SIKICH

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

FINANCIAL AUDIT

For the Year Ended June 30, 2019

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, 2019

TABLE OF CONTENTS

	Page
Agency Officials	1-2
Financial Statement Report	
Summary	3-4
Independent Auditor's Report	5-7
Basic Financial Statements	
Statement of Net Position and Governmental Funds Balance Sheet	8
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position	9
Statement of Activities and Governmental Revenues, Expenditures, and Changes in Fund Balances	10
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Statement of Activities	11
Statement of Fiduciary Net Position	12
Notes to Financial Statements	13-41
Supplementary Information	
Combining Schedule of Accounts – General Fund	42-43
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance – General Fund	44-45
Combining Balance Sheet – Nonmajor Governmental Funds	46
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	47
Combining Statement of Fiduciary Net Position – Agency Funds	48
Combining Statement of Changes in Assets and Liabilities – Agency Funds	49
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*	50-51
Schedule of Findings	
Current Findings	52-81
Prior Findings Not Repeated	82-83

Other Reports Issued Under a Separate Cover

The Department of Healthcare and Family Services' *Compliance Examination* for the two years ended June 30, 2019, has been issued under a separate cover.

AGENCY OFFICIALS

Director	Teresa Hursey, Interim (through 7/10/2018) Patricia Bellock (7/11/2018 to 1/18/2019) Vacant (1/19/2019 to 1/20/2019) Theresa Eagleson (1/21/2019 to current)
Assistant Director	Vacant
Chief of Staff	Shawn McGady (through 7/15/2018) Vacant (7/16/2018 to 5/19/2019) Benjamin Winick (5/20/2019 to current)
Deputy Directors	
Community Outreach	Kimberly McCullough-Starks
Administrative Operations	Vacant (through 7/15/2018) Shawn McGady (7/16/2018 to 2/28/2019) Vacant (3/1/2019 to current)
Human Resources	Vacant
Strategic Planning	Vacant (through 6/16/2019) Robert (Andy) Allison (6/17/2019 to current)
New Initiatives	Jane Longo
General Counsel	Christopher Gange, Acting (through 10/31/2019) Steffanie Garrett (11/1/2019 to current)
Inspector General	Bradley Hart (through 11/18/2019) Vacant (11/19/2019 to current)
Administrators	
Division of Child Support Services	Mary Bartolomucci
Division of Finance	Michael Casey
Division of Medical Programs	Teresa Hursey, Acting (through 12/31/2018) Vacant (1/1/2019 to 2/18/2019) Douglas Elwell (2/19/2019 to 2/14/2020) Kelly Jacob, Acting (2/16/2020 to current)
Division of Personnel and Administrative Services	Terri Shawgo (through 10/31/2018) Vacant (11/1/2018 to current)

Chiefs	
Office of Legislative Affairs	Vacant (through 2/28/2019) Shawn McGady (3/1/2019 to current)
Office of Fiscal Management	Jack Dodds (through 7/31/2018) Vacant (8/1/2018 to 4/15/2019) Gary Casper (4/16/2019 to current)
Office of Information Services	Graham Osmonson

Department administrative offices are located at:

201 South Grand Avenue East
Springfield, IL 62763

2200 Churchill Road
Springfield, IL 62702

401 South Clinton Street
Chicago, IL 60607

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 and significant deficiencies. Further, the auditors identified eight noncompliance matters.

Item No.	Page	Last Reported	Description	Finding Type
			CURRENT FINDINGS	
2019-001	52	2018	Inadequate controls over eligibility determinations, redeterminations and mid-point reporting requirements	Material Weakness and Noncompliance
2019-002	56	2018	Lack of security controls over the Integrated Eligibility System (IES)	Material Weakness and Noncompliance
2019-003	59	2018	Untimely processing of applications for benefits and redeterminations of eligibility for benefits	Material Weakness and Noncompliance
2019-004	62	2018	Insufficient internal controls over changes to the Integrated Eligibility System (IES) and recipient data	Material Weakness and Noncompliance
2019-005	65	New	Inadequate disaster recovery controls over the Integrated Eligibility System (IES)	Significant Deficiency
2019-006	67	New	Lack of detailed agreement with the Department of Innovation and Technology (DoIT)	Material Weakness and Noncompliance
2019-007	69	2018	Financial statement preparation weaknesses	Material Weakness
2019-008	71	2018	Incorrect claim payments	Significant Deficiency

Item No.	Page	Last Reported	Description	Finding Type
2019-009	73	2018	Insufficient review and documentation of provider enrollment determinations and failure to execute interagency agreements	Material Weakness and Noncompliance
2019-010	77	2018	Inadequate general information technology controls over IMPACT	Material Weakness and Noncompliance
2019-011	80	2018	Failure to review external service providers' internal controls	Material Weakness and Noncompliance

PRIOR FINDINGS NOT REPEATED

A	82	2018	Failure to perform essential project management functions over the Integrated Eligibility System
B	82	2018	Deletion of four months intake eligibility files and significant problems determining eligibility for Human Services programs
C	82	2018	Inadequate controls over fiscally monitoring Managed Care Organizations
D	82	2018	Duplicate payments to Medicaid Managed Care Organizations
E	83	2018	Inaccurate rates used to pay Managed Care Organizations
F	83	2018	Inadequate and untimely disclosures
G	83	2018	Statewide failure to execute interagency agreements and perform essential project management functions over provider enrollment in the Medicaid program

EXIT CONFERENCE

The Department waived an exit conference in correspondence from Theresa Eagleson, Director, on April 2, 2020. The responses to the recommendations were provided by Theresa Eagleson, Director, on April 2, 2020.

The Department of Human Services' responses to Findings 2019-001, 2019-002, 2019-003, 2019-004, 2019-005, 2019-006, 2019-009, and 2019-010 were provided by Amy DeWeese, Chief Internal Auditor, in correspondence dated April 9, 2020.

SIKICH®
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS
Members of American Institute of Certified Public Accountants
132 South Water Street., Suite 300
Decatur, IL 62723
217.423.6000
SIKICH.COM

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, 2019, 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 for the Department, as of June 30, 2019, 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, 2019, 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 12 to the financial statements, the Department has experienced significant issues and noncompliance in its administration of human services programs, including a significant backlog in the processing of new applications for benefits and annual redeterminations of benefits.

As discussed in Note 14 to the financial statements, the Department's financial statements have been restated, as of July 1, 2018, to correct prior year misstatements.

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, 2019, 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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 April 9, 2020, 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
April 9, 2020

Statement of Net Position and Governmental Funds Balance Sheet

June 30, 2019 (Expressed in Thousands)

	General Fund	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Position
ASSETS					
Unexpended appropriations	$ 1,023,111	$ 68,453	$ 1,091,564	$ -	$ 1,091,564
Cash equity with State Treasurer	774,356	21,123	795,479	-	795,479
Cash and cash equivalents	3,091	-	3,091	-	3,091
Securities lending collateral equity with State Treasurer	154,037	1,412	155,449	-	155,449
Due from other government - federal	1,736,382	51,447	1,787,829	-	1,787,829
Due from other government - local	60,948	-	60,948	-	60,948
Taxes receivable, net	42,529	-	42,529	-	42,529
Other receivables, net	517,591	8,508	526,099	-	526,099
Due from other Department funds	-	21,000	21,000	(21,000)	-
Due from other State funds	181,726	-	181,726	-	181,726
Due from State of Illinois component units	44,196	7	44,203	-	44,203
Prepaid expenses	-	-	-	367	367
Capital assets not being depreciated	-	-	-	15,076	15,076
Capital assets being depreciated, net	-	-	-	2,269	2,269
Total assets	4,537,967	171,950	4,709,917	(3,288)	4,706,629
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources - SERS pensions	-	-	-	134,786	134,786
Deferred outflows of resources - OPEB	-	-	-	114,080	114,080
Total deferred outflows of resources	-	-	-	248,866	248,866
Total assets and deferred outflows of resources	$ 4,537,967	$ 171,950	$ 4,709,917	245,578	4,955,495
LIABILITIES					
Accounts payable and accrued liabilities	$ 2,663,222	$ 79,208	$ 2,742,430	-	2,742,430
Due to other government - federal	392,301	9,587	401,888	-	401,888
Due to other government - local	244,648	7,941	252,589	-	252,589
Due to other Department funds	21,000	-	21,000	(21,000)	-
Due to other State funds	22,629	6,005	28,634	-	28,634
Due to other State fiduciary funds	1,141	2,636	3,777	-	3,777
Due to State of Illinois component units	163,086	346	163,432	-	163,432
Obligations under securities lending of State Treasurer	154,037	1,412	155,449	-	155,449
Long-term obligations:					
Due within one year	-	-	-	8,448	8,448
Due subsequent to one year	-	-	-	129,031	129,031
Net pension liability - SERS	-	-	-	1,047,761	1,047,761
Net OPEB liability	-	-	-	763,885	763,885
Total liabilities	3,662,064	107,135	3,769,199	1,928,125	5,697,324
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - Federal operating grants	982,589	11,467	994,056	(994,056)	-
Unavailable revenue - License and fees	7,495	277	7,772	(7,772)	-
Unavailable revenue - Medical provider assessment tax	25,787	-	25,787	(25,787)	-
Unavailable revenue - Other operating grants	95,081	-	95,081	(95,081)	-
Unavailable revenue - Other charges for services	6,195	-	6,195	(6,195)	-
Deferred inflows of resources - SERS pensions	-	-	-	142,604	142,604
Deferred inflows of resources - OPEB	-	-	-	190,014	190,014
Total deferred inflows of resources	1,117,147	11,744	1,128,891	(796,273)	332,618
Total liabilities and deferred inflows of resources	4,779,211	118,879	4,898,090	1,131,852	6,029,942
FUND BALANCES (DEFICITS)/NET POSITION					
Fund balances (deficits):					
Committed for health and social services	1,307,576	53,071	1,360,647	(1,360,647)	-
Unassigned	(1,548,820)	-	(1,548,820)	1,548,820	-
Net investment in capital assets	-	-	-	17,134	17,134
Unrestricted net position	-	-	-	(1,091,581)	(1,091,581)
Total fund balances (deficits)/net position	(241,244)	53,071	(188,173)	$ (886,274)	$ (1,074,447)
Total liabilities, deferred inflows of resources, and fund balances (deficits)	$ 4,537,967	$ 171,950	$ 4,709,917		

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, 2019
(Expressed in Thousands)

Total fund balances (deficits) - governmental funds	$	(188,173)
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.		17,345
Prepaid expenses for governmental activities are current uses of financial resources for funds.		367
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		1,128,891
Deferred outflows of resources related to pension liability are not reported in the governmental funds since they do not provide current financial resources.		134,786
Deferred inflows of resources related to pension liability are not reported in the governmental funds since they do not use current financial resources.		(142,604)
Deferred outflows of resources related to OPEB liability are not reported in the governmental funds since they do not provide current financial resources.		114,080
Deferred inflows of resources related to OPEB liability are not reported in the governmental funds since they do not use current financial resources.		(190,014)
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		(211)
Compensated absences		(8,791)
Federal Disallowances Liability		(121,054)
Net pension liability - SERS		(1,047,761)
Total OPEB liability		(771,308)
Net position of governmental activities	$	(1,074,447)

