Organizations – Administrative Safeguards*, 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."

The Departments' management indicated the access review exceptions were due to a lack of formal policies addressing communication of the status of follow up actions taken. Management indicated they run a script every 90 days to identify the reasonableness of users, however they do not have a documented policy of how quickly terminated users should be removed.

The Departments' failure to maintain adequate internal control over the review of user access rights increases the risk IES may be accessed by individuals who are not authorized to view sensitive information. (Finding Code No. 2020-004)

RECOMMENDATION

We recommend management of the Departments enhance internal control over IES access by adopting a formal written policy or procedure requiring:

- Documented approval from regional monitors that access changes were made as directed. The policy/procedure should address the form in which such approval will be documented, the number of days in which approvals (or corrections) should be communicated by the regional monitors, and the individual or division responsible for maintaining the documentation.
- A regular review of access rights compared to access change requests, to ensure all requested changes have been made. The documentation of this review should indicate the individual performing the procedure and the date it was performed. It should also indicate any additional user access changes that were identified as a result of the review. The required frequency of this review (weekly, monthly, twice-yearly) should also be clear in the written policy or procedure.
- The written policy or procedure addressing the review of access rights should include a requirement to review entitlements granted.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. Late in Fiscal Year 2020 the Department of Human Services (DHS) published, on its OneNet, additional details regarding the review and termination of IES access by the Regional Systems Monitors. Furthermore, DHS will document procedures to include a return notification from the Systems Monitors of the corrective actions taken from the access review and follow-up verification that the access granted to the individual agrees to the access requested. HFS will amend its written policy and procedures to address the review of access rights to include a review of entitlements granted.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. Late in Fiscal Year 2020, IDHS published on its OneNet additional details regarding the review and termination of IES access by the Regional Systems Monitors. Furthermore, IDHS will document procedures to include return notification from the Systems Monitors of the corrective actions taken from the access review and followup verification that the access granted to the individual agrees to the access requested.

2020-005. **FINDING** (Inadequate disaster recovery controls over the Integrated Eligibility System (IES))

The Department of Healthcare and Family Services and the Department of Human Services (collectively, the "Departments") lacked the ability to perform a full disaster recovery, and lacked adequate disaster recovery 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.

The Departments did not have full disaster recovery functionality and consequently had not conducted disaster recovery testing over IES during the audit period.

In addition, the Department of Human Services' Disaster Recovery Plan (Plan) addresses the recovery and operation of IES. However, we noted the Plan did not include:

- Detailed recovery scripts,
- Detailed environment diagrams,
- IES support staff and vendor contact information,
- Responsibilities for recovery of IES,
- Documentation on the backup of IES, and
- Did not fully depict the current environment.

The Code of Federal Regulations (Code) (45 C.F.R. § 95.621(f)(2)(ii)(F), *ADP System Security Requirements and Review Process*, requires the Departments' automated data processing (ADP) security requirements to include contingency plans to meet critical processing needs in the event of short or long-term interruption of service.

The National Institute of Standards and Technology (NIST), Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, includes disaster recovery plans and the testing of disaster recovery plans as baseline security controls integral to ensuring appropriate security requirements and controls are applied to information systems.

The Departments' management indicated they had not yet addressed the disaster recovery (DR) plan and controls due to issues in the Phase 2 database migration that have impacted the start of the subsequent phases of the Tech Refresh. Management also indicated full DR functionality is not yet available in the current IES environments as it has outgrown the capacity of the legacy DR hardware. Further, management indicated the IES DR Plan cannot be accurately documented and a complete, end-to-end DR exercise cannot take place until a new DR environment at an Alternate Data Center is completed and tested.

The lack of an adequate DR Plan and the lack of functionality with which to perform full DR could result in the Departments' inability to recover IES data in the event of a disaster, which could be disastrous to recipients of benefits, the Departments, and the State. (Finding Code No. 2020-005, 2019-005)

RECOMMENDATION

We recommend the Departments work with the Department of Innovation and Technology (DoIT) to allocate sufficient resources in order to provide the ability to fully recover IES in the event of a disaster. Additionally, in the interim, we recommend the Departments work with DoIT to develop a prioritization plan and emergency operating procedures to allow IES to operate under reduced capacity in the event of a disaster.