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, 2019 (Expressed in Thousands)

	General Fund	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
Expenditures/expenses:					
Health and social services	$ 18,273,745	$ 346,136	$ 18,619,881	$ (41,782)	$ 18,578,099
Debt service principal	67	19	86	(86)	-
Debt service interest	19	4	23	-	23
Capital outlays	14,232	5	14,237	(14,237)	-
Total expenditures/expenses	18,288,063	346,164	18,634,227	(56,105)	18,578,122
Program revenues:					
Charges for services:					
Licenses and fees	26,284	379	26,663	3,625	30,288
Other, net	-	5,337	5,337	6,195	11,532
Total charges for services	26,284	5,716	32,000	9,820	41,820
Operating grant revenue:					
Federal, net	11,176,857	181,943	11,358,800	148,230	11,507,030
Other	1,021,853	-	1,021,853	37,279	1,059,132
Total operating grant revenue	12,198,710	181,943	12,380,653	185,509	12,566,162
Net program revenues (expenses)	(6,063,069)	(158,505)	(6,221,574)	251,434	(5,970,140)
General revenues:					
Interest and investment income	11,321	117	11,438	-	11,438
Medical provider assesment tax	1,694,988	-	1,694,988	25,787	1,720,775
Other taxes, net	411,914	-	411,914	(448)	411,466
Other	2,991	-	2,991	(14,629)	(11,638)
Total general revenues	2,121,214	117	2,121,331	10,710	2,132,041
Other sources (uses):					
Appropriations from State resources	8,000,756	200,600	8,201,356	-	8,201,356
Lapsed appropriations	2,910,108	(2,135)	2,907,973	-	2,907,973
Receipts collected and transmitted to State Treasury	(3,662,418)	(54,822)	(3,717,240)	-	(3,717,240)
Capital transfers to other State agencies	-	-	-	(8,185)	(8,185)
Amount of SAMS transfers-out	20,000	-	20,000	-	20,000
Transfers-in	-	27,000	27,000	(27,000)	-
Transfers-out	(67,000)	-	(67,000)	27,000	(40,000)
Capital lease financing	205	5	210	(210)	-
Total other sources (uses)	7,201,651	170,648	7,372,299	(8,395)	7,363,904
Change in fund balances/net position	3,259,796	12,260	3,272,056	253,749	3,525,805
Fund balances (deficits)/net position, July 1, 2018, as restated	(3,501,040)	40,811	(3,460,229)	(1,140,023)	(4,600,252)
Fund balances (deficits)/net position, June 30, 2019	$ (241,244)	$ 53,071	$ (188,173)	$ (886,274)	$ (1,074,447)

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, 2019
(Expressed in Thousands)

Net change in fund balances - governmental funds	$ 3,272,056
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.	13,435
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.	(8,185)
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.	22
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.	206,039
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.	(32,099)
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 increase in deferred inflows over the prior year.	(29,319)
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.	77,261
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 increase in deferred inflows over the prior year.	(67,794)
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.	86
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.	(210)
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:	
Decrease in compensated absences obligation	1,461
Decrease in Disproportionate Share Hospital (DSH) payments liability	124,206
Increase in Federal disallowances liability	(121,054)
Decrease in net pension liability - SERS	80,463
Decrease in total OPEB liability	9,437
Change in net position of governmental activities	$ 3,525,805

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, 2019 (Expressed in Thousands)

		Agency Funds
ASSETS		
Cash equity with State Treasurer	$	13,344
Cash and cash equivalents		6,762
Other receivables, net		195,525
Total assets	$	215,631
LIABILITIES		
Accounts payable and accrued liabilities	$	20,947
Other liabilities		194,684
Total liabilities	$	215,631

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, 2019, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 eight 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:

Unexpended Appropriations

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.

Appropriations from State Resources

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 2019, the State's general lapse period was extended through October 2019. The Department also considers the affect 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 2019 added $2.9 billion to the Department's net position/fund balance.

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 assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of 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 assets 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 8 and the total post-employment benefits liability reported and explained in Note 9. 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 9).

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 ending June 30, 2019, the Department adopted the following GASB statements:

GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The implementation of this statement had no financial impact on the Department's net position or results of operations.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which addresses improvements in information disclosures in notes to government financial statements related to debt, including direct borrowings and direct placements and clarifies which liabilities governments should include when disclosing information related to debt. The implementation of this statement had no financial impact on the Department's net position or results of operations.

(r) Future Adoption of GASB Statements

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

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

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

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

GASB 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 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.

GASB 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, 2022, the Department will adopt the following GASB statements:

GASB 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.

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 $6.762 million and $13.619 million, respectively, at June 30, 2019. Balances in excess of FDIC depository insurance were covered by collateral held by an 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, 2019, the Department had $3.091 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	$ -	$ 3,091
Cash equivalents	3,091	(3,091)
Amounts per Statement of Net Position	$ 3,091	$ -
Fiduciary Funds		
Cash on deposit	$ 13,619	$ -
Outstanding checks	(6,857)	-
Amounts per Statement of Fiduciary Net Position	$ 6,762	$ -

(4) Accounts Receivable

(a) Taxes Receivable

Taxes receivable (amounts expressed in thousands) at June 30, 2019 are as follows:

	General Fund
Taxes receivable	$ 48,710
Less: allowance for uncollectible taxes	(6,181)
Taxes receivable, net	$ 42,529

(b) Other Receivables

Other receivables (amounts expressed in thousands) at June 30, 2019 are as follows:

	General Fund	Nonmajor Governmental Funds	Fiduciary Funds
Other receivables	$ 804,172	$ 705,947	$5,542,732
Less: allowance for uncollectible accounts	(286,581)	(697,439)	(5,347,207)
Other receivables, net	$ 517,591	$ 8,508	$ 195,525

(5) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2019 represent amounts due from Department funds, other State funds, and other State fiduciary funds.

	Due from		
Fund	**Other Department Funds**	**Other State Funds**	**Description/Purpose**
General	$ -	$ 181,726	Due from other State funds for subgrants received and for unapplied credits.
Nonmajor governmental funds	21,000	-	Due from other Department funds for subgrants received and for unapplied credits.
	$ 21,000	$ 181,726	

The following balances (amounts expressed in thousands) at June 30, 2019 represent amounts due to Department funds, other State funds, and other State fiduciary funds for purchases of services.

	Due to		
Fund	**Other Department Funds**	**Other State Funds**	**Other State Fiduciary Funds**
General	$ 21,000	$ 22,629	$ 1,141
Nonmajor governmental funds	-	6,005	2,636
	$ 21,000	$ 28,634	$ 3,777

(b) Transfers to/from Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2019 were as follows:

	Transfers in from	
Fund	**Other Department Funds**	**Description/Purpose**
Nonmajor governmental funds	$ 27,000	Transfer from General Fund per State appropriation.
	$ 27,000	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2019 were as follows:

Fund	Transfers out to: Other Department Funds	Transfers out to: Other State Funds	Description/Purpose
General	$ 27,000	$ 40,000	Transfers to Department nonmajor governmental funds and other State agencies' funds per State appropriation.
	$ 27,000	$ 40,000	

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

The following balances (amounts expressed in thousands) at June 30, 2019 represent amounts due from State of Illinois Component Units to the General Fund for intergovernmental agreement reimbursements.

Component Unit	Due From: General Funds	Due From: Nonmajor Governmental Funds
Illinois Housing and Development Authority	$ -	$ 7
Southern Illinois University	1,267	-
University of Illinois	42,929	-
	$ 44,196	$ 7

The following balances (amounts expressed in thousands) at June 30, 2019 represent amounts due to State of Illinois Component Units for medical reimbursements.

Component Unit	Due To: General Funds	Due To: Nonmajor Governmental Funds
Illinois State University	$ 17	$ 2
Northern Illinois University	917	9
Southern Illinois University	11,241	47
University of Illinois	150,911	288
	$ 163,086	$ 346

(6) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2019 is as follows:

	Balance July 1, 2018	Additions	Deletions	Net Transfers	Balance June 30, 2019
Governmental Activities:					
Capital assets not being depreciated/amortized:					
Internally generated intangible assets in development	$ 9,234	$ 14,027	$ -	$ (8,185)	$ 15,076
Total capital assets not being depreciated/amortized:	9,234	14,027	-	(8,185)	15,076
Capital assets being depreciated:					
Equipment	5,016	210	219	-	5,007
Non-internally generated software	4,498	-	-	-	4,498
Less accumulated depreciation:					
Equipment	(3,175)	(456)	(219)	-	(3,412)
Non-internally generated software	(3,478)	(346)	-	-	(3,824)
Total capital assets being depreciated, net	2,861	(592)	-	-	2,269
Governmental activity capital assets, net	$ 12,095	$ 13,435	$ -	$ (8,185)	$ 17,345

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2019 was charged as follows:

Health and social services	$ 802

(7) Long-Term Obligations

Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2019 were as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Amounts Due Within One Year
Governmental Activities:					
Compensated absences	$ 10,252	$ 9,740	$ 11,201	$ 8,791	$ 920
Capital leases	87	210	86	211	105
Repayment to federal government of Disallowed Disproportionate Share Hospital payments	144,798	-	144,798	-	-
Repayment to federal government for Disallowance Letters	-	121,054	-	121,054	-
Net OPEB liability	780,745	-	9,437	771,308	7,423
Net pension liability	1,128,224	-	80,463	1,047,761	-
Total Governmental Activities	$ 2,064,106	$ 131,004	$ 245,985	$ 1,949,125	$ 8,488

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, 2019 were as follows:

Year Ending June 30,	Principal	Interest	Total
2020	$ 105	$ 16	$ 121
2021	94	6	100
2022	12	-	12
	$ 211	$ 22	$ 233

(8) 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 CAFR 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.

Regular Formula Tier 1	**Regular Formula Tier 2**
A member must have a minimum of eight years of service credit and may retire at: • Age 60, with 8 years of service credit. • Any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with 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 compensation is the 48 highest consecutive months of service within the last 120 months of service. Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement. If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.	A member must have a minimum of 10 years of credited service and may retire at: • Age 67, with 10 years of credited service. • Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67). The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of $106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less. If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2018 rate is $113,645. 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 2019, this amount was $114,942.

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 2019, 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 2019, the employer contribution rate was 51.614%. The Department's contribution amount for fiscal year 2019 was $39.064 million. In addition, the Department recorded $33.325 million of revenue and expenditures in the General Revenue account of the General Fund to account for on-behalf payments to SERS for Department employees.

Pension liability, deferred outflows of resources, deferred inflows of resources and expense related to pensions. At June 30, 2019, the Department reported a liability of $1,047,761 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, 2018 (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, 2018. As of the current year measurement date of June 30, 2018, the Department's proportion was 3.1696%, which was a decrease of .2589% from its proportion measured as of the prior year measurement date of June 30, 2017.

For the year ended June 30, 2019, the Department recognized pension expense of $86.669 million. At June 30, 2019, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2018, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 25,107
Changes of assumptions	91,057	24,041
Net difference between projected and actual investment earnings on pension plan investments	471	-
Changes in proportion	4,194	93,456
Department contributions subsequent to the measurement date	39,064	-
Total	$ 134,786	$ 142,604

$39.064 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 ended June 30, 2020. 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 ended June 30,	
2020	$ (14,739)
2021	(20,139)
2022	(34,079)
2023	(11,249)
Total	$ (80,206)

Actuarial methods and assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Mortality: 105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added.

Inflation: 2.50%

Investment Rate of Return: 7.00%, net of pension plan investment expense, including inflation.

Salary increases: 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, 2016, valuation pursuant to an experience study of the period July 1, 2012 to June 30, 2015.

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, 2018, 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%	5.50%
Developed Foreign Equity	13.0%	5.30%
Emerging Market Equity	8.0%	7.80%
Private Equity	7.0%	7.60%
Intermediate Investment Grade Bonds	14.0%	1.50%
Long-term Government Bonds	4.0%	1.80%
TIPS	4.0%	1.50%
High Yield and Bank Loans	5.0%	3.80%
Opportunistic Debt	8.0%	5.00%
Emerging Market Debt	2.0%	3.70%
Core Real Estate	5.5%	3.70%
Non Core Real Estate	4.5%	5.90%
Infrastructure	2.0%	5.80%
Total	**100%**	

Discount rate. A discount rate of 6.81% was used to measure the total pension liability as of the measurement date of June 30, 2018 as compared to a discount rate of 6.78% used to measure the total pension liability as of the prior year measurement date. The June 30, 2018 single blended discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.62%, 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 2075. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2075, 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 5.81%	Discount Rate 6.81%	1% Increase 7.81%
Department's proportionate share of the net pension liability	$ 1,268,428	$ 1,047,761	$ 866,975

Payables to the pension plan. At June 30, 2019, the Department reported a payable of $3.803 million to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019.

(9) 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 State Employees' Retirement System of Illinois (SERS) are eligible for these other post-employment benefits (OPEB). The eligibility provisions for each of the retirement systems are defined within Note 8.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (SERS). 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 SERS 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 2019, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $11,269.44 ($6,698.64 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $13,823.52 ($4,983.60 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, 2019, was measured as of June 30, 2018, with an actuarial valuation as of June 30, 2017. At June 30, 2019, the Department recorded a liability of $771.308 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, 2018. As of the current year measurement date of June 30, 2018, the Department's proportion was 1.9238%, which was an increase of 0.0307% from its proportion measured as of the prior year measurement date of June 30, 2017.

The Department recognized OPEB expense for the year ended June 30, 2019, of $9.380 million. At June 30, 2019, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

Deferred outflows of resources	
Differences between expected and actual experience	$ 198
Changes in proportion and differences between employer contributions and proportionate share of contributions	96,029
Department contributions subsequent to the measurement date (a)	17,853
Total deferred outflows of resources	$ 114,080
Deferred inflows of resources	
Differences between expected and actual experience	$ 16,984
Changes of assumptions	72,434
Changes in proportion and differences between employer contributions and proportionate share of contributions	100,596
Total deferred inflows of resources	$ 190,014

The amounts reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2019. 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,	
2020	$ (26,242)
2021	(26,242)
2022	(26,242)
2023	(14,399)
2024	(661)
Total	$ (93,787)

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 General Assembly Retirement System (GARS), Judges Retirement System (JRS), SERS, Teachers Retirement System (TRS), and State University Retirement System (SURS) active, inactive, and retiree data as of June 30, 2017, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2017.

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.75%
Projected Salary Increases*	3.00% - 15.00%
Discount Rate	3.62%
Healthcare Cost Trend Rate:	
Medical (Pre-Medicare)	8.0 % grading down 0.5% in the first year to 7.5%, then grading down 0.08% in the second year to 7.42%, followed by grading down of 0.5% per year over 5 years to 4.92% in year 7
Medical (Post-Medicare)	9.0% grading down 0.5% per year over 9 years to 4.5%
Dental	6.0% grading down 0.5% per year over 3 years to 4.5%
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 2018 and 2019 are based on actual premiums. Premiums after 2019 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax.

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

Additionally, the demographic assumptions used in the this OPEB valuation are identical to those used in the June 30, 2017 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 2009 - June 2013	105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added
TRS	July 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 was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.

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

Discount rate. 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 3.56% at June 30, 2017, and 3.62% at June 30, 2018, 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 3.62%, 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 (4.62%) or lower (2.62%) than the current rate (amounts expressed in thousands):

	1% Decrease (2.62%)	Current Single Discount Rate Assumption (3.62%)	1% Increase (4.62%)
Department's proportionate share of total OPEB liability	904,264,488	771,307,932	655,762,365

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 8.0% in 2019 decreasing to an ultimate trend rate of 4.92% in 2026, for non-Medicare coverage, and 9.0% decreasing to an ultimate trend rate of 4.5% in 2028 for Medicare coverage.

	1% Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
Department's proportionate share of total OPEB liability	651,453,794	771,307,932	927,016,089

(10) Fund Deficits

The following fund had a deficit balance at June 30, 2019 (amounts expressed in thousands):

Major Governmental Funds:	Fund Deficit
General Fund	$ 241,244

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

(11) 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, 2019.

(12) 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 $4.3 million for the year ended June 30, 2019.

(b) Litigation

A class action lawsuit existed at June 30, 2019. 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 with the parties and court-appointed expert negotiating the terms of the implementation plan. An estimate of the possible loss cannot be made.

A class action lawsuit existed at June 30, 2019. This is a class action consisting of children under the age of 21 who received in-home shift nursing services or applied for in-home shift nursing services and received notices from the Department that their requests for in-home shift nursing services has been denied or reduced, or approved at a lower level than requested, or terminated by the Department on or after January 1, 2014. The suit seeks to prevent reductions in medically necessary in-home shift nursing services based upon inadequate notice and unpublished, unascertainable standards. This class action was resolved by a settlement agreement, approved by the federal court on December 21, 2018 under which the Department is prospectively revising various procedures pertaining to class members. An estimate of the possible loss cannot be made.

A class action lawsuit existed at June 30, 2019 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 seeks to require the Department to take all steps necessary to ensure class members receive all nursing services for which they are approved. The parties have negotiated a proposed consent decree to resolve the litigation that is awaiting final approval by the federal court. An estimate of the possible loss cannot be made.

A class action lawsuit existed at June 30, 2019. 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 Koss. The Department has estimated the outstanding costs at June 30, 2019 to be $61.1 Million.

A class action lawsuit existed at June 30, 2019. 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 with 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.

(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 state completed repayment in June 2019 to reduce potential interest costs. However, the State continues to strongly disagree with the OIG's findings. 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, which remains pending at this time.

(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, 2019, the Department, along with the Department of Human Services, had 138,479 unprocessed applications. A portion of these 138,479 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 $132,969. As a result of the PERM findings, the Department must develop and submit to Federal CMS a corrective action plan, within 90 days of notification, to address all errors and deficiencies identified. 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 need 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. While the Department has received resubmitted admission information representing roughly 1.024 million unpaid days of care provided, the actual amount that will be owed upon adjudication cannot be fully estimated at this time. Approximately one-half of the liability amount, once known, 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 possible loss related to the Disallowance Letters could be approximately $121.054 million dollars, depending upon the content of any potential substantiated disallowances. Interest on the disallowances cannot be estimated. While the Department has accrued the liability in the Financial Statements for the Disallowance Letters, it is still assessing its options in responding to the federal communications. A liability has not been accrued for the referenced $488 thousand, as a Disallowance Letter has not been issued.

(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, 2019, 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.

(13) 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 2019, 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 2019 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 2019 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2019, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2019 and June 30, 2018 was $3,103,274,125 and $3,064,814,670, respectively.

(14) Restatement

The Department's financial statements have been restated as of July 1, 2018, due to the following:

The Department identified Disproportionate Share Hospital (DSH) allotment payments owed to the University of Illinois and Cook County, dating back to Federal fiscal year (FFY) 2015. The Department receives an annual allotment from the Federal Government to spend towards DSH claims from claimants. At Federal fiscal year end, a final review of the costs incurred by the University of Illinois and Cook County occurs prior to the Department issuing payment of the remaining allotment. A portion of these DSH payments are also reported as receivables from State of Illinois Component Units and Local Governments for their share of the activity per the

Intergovernmental Agreements. In addition, a portion of the DSH payments are claimable for Federal financial participation (FFP), and therefore, reported as a receivable from the Federal Government.

Fund 0136 and Fund 0329 both understated receivables and liabilities, as follows (expressed in thousands):

Account	Fund 0136	Fund 0329
Due from Federal Government	$ 46,163	$ 12,399
Due from Local Government	-	12,329
Due from State of Illinois Component Units	22,919	-
Due to Local Government	-	(24,728)
Due to State of Illinois Component Units	(92,001)	-
Unavailable Revenue	(69,082)	(24,728)
	$ (92,001)	$ (24,728)

As a result, the financial statements have been restated as of July 1, 2018, as shown in the table below (amounts expressed in thousands).

	General Fund	Governmental Activities
Fund balance (deficit)/net position (deficit) July 1, 2018 as previously reported	$ ($3,384,311)	$ (4,577,333)
Fund 0136 understated liability	(92,001)	(92,001)
Fund 0136 understated receivable	69,082	69,082
Fund 0136 understated deferred inflows of resources	(69,082)	-
Fund 0329 understated liability	(24,728)	(24,728)
Fund 0329 understated receivable	24,728	24,728
Fund 0329 understated deferred inflows of resources	(24,728)	-
Fund balance (deficit)/net position (deficit) July 1, 2018, as restated	$ (3,501,040)	$ (4,600,252)

(15) Subsequent Event

These financial statements do not include any adjustments related to the impact of COVID-19 (Coronavirus) on programs and benefits the Department administers. The Department anticipates there will be an impact on the number of individuals that become eligible for healthcare benefits assistance, during this difficult time. The extent of the impact is currently being monitored and evaluated by the Department.