We recommend management of the Departments enhance the Disaster Recovery Plan to include:

- Detailed recovery scripts,
- Detailed environment diagrams,
- IES support staff and vendor contact information,
- Responsibilities for recovery of IES,
- Documentation on the backup of IES, and
- The current environment for all areas.

Additionally, we recommend the Departments perform disaster recovery testing on a regular basis as defined in the Plan.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will work with the Department of Human Services (DHS) and DoIT to complete the Information System Contingency Plan and conduct a tabletop disaster recovery exercise for IES to identify gaps for the improvement of the documented emergency procedures. In addition, the Departments will work together to determine the requirements for obtaining resources to provide for the full recovery of IES. The Departments are currently working to complete the IES IT modernization Technical Refresh project, which includes a full build at the Alternate Data Center to facilitate IES disaster recovery capabilities and testing.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. IDHS will work with the Department of Innovation and Technology (DoIT) to complete the Information System Contingency Plan (ISCP) and conduct a tabletop disaster recovery exercise for IES to identify gaps for the improvement of the documented emergency procedures. IDHS will continue to work with DoIT to determine the requirements for obtaining resources to provide for the full recovery of IES. Additionally, the IDHS is currently working with DoIT to complete the IES IT modernization Technical Refresh project, which includes a full build at the Alternate Data Center to facilitate IES disaster recovery capabilities and testing.

2020-006. **FINDING** (Detailed agreement with the Department of Innovation and Technology (DoIT) not sufficient and inadequate interagency agreement for the IES)

The Department of Healthcare and Family Services (HFS) and the Department of Human Services (DHS) (collectively, the "Departments") entered into an interagency agreement (IA) with the Department of Innovation and Technology (DoIT) which did not define each agency's roles and responsibilities with respect to the Integrated Eligibility System (IES). Additionally, HFS and DHS entered into an IA which addressed IES access and data sharing, but the IA did not define each agency's roles and responsibilities with respect 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.

The Departments' IES application and data resides on DoIT's environment. In addition, DoIT's staff is responsible for coordinating and making changes to the IES application and data. Furthermore, DoIT's staff assists the Departments with user access security. However, during testing we noted the Departments had not entered into an IA with DoIT documenting roles and responsibilities for each function they perform on the Departments' behalf.

Additionally, as set by the State of Illinois' State Plan under Title XIX of the Social Security Act (State Plan) (Section 1.1), the State has designated agency responsibility for administering and supervising the administration of the Medicaid Program to HFS. However, Section 1.1 of the State Plan allows HFS to delegate specific functions to other State agencies to assist with the administration of the Medicaid Program, pursuant to a written IA defining each agency's roles and responsibilities. As such, DHS administers several human service programs under the Medicaid Program, including developmental disabilities support services, rehabilitation services, and substance abuse (prevention and recovery). During our audit, we noted the Departments did not have a sufficient IA to define the specific IES roles and responsibilities for each agency.

The internal control requirements of the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) within the Code of Federal Regulations (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 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 Unites States or the "Integrated Framework" issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO).

The National Institute of Standards and Technology (NIST), Special Publication 800-35, *Guide to Information Technology Security Services*, states as part of the life cycle in making IT security decisions to outsource services, the organization should document specific attributes of an acceptable service arrangement and levels of service.

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 funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over State's resources.

The Departments' management indicated they have been working together, along with DoIT, since the last audit was released to determine necessary updates to the current IA which has not yet been finalized due to staff's competing priorities with other job assignments.

The Departments' failure to execute the appropriate IAs increases the risk that IES functions will not be performed by each party in accordance with their assigned responsibility. (Finding Code No. 2020-006, 2019-006)

RECOMMENDATION

We recommend management of the Departments either expand its existing agreement or execute a new detailed agreement with DoIT, and expand on the existing agreement between the Departments to ensure IES roles and responsibilities, required to be performed by each party, are formally documented.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services accepts the recommendation and is working to execute adequate agreements.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. IDHS will work with the Department of Healthcare and Family Services (HFS) and the Department of Innovation and Technology (DoIT) to implement an Intergovernmental Agreement (IGA) in regards to the IES roles and responsibilities.