State of Illinois

Department of Healthcare and Family Services

Combining Schedule of Accounts - General Fund

June 30, 2019 (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	$ 1,023,085	$ -	$ -	$ 26	$ -	$ -	$ -	$ -	$ -
Cash equity with State Treasurer	1,575	7,386	46,838	81	18,069	296,816	-	-	170,555
Cash and cash equivalents	3,091	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	1,893	11,998	-	4,063	63,874	-	-	-
Due from other government - federal	964,572	57,491	88,652	1,430	31,727	9,726	38,776	2,719	39,802
Due from other government - local	-	-	60,939	-	-	-	9	-	-
Taxes receivable, net	-	-	-	367	11,941	28,194	-	-	-
Other receivables, net	46,871	13	82	-	28	436	-	-	380,945
Due from other Department funds	-	4,000	-	-	-	-	-	-	8,475
Due from other State funds	39	-	-	-	-	-	-	-	180,000
Due from State of Illinois component units	-	42,929	-	-	-	-	-	-	-
Total assets	$ 2,039,233	$ 113,712	$ 208,509	$ 1,904	$ 65,828	$ 399,046	$ 38,785	$ 2,719	$ 779,777
LIABILITIES									
Accounts payable and accrued liabilities	$ 1,834,731	$ -	$ 57	$ 15	$ 59,628	$ 15,628	$ -	$ 1,842	$ 46,454
Due to other government - federal	173,025	-	4	2	3	-	-	-	402
Due to other government - local	1,694	-	196,403	-	2,090	17	38,785	151	1,741
Due to other Department funds	906,030	-	-	-	-	-	-	-	636,450
Due to other State funds	8,067	-	18	1	28	-	-	-	6,827
Due to other State fiduciary funds	-	-	29	8	16	-	-	-	1,081
Due to State of Illinois component units	11,364	130,158	-	-	-	-	-	-	3,092
Obligations under securities lending of State Treasurer	-	1,893	11,998	-	4,063	63,874	-	-	-
Total liabilities	2,934,911	132,051	208,509	26	65,828	79,519	38,785	1,993	696,047
DEFERRED INFLOWS OF RESOURCES									
Unavailable revenue - Federal operating grants	703,660	52,408	35,268	801	20,001	-	-	1,003	25,971
Unavailable revenue - License and fees	7,495	-	-	-	-	-	-	-	-
Unavailable revenue - Medical provider assessment tax	-	-	-	15	-	25,772	-	-	-
Unavailable revenue - Other operating grants	-	32,929	60,885	-	-	-	-	-	-
Unavailable revenue - Other charges for services	-	-	-	-	-	-	-	-	6,195
Total deferred inflows of resources	711,155	85,337	96,153	816	20,001	25,772	-	1,003	32,166
FUND BALANCES (DEFICITS)									
Committed for health and social services	-	-	-	1,062	-	-	-	-	51,564
Unassigned	(1,606,833)	(103,676)	(96,153)	-	(20,001)	293,755	-	(277)	-
Total fund balances (deficits)	(1,606,833)	(103,676)	(96,153)	1,062	(20,001)	293,755	-	(277)	51,564
Total liabilities, deferred inflows of resources, and fund balances (deficits)	$ 2,039,233	$ 113,712	$ 208,509	$ 1,904	$ 65,828	$ 399,046	$ 38,785	$ 2,719	$ 779,777

Combining Schedule of Accounts -
General Fund

June 30, 2019 (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	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,023,111
Cash equity with State Treasurer	27	-	44	76,866	1,553	153,639	907	-	774,356
Cash and cash equivalents	-	-	-	-	-	-	-	-	3,091
Securities lending collateral equity with State Treasurer	-	-	294	18,249	409	53,257	-	-	154,037
Due from other government - federal	1,382	-	12,607	3,311	-	479,238	4,949	-	1,736,382
Due from other government - local	-	-	-	-	-	-	-	-	60,948
Taxes receivable, net	-	-	-	-	-	2,027	-	-	42,529
Other receivables, net	-	-	8	124	49	89,035	-	-	517,591
Due from other Department funds	-	-	2,211	636,450	-	868,055	4,500	(1,523,691)	-
Due from other State funds	-	-	1,687	-	-	-	-	-	181,726
Due from State of Illinois component units	-	-	1,267	-	-	-	-	-	44,196
Total assets	$ 1,409	$ -	$ 18,118	$ 735,000	$ 2,011	$ 1,645,251	$ 10,356	$ (1,523,691)	$ 4,537,967
LIABILITIES									
Accounts payable and accrued liabilities	$ 1,340	$ -	$ 6,803	$ 58,737	$ 14	$ 629,322	$ 8,651	$ -	$ 2,663,222
Due to other government - federal	-	-	-	218,863	1	1	-	-	392,301
Due to other government - local	26	-	131	-	-	3,610	-	-	244,648
Due to other Department funds	-	-	-	-	-	2,211	-	(1,523,691)	21,000
Due to other State funds	-	-	-	-	1	7,659	28	-	22,629
Due to other State fiduciary funds	-	-	-	-	7	-	-	-	1,141
Due to State of Illinois component units	43	-	10,890	73	-	6,718	748	-	163,086
Obligations under securities lending of State Treasurer	-	-	294	18,249	409	53,257	-	-	154,037
Total liabilities	1,409	-	18,118	295,922	432	702,778	9,427	(1,523,691)	3,662,064
DEFERRED INFLOWS OF RESOURCES									
Unavailable revenue - Federal operating grants	-	-	11,013	3,311	-	124,869	4,284	-	982,589
Unavailable revenue - License and fees	-	-	-	-	-	-	-	-	7,495
Unavailable revenue - Medical provider assessment tax	-	-	-	-	-	-	-	-	25,787
Unavailable revenue - Other operating grants	-	-	1,267	-	-	-	-	-	95,081
Unavailable revenue - Other charges for services	-	-	-	-	-	-	-	-	6,195
Total deferred inflows of resources	-	-	12,280	3,311	-	124,869	4,284	-	1,117,147
FUND BALANCES (DEFICITS)									
Committed for health and social services	-	-	-	435,767	1,579	817,604	-	-	1,307,576
Unassigned	-	-	(12,280)	-	-	-	(3,355)	-	(1,548,820)
Total fund balances (deficits)	-	-	(12,280)	435,767	1,579	817,604	(3,355)	-	(241,244)
Total liabilities, deferred inflows of resources, and fund balances (deficits)	$ 1,409	$ -	$ 18,118	$ 735,000	$ 2,011	$ 1,645,251	$ 10,356	$ (1,523,691)	$ 4,537,967

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

For the Year Ended June 30, 2019 (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
REVENUES									
Operating grants - federal, net	$ 3,748,117	$ 99,642	$ 1,266,871	$ 15,530	$ 149,001	$ 1,966,952	$ 167,367	$ 7,195	$ 68,858
Other operating grants	243,700	34,950	737,989	-	-	-	-	-	-
Licenses and fees	25,715	-	-	-	-	-	-	-	-
Other charges for services, net	-	-	-	-	-	-	-	-	115,103
Interest and other investment income	-	227	664	-	521	5,195	-	-	-
Medical provider assessment tax	-	-	-	17,784	165,087	1,512,117	-	-	-
Other taxes, net	-	-	-	-	24,295	-	-	-	-
Other	1,323	-	-	-	-	-	-	-	-
Total revenues	4,018,855	134,819	2,005,524	33,314	338,904	3,484,264	167,367	7,195	183,961
EXPENDITURES									
Health and social services	7,141,017	190,795	2,030,082	148	356,393	2,997,314	162,165	13,962	190,976
Debt service principal	-	-	-	-	-	-	-	-	20
Debt service interest	-	-	-	-	-	-	-	-	5
Capital outlays	551	-	-	-	-	-	-	-	2,324
Total expenditures	7,141,568	190,795	2,030,082	148	356,393	2,997,314	162,165	13,962	193,325
Excess (deficiency) of revenues over (under) expenditures	(3,122,713)	(55,976)	(24,558)	33,166	(17,489)	486,950	5,202	(6,767)	(9,364)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES									
Appropriations from State resources	7,987,564	-	-	1,192	-	-	-	12,000	-
Lapsed appropriations	2,911,140	-	-	(1,001)	-	-	-	(31)	-
Receipts collected and transmitted to State Treasury	(3,612,335)	-	-	(41,547)	-	-	-	(8,536)	-
Amount of SAMS transfers-in	-	-	-	-	-	-	-	-	-
Amount of SAMS transfers-out	20,000	-	-	-	-	-	-	-	-
Transfers-in	-	20,000	-	-	30,000	-	-	-	4,275
Transfers-out	(1,211,329)	-	-	-	(20,000)	(375,000)	-	-	-
Capital lease financing	-	-	-	-	-	-	-	-	27
Net other sources (uses) of financial resources	6,095,040	20,000	-	(41,356)	10,000	(375,000)	-	3,433	4,302
Net change in fund balances	2,972,327	(35,976)	(24,558)	(8,190)	(7,489)	111,950	5,202	(3,334)	(5,062)
Fund balances (deficits), July 1, 2018, as restated	(4,579,160)	(67,700)	(71,595)	9,252	(12,512)	181,805	(5,202)	3,057	56,626
FUND BALANCES (DEFICITS), JUNE 30, 2019	$ (1,606,833)	$ (103,676)	$ (96,153)	$ 1,062	$ (20,001)	$ 293,755	$ -	$ (277)	$ 51,564

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

For the Year Ended June 30, 2019 (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
REVENUES									
Operating grants - federal, net	$ 19,435	$ 11	$ 16,163	$ -	$ -	$ 3,616,363	$ 35,352	$ -	$ 11,176,857
Other operating grants	-	-	5,044	-	-	-	170	-	1,021,853
Licenses and fees	-	-	-	-	569	-	-	-	26,284
Other charges for services, net	-	-	-	-	-	-	-	(115,103)	-
Interest and other investment income	-	-	6	2,766	28	1,914	-	-	11,321
Medical provider assessment tax	-	-	-	-	-	-	-	-	1,694,988
Other taxes, net	-	-	-	-	-	387,619	-	-	411,914
Other	-	-	352	-	-	1,316	-	-	2,991
Total revenues	19,435	11	21,565	2,766	597	4,007,212	35,522	(115,103)	14,346,208
EXPENDITURES									
Health and social services	19,435	(15)	15,905	(12,393)	132	5,279,578	3,354	(115,103)	18,273,745
Debt service principal	-	-	-	-	-	47	-	-	67
Debt service interest	-	-	-	-	-	14	-	-	19
Capital outlays	-	-	-	-	-	6,632	4,725	-	14,232
Total expenditures	19,435	(15)	15,905	(12,393)	132	5,286,271	8,079	(115,103)	18,288,063
Excess (deficiency) of revenues over (under) expenditures	-	26	5,660	15,159	465	(1,279,059)	27,443	-	(3,941,855)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES									
Appropriations from State resources	-	-	-	-	-	-	-	-	8,000,756
Lapsed appropriations	-	-	-	-	-	-	-	-	2,910,108
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-	(3,662,418)
Amount of SAMS transfers-in	-	-	-	-	-	-	-	-	-
Amount of SAMS transfers-out	-	-	-	-	-	-	-	-	20,000
Transfers-in	-	-	-	-	-	1,482,054	3,000	(1,539,329)	-
Transfers-out	-	-	-	-	-	-	-	1,539,329	(67,000)
Capital lease financing	-	-	-	-	-	178	-	-	205
Net other sources (uses) of financial resources	-	-	-	-	-	1,482,232	3,000	-	7,201,651
Net change in fund balances	-	26	5,660	15,159	465	203,173	30,443	-	3,259,796
Fund balances (deficits), July 1, 2018, as restated	-	(26)	(17,940)	420,608	1,114	614,431	(33,798)	-	(3,501,040)
FUND BALANCES (DEFICITS), JUNE 30, 2019	$ -	$ -	$ (12,280)	$ 435,767	$ 1,579	$ 817,604	$ (3,355)	$ -	$ (241,244)

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2019 (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	$ -	$ -	$ -	$ 68,453	$ -	$ 68,453
Cash equity with State Treasurer	327	5,234	-	-	15,562	21,123
Securities lending collateral equity with State Treasurer	-	1,412	-	-	-	1,412
Due from other government - federal	-	517	17	35,641	15,272	51,447
Other receivables, net	277	10	-	-	8,221	8,508
Due from other Department funds	-	-	-	-	21,000	21,000
Due from State of Illinois component units	-	7	-	-	-	7
Total assets	$ 604	$ 7,180	$ 17	$ 104,094	$ 60,055	$ 171,950
LIABILITIES						
Accounts payable and accrued liabilities	$ -	$ 466	$ -	$ 69,146	$ 9,596	$ 79,208
Due to other government - federal	-	-	-	-	9,587	9,587
Due to other government - local	-	-	-	1,133	6,808	7,941
Due to other State funds	70	-	-	24	5,911	6,005
Due to other State fiduciary funds	-	-	-	-	2,636	2,636
Due to State of Illinois component units	-	83	-	263	-	346
Obligations under securities lending of State Treasurer	-	1,412	-	-	-	1,412
Total liabilities	70	1,961	-	70,566	34,538	107,135
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - Federal operating grants	-	42	17	-	11,408	11,467
Unavailable revenue - License and fees	277	-	-	-	-	277
Total deferred inflows of resources	277	42	17	-	11,408	11,744
FUND BALANCES						
Committed for health and social services	257	5,177	-	33,528	14,109	53,071
Total fund balances	257	5,177	-	33,528	14,109	53,071
Total liabilities, deferred inflows of resources, and fund balances	$ 604	$ 7,180	$ 17	$ 104,094	$ 60,055	$ 171,950

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

For the Year Ended June 30, 2019 (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	$ -	$ 475	$ 6,956	$ 72,307	$ 102,205	$ 181,943
License and fees	379	-	-	-	-	379
Other charges for services, net	-	-	-	-	5,337	5,337
Interest and other investment income	-	117	-	-	-	117
Total revenues	379	592	6,956	72,307	107,542	187,776
EXPENDITURES						
Health and social services	1,442	860	-	200,433	143,401	346,136
Debt service principal	-	-	-	-	19	19
Debt service interest	-	-	-	-	4	4
Capital outlays	-	-	-	-	5	5
Total expenditures	1,442	860	-	200,433	143,429	346,164
Excess (deficiency) of revenues over (under) expenditures	(1,063)	(268)	6,956	(128,126)	(35,887)	(158,388)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	200,600	-	200,600
Lapsed appropriations	-	-	-	(2,135)	-	(2,135)
Receipts collected and transmitted to State Treasury	-	-	(11,527)	(43,295)	-	(54,822)
Transfers-in	-	-	-	-	27,000	27,000
Transfers out	-	-	-	-	-	-
Capital lease financing	-	-	-	-	5	5
Net other sources (uses) of financial resources	-	-	(11,527)	155,170	27,005	170,648
Net change in fund balances	(1,063)	(268)	(4,571)	27,044	(8,882)	12,260
Fund balances (deficits), July 1, 2018	1,320	5,445	4,571	6,484	22,991	40,811
FUND BALANCES (DEFICITS), JUNE 30, 2019	$ 257	$ 5,177	$ -	$ 33,528	$ 14,109	$ 53,071

Combining Statement of Fiduciary Net Position - Agency Funds

June 30, 2019 (Expressed in Thousands)

	Child Support Enforcement Trust 0957	Child Support Enforcement Trust - SDU 2957	Total
ASSETS			
Cash equity with State Treasurer	$ 13,344	$ -	$ 13,344
Cash and cash equivalents	304	6,458	6,762
Other receivables, net	195,525	-	195,525
Total assets	$ 209,173	$ 6,458	$ 215,631
LIABILITIES			
Accounts payable and accrued liabilities	$ 14,489	$ 6,458	$ 20,947
Other liabilities	194,684	-	194,684
Total liabilities	$ 209,173	$ 6,458	$ 215,631

Combining Statement of Changes in Assets and Liabilities - Agency Funds

For the Year Ended June 30, 2019 (Expressed in Thousands)

	Balance at July 1, 2018	Additions	Deletions	Balance at June 30, 2019
Child Support Enforcement Trust (0957)				
ASSETS				
Cash equity with State Treasurer	$ 16,105	$ 129,634	$ 132,395	$ 13,344
Cash and cash equivalents	279	79,125	79,100	304
Other receivables, net	196,707	128,452	129,634	195,525
Total assets	$ 213,091	$ 337,211	$ 341,129	$ 209,173
LIABILITIES				
Accounts payable and accrued liabilities	$ 16,132	$ 3,362	$ 5,005	$ 14,489
Other liabilities	196,959	204,215	206,490	194,684
Total liabilities	$ 213,091	$ 207,577	$ 211,495	$ 209,173
Child Support Enforcement Trust - SDU (2957)				
ASSETS				
Cash and cash equivalents	$ 1,582	$ 1,155,373	$ 1,150,497	$ 6,458
Other receivables, net	12	126	138	-
Total assets	$ 1,594	$ 1,155,499	$ 1,150,635	$ 6,458
LIABILITIES				
Accounts payable and accrued liabilities	$ 1,594	$ 1,155,361	$ 1,150,497	$ 6,458
Total liabilities	$ 1,594	$ 1,155,361	$ 1,150,497	$ 6,458
Total				
ASSETS				
Cash equity with State Treasurer	$ 16,105	$ 129,634	$ 132,395	$ 13,344
Cash and cash equivalents	1,861	1,234,498	1,229,597	6,762
Other receivables, net	196,719	128,578	129,772	195,525
Total assets	$ 214,685	$ 1,492,710	$ 1,491,764	$ 215,631
LIABILITIES				
Accounts payable and accrued liabilities	$ 17,726	$ 1,158,723	$ 1,155,502	$ 20,947
Other liabilities	196,959	204,215	206,490	194,684
Total liabilities	$ 214,685	$ 1,362,938	$ 1,361,992	$ 215,631

132 South Water Street., Suite 300
Decatur, IL 62723
217.423.6000

SIKICH.COM

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, 2019, 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 April 9, 2020.

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 2019-001 through 2019-004, 2019-006, and 2019-009 through 2019-011.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings as items 2019-001 through 2019-004, 2019-006, 2019-007, and 2019-009 through 2019-011 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings as items 2019-005, and 2019-008 to be significant deficiencies.

Department's 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 2019-001 through 2019-006, 2019-009, and 2019-010 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.

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
April 9, 2020

2019-001 **FINDING** (Inadequate controls over eligibility determinations, redeterminations and mid-point reporting requirements)

The Department of Healthcare and Family Services and the Department of Human Services (collectively, the "Departments") lacked controls over eligibility determinations, redeterminations and Mid-Point Reporting requirements for Federal programs where such determination/requirement is documented using the Integrated Eligibility System.

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, 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 (29 new applications and 31 redeterminations) and tested whether the cases were properly certified (approved or denied) based on non-financial, financial and timeliness criteria. For SNAP cases we also tested whether the Mid-Point Report (MPR) was timely certified, where applicable. 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 6 cases (10%) the application, redetermination or mid-point report was not approved or denied timely. For 6 SNAP cases, the approval or denial was between 4 and 264 days late. For 2 Medical cases, the approval or denial was 32 and 175 days late. (The 2 Medical cases were also SNAP cases.)
- For 1 case (1.7%) the file did not contain documentation of an application for benefits.
- For 1 case (1.7%) the file did not contain the redetermination form.
- For 6 cases (10%) the recipients reported income was not fully supported or not accurately supported.
- For 1 case (1.7%) the file did not include verification of non-citizen status.

Departments' management indicated the above errors were due to caseworker error. Caseworkers did not complete eligibility determinations timely and did not sufficiently scan and upload all necessary eligibility documentation into the IES case file.

In order to understand the functions performed by the caseworkers more fully, we conducted on-site observations at three of the Department of Human Services' local offices. We noted the following types of issues the caseworkers encountered in their utilization of IES while working with recipients:

- IES timed out and sent the caseworker back to the login screen while entering recipients' information. Consequently, the caseworker had to reenter information.
- IES indicated a recipients' information contained errors; however, the caseworker's review of the information noted no errors.

- IES had technical errors while interfacing the other applications to conduct verification of the recipients' information.
- IES had errors in determining the benefits for recipients.
- IES had issues determining recipients' eligibility.
- IES was unable to produce correspondence to recipients.

Department management indicated the above errors and problems were due to IES technical defects.

Further, we noted insufficient communication between the Departments' internal operating units which administer IES and related systems and the Departments' financial reporting units, along with a lack of communication between the Departments and the auditors. We discovered that in September 2019, HFS' Bureau of Eligibility Integrity identified system defects which resulted in temporary eligibility status recipients, or presumptively eligible recipients, maintaining their eligibility status in error after the Departments had deemed them ineligible. However, this condition was not reported to HFS' financial reporting unit to determine the impact of this defect on the Departments' financial statements, and it was not made known to the auditors. In fact, it was not until February 2020, during testing for the Statewide Single Audit performed by other auditors, that exceptions in the other auditors' testing and further inquiries related thereto led to HFS' disclosure of the existence of these system defects. At our request, HFS performed an analysis of the impact of this defect on the Departments' financial statements and determined HFS paid benefits of $4.7 million in error for recipients who had been determined ineligible and received $217 thousand in federal financial participation (FFP) from those disbursements, pertaining to fiscal year 2019. The Departments concluded these errors were not material to the financial statements, and as such no changes to the financial statements resulted.

The lack of a formal process to communicate matters such as those identified above represents a significant weakness in internal control over the Departments' financial reporting. It is essential that financial-related consequences of system defects be communicated with appropriate fiscal personnel to determine the potential impact on the financial statements. Further, full and timely disclosure of potential or known problems to the auditors is essential to avoiding delays in the audits, including audits of the Departments' financial statements, the Statewide Single Audit, and the Statewide Comprehensive Annual Financial Report.

Also, in the Centers for Medicare and Medicaid Services (CMS) findings from its Payment Error Rate Measurement (PERM) reporting year 2019 report, we noted CMS reported an estimated payment error rate of 35.37% for Medicaid eligibility issues. CMS used its sample results to project $4.3 billion in federal benefits payment errors for the 2019 reporting year. It is important to note that CMS stated in its report that not all payment errors identified in the report are necessarily indicative that the expense should not have occurred. For instance, if missing information had been on the claim and/or the State complied with the enrollment requirements, then the claims may have been payable. Further, CMS did not impose eligibility recoveries or disallowances for reporting year 2019. The more significant eligibility errors identified in the PERM report were:

- Documentation to support eligibility determinations was not maintained.
- Verification/documentation not done/collected at the time eligibility was determined.
- Eligibility was not redetermined within timeliness criteria (See Finding 2019-003).