2020-007. **FINDING** (Inadequate general information technology controls over IMPACT)

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

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

An IGA was entered into in 2015 which formally established the Illinois-Michigan Program Alliance for Core Technology. Additionally, the parties agreed to pursue expansion of the Michigan MMIS environment to accommodate the processing of Illinois' Medicaid claims. The IGA required Michigan to extend its current system to utilize cloud architecture that would result in converged infrastructure, maximizing the effectiveness of shared resources, and allowing the shared services to be offered to HFS.

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

Specifically, the Report did not document:

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

As a result, we were unable to perform adequate procedures to satisfy ourselves that certain general IT controls (change management and user access controls (administrators and programmers)) to IMPACT were operating effectively 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 review over changes to IMPACT, data, or the infrastructure, we were unable to determine if changes made during the audit period were proper and approved.

Departments' management stated they believe the Security Assessment Report adequately assessed the internal controls over IMPACT, data and the infrastructure.

User Access Control

HFS implemented a formalized review process for IMPACT Provider Enrollment Access and Employee Status Report Review during the year ended June 30, 2020. The Department performed and documented the annual IMPACT Provider Enrollment Access Review in accordance with their formalized process. However, HFS did not timely perform the formalized Employee Status Report Review. Furthermore, the IMPACT Provider Enrollment Access Review did not include a requirement for DHS and DCFS to conduct periodic user access reviews.

During our testing, we obtained a population of all Departments' staff who had access to IMPACT, noting five of five (100%) terminated State staff continued to have access. The access rights were terminated 204 to 250 days after termination of employment.

According to Department management, IMPACT automatically locks accounts after 60 days of non-use. While we do not disagree, the accounts lock after 60 days of inactivity, during the 60 days individuals continue to have access. Further, the 60 day automatic lock is only for non-use. If the individual continues to utilize their account, it remains active.

Further, HFS' management stated the late removal of terminated employees' access to IMPACT was due to a lack of communication between supervisors and the security staff and the Employee Status Report was not always received by the security staff in a timely fashion.

The Code of Federal Regulations (Code) (42 C.F.R §95.621(f)(1)), *ADP System Security Requirement*, requires the Departments to be responsible for the security of all automated data processing (ADP) projects under development, and operational systems involved in the administration of the U.S. Department of Health & Human Services programs. The Departments 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 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).

The National Institute of Standards and Technology (NIST), *Security and Privacy Controls for Information Systems and Organizations'*, Access Control, Configuration Management, and System and Service Acquisition sections sanctions the development, implementation, and monitoring of internal controls over changes, access, and service providers.

HFS' Employee Status Report review procedure states "Twice a month the Identity Management Unit (IMU) receives an Employee Status Report from the HFS' Division of Personnel. This report lists changes in employee job assignments. The report is reviewed by the IMU to identify accounts that need to be disabled."

Without having obtained and reviewed a SOC report, the Departments do not have assurance the service provider's internal controls over IMPACT, data and the infrastructure are adequate to protect from unauthorized changes and accidental and intentional destruction or alteration. Furthermore, the untimely termination of access rights and periodic review of access leave the Departments exposed to risk of unauthorized access. (Finding Code No. 2020-007, 2019-010, 2018-002)

RECOMMENDATION

We recommend the Departments work with the service provider to obtain assurance the internal controls over IMPACT, data, and the infrastructure, including change control and user access, are adequate.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services accepts the recommendation.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. IDHS will work with HFS and the service provider to ensure controls over IMPACT data and the infrastructure are adequate.

DEPARTMENT OF CHILDREN AND FAMILY SERVICES' RESPONSE

DCFS's role in the IMPACT system is limited to one system user who has very limited access to the system in order to assist providers who work with DCFS youth in care with their enrollment into IMPACT and to identify that the provider has an association with DCFS within the system. DCFS will work with HFS and DHS to implement any controls that are established to maintain adequate general information technology controls over the operation of the IMPACT system.

2020-008. **FINDING** (Insufficient review and documentation of provider enrollment determinations and failure to execute interagency agreements)

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

In July 2015, HFS implemented IMPACT's Provider Enrollment module, which was designed by HFS to be the State of Illinois' official book of record for the enrollment of providers offering services for and on behalf of State of Illinois Medicaid recipients.

As set forth in 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 agencies to assist with the administration of the Medicaid Program, pursuant to a written IA defining each agency's roles and responsibilities.

DHS and DCFS provide Medicaid services which utilize 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.

Interagency Agreements

The auditors noted HFS did not enter into or have existing IAs with DHS defining each agency's roles and responsibilities as they related to IMPACT during fiscal year 2020.

Further, the auditors noted HFS did not enter into or have existing IAs with DCFS defining each agencies' roles and responsibilities as they related to IMPACT during fiscal years 2019 and 2020.

HFS management indicated the IAs were negotiated and drafted by June 30, 2020, however, they were unable to be fully reviewed by HFS' legal counsel for finalization due to conflicting priorities.

Detail Sample Testing of IMPACT Providers at HFS

During fiscal year 2020, 26,113 provider enrollment applications were approved in IMPACT. In order to determine if the providers' applications were approved in accordance with federal and State laws/rules/regulations, a sample of 60 approved applications were selected for testing. The testing results were as follows:

- Seventeen (28%) approved provider applications did not contain documentation to substantiate a review of the provider's required professional license or board certification to confirm the licenses/certifications were valid at the time the application was approved.

  The Code of Federal Regulations (Code) (42 C.F.R. § 455.412 (b)), *Verification of provider licenses*, requires HFS and the program's applicable State agency to confirm the provider's license has not expired and there were no current limitations on the provider's license/certification.

  HFS management stated the review was not documented due to employee oversight.

- One (2%) approved provider application included a request for the State to backdate their enrollment beginning date. However, the provider's file did not contain documentation of HFS' or the program's applicable State agency's reason for allowing an exception and thereby backdating the provider's enrollment. As a result, the auditors could not determine if the backdating of enrollment, and the subsequent payments were proper.

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

  HFS management stated the reasoning the backlog was not documented was due to employee oversight.

Detail Sample Testing of IMPACT Providers at DHS and DCFS

In addition to the detailed testing of IMPACT provider files conducted at HFS noted above, the Office of the Auditor General's Special Assistant Auditors for DHS and DCFS fiscal year 2020 engagements also performed procedures to determine if the providers' applications were approved in accordance with the applicable State agency's program specific requirements. For findings resulting from those procedures please refer to DHS' Financial Statement Audit Report for the year ended June 30, 2020 (Finding 2020-011) and DCFS' Financial Statement Audit Report for the year ended June 30, 2020 (Finding 2020-005).

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 HFS, DHS, and DCFS to: (1) establish and maintain effective internal control over the Medicaid Program to provide reasonable assurance the State of Illinois is managing the Medicaid Program in compliance with federal statutes, regulations, and the terms and conditions of the Federal award; 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 Organizations of the Treadway Commission (COSO).

Additionally, the Code (42 C.F.R. § 431.17), *Maintenance of Records*, requires HFS, DHS, and DCFS to maintain records necessary for the proper and efficient operations of the State's Medicaid Plan.

Further, the Fiscal Control and Internal Auditing Act (FCIAA) (30 ILCS 10/3001) requires HFS, DHS, and DCFS to establish and maintain a system, or systems, of internal fiscal and administrative controls to 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.

Inadequate internal controls over the operation of IMPACT, such as insufficient review and approval of provider enrollment information and required ongoing screenings, could result in providers being inaccurately deemed eligible and could therefore result in expenditures paid to providers who are ineligible. Noncompliance with federal laws and regulations could result in denied claims, sanctions and/or loss of future federal funding, and ultimately inaccurate financial statement or financial information. Further, failure to execute interagency agreements could expose the State to unnecessary and avoidable litigation. (Finding Code No. 2020-008, 2019-009, 2018-003)