The Code of Federal Regulations (Code) (42 C.F.R. § 435) requires recipients of Medicaid to provide documentary evidence of their citizenship, residency, SSNs and income. Further, the Code (42 C.F.R. § 431.17) requires the Medicaid agency to maintain records of each applicant and beneficiary, including records which support the determination of eligibility.

The Code (7 C.F.R. § 273.2) requires that the application or reapplication form (form) for individuals requesting SNAP be signed to establish a filing date and to determine the State agency's deadline for acting on the form. The State agency 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) requires that 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) (SNAP recertification) requires that the State agency must establish procedures for notifying 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) indicates that each State agency 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 of Federal Regulations (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.

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. Poor communication between internal operating unit personnel and financial reporting personnel could result in a misstatement of the Departments' financial statements. 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. 2019-001, 2018-005, 2017-008, 2016-001, 2015-002)

RECOMMENDATION

We recommend the Departments work together to:

- provide adequate training and supervision of caseworkers;
- 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,

- establish formal lines of communication between operating unit personnel and financial reporting personnel, and
- correct IES application errors.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS and DHS are working together to improve staff training materials and communication as well as better documentation through use of electronic case records. HFS submitted corrective action plans to Federal CMS to address the PERM report. HFS and DHS continue to address timeliness issues with both applications and redeterminations through staff hiring and process simplification. The HFS Division of Medical Programs and the Division of Finance will develop a formal process to communicate any system defects that may have financial impact. HFS continues to work with DoIT / DHS to prioritize defects and enhancements for release into IES to improve performance and accuracy.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Department of Human Services (DHS) accepts the recommendation. Training of staff continues to be an important factor for the successful operation of IES. The Department continues to adjust and improve mandated IES training as needed.

DHS agrees to work with all staff, including Regional Administration and Policy experts in order to identify any potential additional controls that would assist in ensuring appropriate documentation of eligibility is obtained and retained in IES.

The timely certification of applications and redeterminations are a constant and continuous priority. DHS agrees to continue to communicate to staff the importance of timeliness. Since late in calendar year 2018, the SNAP timeliness rate has successfully climbed from below 65% to above 95% in early calendar year 2020.

The portion of this finding related to insufficient lines of communication from operating unit personnel and financial reporting personnel is specific to HFS. DHS has no comment.

DHS, HFS, and DoIT continue to work on system defects and enhancement requests to ensure that IES is running optimally and handles applications according to relevant policy.

2019-002 **<u>FINDING</u>** (Lack of security controls over the Integrated Eligibility System (IES))

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

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

<u>Environment Security</u>
We requested the Departments provide the population of servers in which IES resided. In response, the Departments provided a population; however, our testing noted the population was incomplete.

Even though the population was incomplete we tested the population of servers the Departments provided noting 139 of 198 (70%) servers were running operating systems which were no longer supported by the vendor. In addition, 36 of 198 servers (18%) were not being backed up.

Furthermore, the Departments did not provide documentation demonstrating antivirus software had been installed on the servers hosting IES and its data.

Additionally, during the Departments' internal security review completed as part of its Plan of Actions and Milestones (2019) report to the Centers for Medicare and Medicaid Services, the following significant security 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.

The Code of Federal Regulations (Code) (45 C.F.R. § 95.621(f)(1)), *ADP System Security Requirement*, requires State agencies 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. State agencies are required to determine the appropriate security requirements based on recognized industry standards or standards governing security of federal ADP systems and information processing.

The Centers for Medicare and Medicaid Services, *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 Departments indicated the lack of resources and oversight contributed to the weaknesses.

<u>User Access Security</u>
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 individuals' system access. In our review of 26 terminated IES users, we noted 12 (46%) had their access terminated 2 to 90 days after termination of employment.

The Code of Federal Regulations (Code) (45 C.F.R. § 95.621(f)(1)), *ADP System Security Requirement*, requires State agencies 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 or 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)) 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 they believe their access provisioning activities were in accordance with Departments' policy, industry standards and the Code.

The Departments' failure to maintain adequate internal controls over the security of the IES application and data increases the risk IES may be exposed to malicious attacks, security breaches, and unauthorized access to recipients' personal and health information. (Finding Code No. 2019-002, 2018-008, 2017-010)

RECOMMENDATION

We recommend management of the Departments enhance security controls over the IES environment, application, and databases. Specifically, the Departments should enhance controls to address back-ups of all servers on a regular basis and update operating systems for servers which are running software no longer supported by the vendor. Further, the Departments should enhance policies governing termination of IES access rights. The policy should be specific in describing the maximum period of time allowed for terminating the access rights. Finally, the Departments should ensure a complete and accurate record of all servers on which IES resides is maintained.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will work with DoIT / DHS to ensure a complete and accurate record of all servers is maintained and servers are backed up. HFS will enhance its policy governing system access.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Department of Human Services (DHS) accepts the recommendation. DHS and the Department of Healthcare and Family Services (HFS) continue to work with Department of Innovation and Technology (DoIT) on the acquisition and organization of servers and other infrastructure to support the Integrated Eligibility System (IES). The current focus of these efforts is to migrate IES system Databases from end-of-life servers, in order to resolve existing vulnerabilities and allow for backup of all active IES servers. A complete and accurate configuration listing of active IES servers is in development and will be maintained throughout this infrastructure reorganization.

The Application for Benefits Eligibility (ABE) web-facing portal Multi Factor Authentication (MFA) IBM Security Access Manager (ISAM) solution, which replaced the phased-out Fed Centers for Medicaid Medicare Services (CMS) MFA service, was implemented in March 2020. DoIT is working to expand MFA, using the ISAM solution, to all users accessing the IES application.

DoIT and DHS continue to work with the State's IES development vendor, toward resolution of outstanding Plan of Action and Milestones (POAM) items, which includes the addition of detailed audit logs in IES.

DoIT-DHS will assist DHS Family and Community Services (FCS) Division in documenting policies governing access provisioning, approving access, maintaining access, and deactivation of access to reduce the risk of unauthorized and/or inappropriate access to IES.

2019-003 **<u>FINDING</u>** (Untimely processing of applications for benefits and redeterminations of eligibility for benefits)

The Department of Healthcare and Family Services and the Department of Human Services (collectively, the "Departments") did not maintain adequate internal control to ensure applications for benefits and redeterminations of eligibility for benefits were 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.

<u>Initial Applications</u>

The Code of Federal Regulations (Code) (45 C.F.R § 435.912(c)(3)) 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)) requires the Departments 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 the Departments to determine the eligibility of applicants for TANF benefits within 45 days of receipt of the application.

At June 30, 2019, the Departments had a backlog of 107,242 Medical applications, 19,957 SNAP applications, and 6,476 TANF applications, for which the determination of eligibility to receive benefits was not complete. Of the 26,433 SNAP and TANF applications, there were 4,194 applications which had applied for both programs.

Additionally, there were 1,279 applications in which the applicant did not specify the program; therefore, we were unable to determine the timeliness of the application.

<u>Redeterminations</u>

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

As of June 30, 2019, the Departments had a backlog of recipients for which eligibility redeterminations were required and redetermination information was provided by the recipients. The backlog at June 30, 2019 included at least 170,720 medical redeterminations, and 980 SNAP and TANF redeterminations.

In addition to the above known redetermination backlog, because of a defect within IES, the date information was received was not documented and we were unable to determine the timeliness of the redeterminations for 68,612 Medical recipients and 2,146 SNAP and TANF recipients.

The 239,332 individuals above (170,720 redeterminations that contained a date and 68,612 redeterminations which did not contain a date) were part of 152,425 cases with pending medical redeterminations that were incomplete. In addition, there were 863 recipients with pending medical redeterminations for which information was provided, however it did not document the receipt date.

Change Documentation

The Code (42 C.F.R § 435.916(d)(1) and 42 C.F.R § 435.952(a)) 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, 2019, the Departments had a backlog of 51,903 cases for which information had been received but not reviewed. Because the information had not been reviewed, the Departments did not know which program(s) might be impacted. As such, we were unable to determine the timeliness of processing the information.

Center for Medicare and Medicaid Services
In the Centers for Medicare and Medicaid Services (CMS) findings from its Payment Error Rate Measurement (PERM) reporting year 2019 report, it was projected that $977 million of federal benefits were considered errors because the determination was not conducted timely. Specifically, the Departments could not provide evidence they conducted an eligibility determination or the eligibility determination was not in accordance with timeliness standards (does not apply to application timely processing) as defined in the federal regulations. However CMS did not impose eligibility recoveries or disallowances for reporting year 2019.

The Departments indicated 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 of Federal Regulations. 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. 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, the Departments should 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 continue to cooperate with Federal CMS regarding corrective actions. All backlogs are being addressed through a combination of staff hiring, enhanced training, process simplifications, policy streamlining and system enhancements.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Department of Human Services (DHS) accepts the recommendation. DHS agrees to work with the Department of Healthcare and Family Services (HFS) to implement controls to comply with the requirement that applications are reviewed and approved or denied timely.

DHS will continue the practice of assigning and training additional personnel so that initial applications are worked and redeterminations and maintenance of eligibility are performed within the timeframes required. DHS has recently implemented Statewide Processing Centers (SPCs) in order to handle work from larger offices with heavy caseloads, and effectively redistribute tasks to areas of the field that have the capacity to handle additional assignments. This has resulted in more timely performance of task completion within IES; a substantial increase in SNAP application timeliness; a reduction in the backlog of medical applications; lower wait times for customers who enter the FCRC; and improved customer service in the timely and accurate distribution of benefits.

2019-004 **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.

<u>IES Application Changes Policies and Procedures</u>
The Departments did not have documented internal controls over changes to IES during the audit period. However, on August 31, 2019, the Departments memorialized the change control process in writing. According to the Departments, this process was to have been followed during the audit period.

Our review of the August 31, 2019 Change Management Policy and Procedure, noted the Policy and Procedure did not:

- Define the various types of changes,
- Define the requirements for the prioritization or classification of changes,
- Define the information required to be entered into the tracking system for each change,
- 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.

<u>Recipient Data Changes Policies and Procedures</u>
The Department did not have documented internal controls over changes to recipient data residing in IES during the audit period.

<u>Testing of IES Application Changes</u>
As noted above, the Change Management Policy and Procedure did not document the specific requirements the various types of changes were required to comply with; however, we did note each IES change was required to include impact scores, requirements and design documents approved by the Departments, user acceptance testing, release notes, an associated Remedy Ticket, and approval from the IES Bureau Chief. Therefore, we selected a sample of 60 changes to IES to determine if they complied with the requirements described above, noting 53 (88%) did not have the Customer Impact, Caseworker Impact, Level of Urgency, and Regulatory Impact scores completed.

According to the Change Management Policy and Procedure, issues and the status of each change were to be communicated at the UAT Status Meeting twice weekly. Additionally, the UAT Status Meeting minutes were to be published on the Department of Healthcare and Family Services website.

Furthermore, we requested a sample of meeting minutes from the UAT Status Meetings, which were to be held twice a week. However, the Department stated UAT Status Meeting minutes were not maintained for the period of July through November 2018.