RECOMMENDATION

We recommend HFS management work with DHS and DCFS to ensure all provider applications are properly reviewed, approved, and documented within IMPACT. In addition, we recommend HFS work with DHS and DCFS to execute detailed interagency agreements which document specific roles and responsibilities as they relate to IMPACT.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will work with the Department of Human Services (DHS) to ensure provider applications and documentation are thoroughly reviewed at the initial enrollment and at revalidations. An interagency agreement was drafted on April 1, 2020 and is in the process of being finalized. DHS management stated dedicated inboxes will also be implemented to ensure that provider issues received from HFS are expeditiously addressed. The IGA with DCFS is complete and awaiting signature.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. IDHS will work with the Department of Healthcare and Family Services (HFS) to ensure provider applications and documentation are thoroughly reviewed at the initial enrollment and at revalidations. An interagency agreement was drafted on April 1, 2020 and is in the process of being finalized. IDHS will also implement dedicated inboxes to ensure that provider issues received from HFS are expeditiously addressed.

DEPARTMENT OF CHILDREN AND FAMILY SERVICES' RESPONSE

DCFS partially agrees with the recommendation. DCFS will continue to work with HFS to execute an interagency agreement which documents the specific roles and responsibilities of DCFS as they relate to IMPACT. If those roles include review and approval of provider applications, DCFS will establish procedures to ensure they are documented within IMPACT.

2020-009. **FINDING** (Failure to review third-party service providers' internal controls)

The Department of Healthcare and Family Services (Department) did not obtain or conduct independent internal control reviews of its third-party service providers.

The Department utilized third-party service providers to provide:

- Software used in the data matching and verification, process management, and reporting of client's eligibility redeterminations.
- Administration and payment of claims for the enrollees of the State's Dental Program.
- An externally developed and hosted application which processed the Medicaid Incentive Payment Program (eMIPP) and provider credentialing certifications.
- The software and infrastructure for the Department's Pharmacy Benefits Management System.
- Management and operations of the State's Disbursement Unit for the collection and disbursement of payments under child support orders.
- IT hosting, software, and data entry services, as well as the establishment of rates and review of information related to the State's Managed Care Program.
- Infrastructure IT and IT related services for the State of Illinois' Integrated Eligibility System (IES) provided by the Department of Innovation and Technology (DoIT).

During testing of the 14 third-party service providers, we noted:

- The Department did not obtain System and Organization Control (SOC) reports or conduct independent internal control reviews for eight third-party service providers.
- The Department had outdated SOC reports and no bridge letter on file for three third-party service providers.
- The Department did not conduct an analysis of the Complementary User Entity Controls (CUEC's) documented in the SOC reports for six third-party service providers.

Alternative Audit Procedures Performed (DoIT):

The Statewide IES application and data reside on DoIT's environment. In this regard, DoIT is a third party service provider to the Department. The Department did not obtain a SOC 1 Type 2 report for these services performed by DoIT and the Department did not perform alternative procedures to obtain evidence that all services were provided in a sufficient manner.

The Department is responsible for the design, implementation, and maintenance of internal controls related to information systems and operations to ensure 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 process being outsourced to an external party or another State agency.

In order to determine if the environment is secure in which IES resides, we performed general IT controls testing over 30 IES servers housed at DoIT. As a result of our testing we noted:

- Twenty-two (73%) servers had operating systems which were unsupported,
- Twenty (67%) servers were running on out of date antivirus and antivirus definitions, and
- Two (7%) servers had no antivirus software installed.

Additionally, during the Department's internal security review completed as part of its Plan of Actions and Milestones (2020) report to the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (Federal CMS), the following significant threats were identified:

- Protected health information and personal identifiable information was exposed to shared service areas,
- Audit logs were not generated,
- Inadequate access provisioning,
- Inadequate server configurations, and
- Multifactor authentication was not enabled.

Failure to obtain or conduct independent internal control reviews of its third-party service providers was first noted during the compliance examination year ended June 30, 2015. The Department has yet to rectify the failure initially reported at that time.

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

Federal CMS', *MARS-E Document Suite* (minimum acceptable risk standards for exchanges), states that protecting and ensuring the confidentiality, integrity, and availability of state Marketplace information, common enrollment information, and associated information systems is the responsibility of the states.

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

a. Third-party service provider management's description of the service organization's system;

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

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

Additionally, the National Institute of Standards and Technology (NIST), Security and Privacy Controls for Information Systems and Organizations, System and Services Acquisition section, requires entities outsourcing their IT environment or operations to obtain assurance over the entities internal controls related to services provided. Such assurance may be obtained via System and Organization Control reports or independent reviews.

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 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, contract staff may not always be aware of requirements and contract language may not require the vendor to provide a SOC. Additionally, Department management indicated the IES Technical Refresh project has been delayed due to challenges in obtaining qualified staff needed to implement and sustain the project and issues in the Phase 2 database migration. In addition, some of DoIT Data Center staff time was applied to the support of frequent, multiple system releases in response to COVID-19.

Without having obtained and reviewed a SOC report or another form of independent internal control review, the Department does not have assurance the third-party service provider's internal controls are adequate to ensure program payments and claims are accurate and secure. Additionally, the Departments' failure to monitor the services provided by DoIT could result in client data for programs administered by the Department being housed in an environment that exposes it to significant risks. (Finding Code No. 2020-009, 2019-011, 2018-014, 2017-011, 2016-003, 2015-004)

RECOMMENDATION

We recommend the Department:

- Obtain SOC reports or perform independent reviews of internal controls associated with outsourced systems at least annually.
- Monitor and document the operation of the CUECs relevant to the Department's operations.
- Document its review of the SOC reports and review all significant issues with subservice organizations to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the Department, and any compensating controls.
- An independent review should also be performed to determine the adequacy of general IT controls over IES that are to be performed by DoIT.

DEPARTMENT RESPONSE

The Department of Healthcare and Family Services accepts the recommendation.

2020-010. **FINDING** (C-97 reporting miscalculations)

The Department of Healthcare and Family Services (Department), incorrectly reported the amount of accounts receivable estimated to be uncollectible on the Office of Comptroller's Quarterly Summary of Accounts Receivable (C-97) reports and did not accurately allocate accounts receivable and related uncollectible balances between funds.

During our testing, we noted the Department made errors in its manual calculations which resulted in the understatement of estimated uncollectible accounts on the June 30, 2020, C-97 reports as detailed below.

C-97 Uncollectible Receivable Errors – expressed in thousands		
Fund	Major Revenue Source	Amount Understated
0957	Not in Protest 440 - TANF	$1,963
0957	Not In Protest 448 - TANF	140
0957	In Protest 440 - TANF	7
	Total	$2,110

We also noted in our testing the Department used an incorrect percentage in its calculation to allocate the Temporary Assistance for Needy Families program (TANF) receivable and uncollectible amounts between the Child Support Administration Fund (Fund 0757) and the Child Support Enforcement Fund (Fund 0957). After we made the Department aware of the errors that resulted therefrom, the Department made an adjustment to correct the financial statements as follows.

Financial Statement Adjustment – Increase/(Decrease) – expressed in thousands			
Fund	Gross Receivable	Uncollectible	Net Receivable
0757	$4,624	$17,730	$(13,106)
0957	$(4,640)	$(15,637)	$10,997

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

Department management stated this error was caused by a combination of staff turnover and human error during the calculation process.

Failure to ensure financial transactions are reported properly in accordance with generally accepted accounting principles (GAAP) could result in material errors within the Department's financial statements, negatively impact the information compiled within the State's financial statements, and represents noncompliance with State law. (Finding Code No. 2020-010)

RECOMMENDATION

We recommend the Department improve controls over reporting uncollectible amounts on its C-97 reports and its allocation of TANF receivables and estimated uncollectible receivables.

DEPARTMENT RESPONSE

The Department of Healthcare and Family Services accepts the recommendation.

2020-011. **FINDING** (Inadequate internal controls over census data)

The Department of Healthcare and Family Services' (Department) did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate, and lacked adequate internal control over reporting its census data.

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or OPEB plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuation (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current accumulation period is split among the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the Department's employees are members of both the State Employees' Retirement System of Illinois (SERS) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple-employer plans.

During testing, we noted the following:

1) The Department had not performed an initial complete reconciliation of its census data recorded by SERS and CMS to its internal records to establish a base year of complete and accurate census data.

2) After establishing a base year, the Department had not developed a process to annually obtain from SERS and CMS the incremental changes recorded by SERS and CMS in their census data records and reconcile these changes back to the Department's internal supporting records.