Testing of Recipient Data Changes

Due to the lack of documented internal controls we could not determine if fixes to recipients' data were properly approved. However, we selected a sample of 40 fixes to recipients' data to determine if there were documented approvals for the recipient data changes. Our testing noted, although verbal approval appeared to have been obtained prior to implementation, approvals for 7 (17.5%) recipient data changes were documented one to five days after implementation.

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 State agencies 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 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, the National Institute of Standards and Technology (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 that 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 although they did not have a documented process during the audit period, they believed the process formalized in the August 31, 2019 Change Management Policy and Procedure was adequate. In addition, the Departments' indicated the weaknesses identified during detailed testing were the result of a lack of understanding of the Change Management Policy and Procedure.

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

RECOMMENDATION

We recommend management of both Departments work together to determine and document controls in the Change Management Policy and Procedure for the following:

- Definitions of the various types of changes,
- Specific requirements for the prioritization or classification of changes,
- Specific information required to be entered into the tracking system for each change,
- 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.

The Departments should improve monitoring of established internal control to improve adherence to the control system by Department employees.

The Departments should also document internal controls over changes to recipient data residing in IES. This documentation should include the timing for required approvals for recipient data changes.

Finally, the Departments should prepare minutes for each UAT Status Meeting and publish them on the Department of Healthcare and Family Services website.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will work with DoIT / DHS to ensure controls over IES changes are adequate.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Department of Human Services (DHS) accepts the recommendation. The current IES Change Control Document is under review by DHS, HFS, and DoIT. The IES system has moved from a project to a system in production and with that movement the departments are determining, documenting, and implementing procedures that best fit maintaining a system of this size and importance; while being flexible enough to meet the fast pace changes needed by the business users and the clients. Each agency will strive to improve the internal controls of the Change Management Procedures as we move forward.

2019-005 **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 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 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,
- Support staff and vendor contact information,
- Responsibilities for the recovery of IES,
- Documentation on backups, and
- Was not updated to reflect changes to the current environment.

In addition, the Departments had not conducted disaster recovery testing during the audit period.

The Code of Federal Regulations (Code) (45 C.F.R § 95.621(f)(2)(ii)(F), *ADP System Security Requirements and Review Process*, requires State agencies' 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.

Department management indicated the Plan had not been updated and testing had not been completed due to the ongoing project of upgrading the environment in which IES resides.

The lack of an adequate disaster recovery plan and the failure to perform sufficient testing of such plan could result in the Departments' inability to recover IES and data. (Finding Code No. 2019-005)

RECOMMENDATION

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

- Detailed recovery scripts,
- Support staff and vendor contact information,
- Responsibilities for the recovery of IES,
- Documentation on backups, and
- Changes to the current environment.

Additionally, the Departments should 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 DoIT / DHS to ensure the Disaster Recovery Plan is enhanced and tested as soon as possible.

DEPARTMENT OF HUMAN SERVICES' RESPOSNE

The Department of Human Services (DHS) accepts the recommendation. The current IES Information System Contingency Plan v4.0 (10/2018) is under review at this time by the Acting DoIT – DHS Information Security Officer. Detailed scripts, State and the IES development vendor support / responsible contact information, system backup information are all to be updated on the v5.0 (04/2020) IES Contingency Plan.

DoIT / IES development vendor are not able to participate in Disaster Recovery (DR) exercises for the IES Application at this time. Disaster Recovery functionality is not available in the current Production IES Environment as it has outgrown the capacity of the Disaster Recovery hardware. DoIT / HFS is currently working on a multi-phase project to upgrade all IES hardware/software, these systems include a full DR component that will allow for an annual off-site DR test. At such time the IES Infrastructure is fully implemented and ready for DR testing, exercises will commence annually.

DR Planning Finalization and Execution, conducted by the IES development vendor / DoIT is Phase 7 of the IES Long Term System Security Plan (LTSSP) Technical Refresh. Phase 7 of IES Tech Refresh is scheduled to take place mid-2021. Currently, the DR configuration for Production Database Environment IES is in the 'build' and 'testing' phase at DoIT.

2019-006 **FINDING** (Lack of detailed agreement with the Department of Innovation and Technology (DoIT))

The Department of Healthcare and Family Services and the Department of Human Services (collectively, the "Departments") had not entered into a detailed agreement with the Department of Innovation and Technology (DoIT) to ensure roles and responsibilities for the Integrated Eligibility System (IES) were formally documented.

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, the Departments had not entered into an agreement with DoIT documenting roles and responsibilities for each function they perform on the Departments' behalf.

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 arrangements 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' have the ultimate responsibility to ensure their critical and confidential data are adequately safeguarded.

The Departments' management indicated they believed the existing general agreement regarding the relationship between the Departments and DoIT was sufficient.

The Departments' failure to execute an agreement with DoIT increases the risk that IES functions won't be performed by each party in accordance with their assigned responsibility. (Finding Code No. 2019-006)

RECOMMENDATION

We recommend management of the Departments execute a detailed agreement with the Department of Innovation and Technology (DoIT) to ensure the IES System roles and responsibilities required to be performed by each party, are formally documented.

DEPARTMENT OF HEALTHCARE AND FAMILY SERIVCES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will work with DHS to review the need to execute an agreement with DoIT regarding IES responsibilities.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Department of Human Services (DHS) accepts the recommendation. DHS will work with HFS to review the need to execute an agreement with DoIT regarding IES responsibilities.

2019-007 **<u>FINDING</u>** (Financial statement preparation weaknesses)

The Department of Healthcare and Family Services' (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.

Annually, the Department reports a liability on its balance sheet for obligations for various medical claims incurred during the fiscal year. The Department refers to this liability as the medical accrual. One component of the calculation of the medical accrual liability at June 30, 2019, was an estimated amount owed related to changes in capitation rates. Although the Department received its 2019 calendar year rates in November of 2018, for various reasons it delayed implementing rate changes until an amendment of the 2019 rates was received. From January 2019 through June 2019 the Department had paid claims at the 2018 calendar year rates until such time as the 2019 calendar year rates amendment was approved and implemented. When the Department initially drafted its financial statements it estimated the amount payable for the difference of the amounts paid previously using the old rates compared to what would be owed and retroactively payable under new 2019 rates. However, on September 25, 2019, the Department received the final 2019 amended rates and therefore should have corrected its liability calculation using the final 2019 amended rates for its financial statements. The Department's failure to update its medical accrual calculation resulted in an overstatement of liabilities in its financial statements totaling $70.2 million for this issue. The Department corrected its financial statements after the auditors made it aware of the misstatement.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001), the Department must establish and maintain a system or systems, of internal fiscal and administrative controls to 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. Further, the State Comptroller Act (15 ILCS 405/19.5(a)) requires the Department to provide all financial information deemed necessary by the Comptroller to compile and publish the State's CAFR by October 31st.

Generally accepted accounting principles require the Department to adjust its financial statements for information that becomes known prior to the issuance thereof (Governmental Accounting Standards Board Statement No. 56). Further, good internal controls over financial reporting and compliance require the Department to ensure its GAAP packages and other reported data is accurate and complete to enable the timely preparation and audit of the State's CAFR.

Department management stated the error was due to a lack of detailed communication between the managed care and financial reporting areas which resulted in the estimate not being updated for this change.

Failure to ensure financial transactions are reported properly in accordance with GAAP resulted in material errors within the Department's draft financial statements, negatively impacted the information compiled within the State's CAFR, and represents noncompliance with State law. (Finding Code No. 2019-007, 2018-009, 2017-003, 2016-004)

<u>RECOMMENDATION</u>

We recommend the Department strengthen its internal controls to ensure its financial statements are updated for known changes affecting year end account balances.

DEPARTMENT RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will strengthen its controls to obtain monthly updates on significant estimates used in the calculation of the medical accrual liability.

2019-008 **FINDING** (Incorrect claim payments)

The Department of Healthcare and Family Services (Department) made incorrect payments to Managed Care Organizations (MCOs).

In order to administer the State's Medicaid Program, the Department's Medicaid Management Information System (MMIS) processes Medicaid claims submitted by medical providers and MCOs for services rendered to Medicaid-eligible recipients, and generates the related payments. During the fiscal year, the Department processed approximately 228,116,398 claims totaling $16.1 billion.

We selected a sample of claim types (Capitation, Non-Institutional Providers (NIPs), and Pharmacy) from all claim types paid by the Department during fiscal year 2019 to ensure payments were consistent with the applicable rate tables.

The Department reimburses medical providers using two methods: fee-for-service and managed care payment methods. Under managed care, the Department makes fixed payments called capitation payments to MCOs for recipients enrolled in the program. NIPs payments are paid to medical providers for individuals on a fee-for-service basis. Pharmacy payments are paid to medical providers for medications that are medically necessary for Medicaid recipients, which includes both prescription and over the counter products.

Our testing identified 426,029 claims that were paid in error, resulting in an underpayment totaling $1,678,019. Specifically, the auditors noted the following:

- Capitation Payments
  - 2,345 claims did not have accurate provider information and should not have been paid. As a result, the Department overpaid MCOs $918,993.
  - 394,409 claims had a rate used to make the payment which was different from the defined rate (actuarially approved rate), resulting in the Department underpaying the MCOs $3,264,370.

- Pharmacy
  - 26,846 claims had a net liability amount which did not agree to the auditor's calculated net liability based on information provided by the Department. The net error for these claims is an overpayment to providers of $873,020.
  - 1,795 compound drug claims had a net liability amount which did not agree to the auditor's calculated net liability based on information provided by the Department. The net error for these claims is an overpayment to providers of $15,404.
  - 634 Critical Care Provider claims had a net liability amount which did not agree to the auditor's calculated net liability based on information provided by the Department. The net error for these claims is an underpayment to providers of $221,066.

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

Department management indicated these errors were due to system issues and adjustments that had not been processed yet.

Failure to establish internal controls to ensure medical providers submit proper claims and the Department reimburses providers at the proper federally approved rate results in the State not paying medical providers the correct amounts, which could also lead to future misstatements of the Department's financial statements and the Statewide financial statements.. (Finding Code No. 2019-008, 2018-013, 2017-005)

RECOMMENDATION

We recommend the Department implement controls to confirm claims are properly processed at the approved rate. Specifically, the Department should ensure all claims are paid at the correct rate and all required information is provided by the medical providers and the MCOs. In the event all information is not provided by the medical provider or the MCO, the claim should be voided.

DEPARTMENT RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation and has already implemented an additional layer of review of all rates being manually entered and the components of the calculation. All errors have been corrected in the Department's systems, and all overpayments or underpayments are being paid or recouped through adjustments to the payment records. It should be noted that the Department takes every error very seriously and routinely makes correction adjustments to MCOs.

2019-009 **FINDING** (Insufficient review and documentation of provider enrollment determinations and failure to execute interagency agreements)

The Department of Healthcare and Family Services (HFS), and the Department of Human Services (DHS) (collectively, the "Departments") failed to design and implement adequate internal controls over the operation of the State of Illinois' Illinois Medicaid Program Advanced Cloud Technology system (IMPACT). Specifically, we noted the Departments did not sufficiently review and document approval for provider enrollments and had not entered into interagency agreements (IA) defining each agency's roles and responsibilities.