3) Two of 120 (2%) employees tested had type code change events within their records at CMS, such as changes from leave of absence codes, coverage opt outs, and changes in life insurance coverage, which lacked support within the Department's records. We considered the impact of these discrepancies and determined they did not materially impact the Department's financial statements.

For employers where their employees participate in plans with multiple-employer and cost-sharing features, the American Institute of Certified Public Accountants' *Audit and Accounting Guide: State and Local Governments* (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate against the risk of a plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Further, the State Records Act (5 ILCS 160/8) requires the Department make and preserve records containing adequate and proper documentation of its essential transactions to protect the legal and financial rights of the State and of persons directly affected by the Department's activities.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

Department management indicated the errors noted above were due to oversight and Department personnel were unaware of the requirement to perform a reconciliation.

Failure to ensure census data reported to CMS was complete and accurate could have resulted in a material misstatement of the Department's financial statements, could have resulted in employee dissatisfaction with State-provided benefits, and reduced the overall accuracy of CMS-related OPEB liabilities, deferred inflows and outflows of resources, and expense recorded by State and its agencies. In addition, failure to reconcile active members' census data reported to and held by SERS and CMS to Department's records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the Department's pension and OPEB balances, which may result in a misstatement of these amounts. (Finding Code No. 2020-011)

RECOMMENDATION

We recommend the Department implement controls to ensure reportable events are timely and accurately transmitted to CMS.

Further, we recommend the Department work with SERS and CMS to develop an annual reconciliation process of its active members' census data from its underlying records to a report from each plan of census data submitted to the plan's actuary. After completing an initial full reconciliation, the Department may limit the annual reconciliations to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods.

DEPARTMENT RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS is confident the risk of reportable events not being timely and accurately reported to CMS is minimal, as HFS' current daily/weekly processes allows for the reconciliation of each individual transaction when they occur. The specific transactions noted as exceptions in this finding were considered correctional documentation, for which the Department believed the documentation would be maintained at CMS. However, HFS management will be collaborating with CMS and SERS to develop an annual reconciliation process for active members' census data. The implementation of this reconciliation process should negate further exceptions like these in the future.

SCHEDULE OF FINDINGS – PRIOR FINDINGS NOT REPEATED

For the Year Ended June 30, 2020

A. **FINDING** (Lack of security controls over the Integrated Eligibility System (IES))

During the previous engagement, 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). The Departments were unable to provide a complete population of servers in which IES resides, and 70% of servers were running operating systems no longer supported by the vendor. In addition, 18% of servers were not being backed up. Finally, the Departments access provisioning policies did not sufficiently address policies over the termination of user access rights.

During the current engagement, we were provided a complete population of servers and we did not note any instances of servers not being backed up. However, we noted continuing issues with unsupported operating systems, and lack of policies over the termination of user access rights. For further details, see Finding No. 2020-004 and 2020-009. (Finding Code No. 2019-002, 2018-008, 2017-010)

B. **FINDING** (Financial statement preparation weaknesses)

During the previous engagement, the Department of Healthcare and Family Service' (Department) internal controls were not sufficient to ensure its annual financial statements were updated for known changes affecting account balances for the year ended June 30, 2019. Specifically, after the Department initially drafted its financial statements but before the financial statements were issued, it failed to correct its liability calculation for final capitation rates received resulting in an overstatement of liabilities totaling $70.2 million. The Department corrected its financial statements after the auditors made it aware of the misstatement.

During the current engagement, we noted no similar instances in which the Department did not appropriately update its financial statements for significant changes that became known prior to the issuance of the statements. As a result, this finding is not repeated. (Finding Code No. 2019-007, 2018-009, 2017-003, 2016-004)

C. **FINDING** (Incorrect claim payments)

During the prior engagement, the Department made incorrect payments to Managed Care Organizations (MCOs). Specifically, in our testing we identified 426,029 claims paid in error, resulting in an underpayment totaling $1,678,019.

During the current engagement, the results of the samples we tested indicated the Department improved its internal controls regarding claim payments as we only identified immaterial errors in the Department's payments to MCOs. As a result, this finding is not repeated. (Finding Code No. 2019-008, 2018-013, 2017-005)