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

HFS' and DHS' Roles

As set by the State of Illinois' State Plan under Title XIX of the *Social Security Act* (State Plan) (Section 1.1), the State's designated agency responsible for administering and supervising the administration of the Medicaid Program is HFS. However, Section 1.1 of the State Plan 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. 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) services.

Auditor Testing and Results

Interagency Agreements

We noted the Departments did not have interagency agreements defining the specific roles and responsibilities.

Quality/Supervisory Reviews Not Conducted

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

Detail Sample Testing

Based on the population provided by HFS, during Fiscal Year 2019, 26,529 provider applications were approved. In order to determine if the providers' applications were approved in accordance with federal and State laws/rules/regulations, a sample of 40 approved applications were selected for testing. Our testing of the 40 provider files noted:

- 38 approved provider applications included requests for the applicable Department to backdate their enrollment beginning dates. Of those 38 approved applications we noted:
  - 28 (74%) provider files were for providers who requested the applicable Department to backdate their eligibility beginning dates. However, the provider's file did not contain documentation of the Department's reason for allowing an exception and thereby backdating the provider's enrollment. As a result, we could not determine if the backdating of enrollment, and the subsequent payments was proper.
  - 4 (11%) provider files were backdated in excess of HFS' policy, ranging from 19 to 413 days past the 180 day limit.

- 8 (20%) provider files did not contain documentation the applicable Department reviewed the provider's required professional license or board certification to confirm the licenses/certifications were valid at the time the application was approved.

- 3 (8%) provider files did not have documentation the applicable Department confirmed the provider's national board certification end date. In fact the certifications were recorded with open ended expiration dates within IMPACT.

- 1 (3%) provider file noted a felony charge during the screening process. However, there was no documentation the application was sent to the Office of Inspector General (OIG) for detailed review and approval.

DHS Testing
DHS is responsible for the review and approval of the following providers:

- Division of Substance Use Prevention and Recovery (SUPR) – Various Block Grant Programs,
- Division of Developmental Disabilities (DD) – Community Integrated Living Arrangement (CILA) Program,
- Division of Developmental Disabilities (DD) – Home Based Services Program,
- Division of Rehabilitation Services (DR) – Home Services Program,
- Division of Mental Health (MH) – Community Mental Health Care (CMHC), and
- Division of Family and Community Services (FCS) – Early Intervention.

During our testing, we determined DHS did not utilize IMPACT as the book of record or rely on it to verify their providers met certain Medicaid requirements prior to approving them to provide services. In fact, DHS was performing procedures to determine if the providers met certain Medicaid eligibility requirements outside of IMPACT. Upon completion of those procedures, DHS entered the information into IMPACT and approved the provider in order to grant the approval for payment. However, DHS did not regularly follow-up on discrepancies identified upon IMPACT completing verification of information, background checks, and professional licensing.

Additionally, on a monthly basis IMPACT checks provider profiles against several databases to determine if the provider licenses are valid and current, and identifies suspected criminal activity. However, we determined DHS was not regularly following up on noted issues.

Although DHS performed various procedures in determining if providers met the Medicaid eligibility requirements, we noted there was no consistent process for reviewing issues identified and reporting to HFS to ensure only eligible providers were paid with federal and/or State funds.

Given IMPACT is the State's book of record for determining provider eligibility and subsequent approval of payment to Medicaid providers and the fact DHS is not utilizing IMPACT as intended, the Departments cannot ensure the payments made to DHS' providers are appropriate and eligible for federal reimbursement.

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

The *Medicaid Provider Enrollment Compendium* notes it is incumbent on the Departments to mitigate the risk of an improper enrollment, as payments for the backdated period are improper unless an exception applies. HFS' *Individual Approval Process Checklist* states applications may be backdated up to 180 days, if requested by the applicant.

The Code of Federal Regulations (Code) (42 C.F.R. §455.412(a)) requires the Department to have a method for verifying that any provider claiming to be licensed in accordance with the laws of any State is licensed by such state. In addition, HFS' *Approval Process Document, applicable to Atypical Individuals and Individuals*, requires Departments' staff reviewing licenses to document their review of ensuring the licenses were valid and current in the comments section in IMPACT.

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

HFS' *Approval Process Document, applicable to Atypical Individuals and Individuals*, requires Departments' staff to send applications with felonies to the OIG for review and determination of approval.

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

In the prior audit, Departments' management indicated the control deficiencies were due to employee oversight. In the current audit, Departments' management indicated they had not had sufficient time to collect information and develop interagency agreements. Additionally, the Departments' management indicated the errors associated with the approved applications were due to employee oversight.

Inadequate controls over the operation of IMPACT, such as insufficient review and approval of provider enrollment information, may result in providers being inaccurately determined eligible, the State expending federal and State funds for which provider enrollment has not been adequately demonstrated or documented, and may result in future expenditures to providers who are ineligible to provide services to recipients of the State's Medicaid Program. Noncompliance with federal laws and regulations could lead to denied claims, sanctions and/or loss of future federal funding and result in misstatement of agency financial statements. Additionally, failure to execute interagency agreements could expose the State to unnecessary and avoidable litigation. (Finding Code No. 2019-009, 2018-003)

RECOMMENDATION

We recommend management of the Departments improve controls to ensure each Departments' staff and supervisors are properly obtaining, reviewing, and retaining documentation in IMPACT to support Medicaid provider enrollment.

Additionally, we recommend the Departments execute detailed interagency agreements defining the roles and responsibilities of each agency regarding the Medicaid program. The interagency agreements should sufficiently address the necessary procedures to enforce monitoring and accountability provisions over IMPACT as required by the Code of Federal Regulations and the State Plan so the enrollment of providers offering services is carried out in an efficient and compliant manner.

Furthermore, we recommend DHS utilize IMPACT as their book of record for provider enrollment. DHS should also develop controls to review any noted issues and notify HFS of any issues affecting eligibility.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. The IMPACT Provider Enrollment Subsystem requires staff to review and update any information that cannot be systemically verified. Furthermore, the system retains an audit trail which indicates updates to the system and the corresponding date, time and employee making the update. Although on some occasions, HFS Provider Enrollment staff failed to properly comment regarding the action they took to manually verify information, the Department provided post audit documentation to substantiate that all providers were eligible at the time that they were approved. This should help to minimize the concern that providers were inaccurately determined to be eligible to provide Medicaid services. HFS has adopted a formal quality assurance process that has been memorialized in a new Standard Operating Procedure (SOP). In addition, HFS is updating existing SOPs, where appropriate, to clearly outline the comment requirements and providing sample comment suggestions to standardize the process amongst all staff. These updates will be shared with staff during future staff training sessions. All SOPs have also been incorporated into the sister agency Interagency Agreements that have been drafted.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Department of Human Services (DHS) accepts the recommendation. DHS will provide written documentation in IMPACT of the documentation and databases that were used to manually verify eligibility. Documentation such as a provider's license or certification will be maintained on file with the Department. As the lead Medicaid Agency, HFS is coordinating with each state agency to define the roles and responsibilities regarding the Medicaid program. DHS will continue to cooperate and comply with the guidance provided by HFS during the interim while the Interagency Agreement is being developed. DHS will continue to collaborate with HFS to execute an interagency agreement that sufficiently addresses the necessary procedures to enforce monitoring and accountability provisions over IMPACT as required by the Code of Federal Regulations so the providers offering services is carried out in an efficient and compliant manner.

Furthermore, DHS agrees that IMPACT is the book of record for determining Medicaid eligibility. DHS will cooperate with HFS to develop adequate controls to ensure applications are reviewed and a process is established for notifying HFS of any issues affecting eligibility. The process of notifying HFS of issues affecting eligibility and the roles and responsibilities for determining a provider's eligibility will be addressed in the Interagency Agreement.

2019-010 **<u>FINDING</u>** (Inadequate general information technology controls over IMPACT)

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

In calendar year 2012, the Department of Healthcare and Family Services and the State of Michigan's Department of Community Health entered into agreements 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).

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

<u>Security over Illinois Users</u>

As we noted in the prior year finding, due to 1) the lack of reporting functionality within IMPACT and 2) the Departments not requesting the TSP to develop and provide ad hoc reports, the Departments' management did not perform access reviews. Although the Departments obtained the reporting functionality in March 2019, they still had not implemented a formalized review of user access rights during the audit period.

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 individuals' IMPACT access. In our testing of 8 terminated IMPACT users, we noted 6 (75%) users had their access terminated 14 to 482 days after their termination of employment.

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

<u>Disaster Recovery and Backups</u>

The Departments did not have a disaster recovery plan for IMPACT and had not conducted recovery testing of IMPACT during the audit period.

In addition, we requested documentation regarding the backup, including the Departments' due diligence in ensuring the backups were generated successfully, of the Departments' IMPACT data; however, they were unable to provide such documentation.

As a result, of the Departments' failure to implement disaster recovery controls, including the successful performance of backups, the Department has failed to adequately protect IMPACT and the State's data against the possibility of major disruptions of services and the loss of data.

Change Management

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

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

The Code of Federal Regulations (42 C.F.R. §95.621(f)(1)), *ADP System Security Requirement*, requires State agencies 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. State agencies are required to determine the appropriate security requirements based on recognized industry standards or standards governing security of federal ADP systems and information processing.

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

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

The Departments' management indicated the above control deficiencies were due to limited reporting capabilities of IMPACT, employee oversight, and their belief the TSP was responsible for some of the internal controls.

The lack of an adequate disaster recovery plan, the failure to perform sufficient testing of such plan and the failure to successfully and routinely perform backups could result in the Departments' inability to recover IMPACT and data. Failure to understand and document internal controls over user access and changes to IMPACT diminishes the Departments' ability to protect the system and the data from unauthorized changes and accidental or intentional destruction or alteration. (Finding Code No. 2019-010, 2018-002)

RECOMMENDATION

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

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS has implemented a user access review process for IMPACT. The Department has worked with Michigan to develop an IMPACT disaster recovery plan that is near completion, pending final signoff. With advisory consultation from Illinois technical resources, the Department will work with Michigan to ensure clearly defined change control measures are established.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Department of Human Services (DHS) accepts the recommendation. DHS will work with HFS to ensure controls over the implementation and design of IMPACT are adequate.

2019-011 FINDING (Failure to review external service providers' internal controls)

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

The Department utilized 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.

During testing of the 13 service providers, we noted:

- The Department did not obtain System and Organization Control (SOC) reports or conduct independent internal control reviews for 11 external service providers.
- Although the Department had received a SOC report from two of the external service providers, an analysis of the reports had not been conducted to determine the impact of the modified opinions or the noted deviations.
- The Department had not conducted an analysis of the complementary user entity controls (CUECs) documented in the SOC reports.

The Department is responsible for the design, implementation, and maintenance of internal controls related to information systems and operations to ensure resources and data are adequately protected from unauthorized or accidental disclosure, modifications, or destruction. This responsibility is not limited due to the process being outsourced.

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

Department management indicated, as it did in the prior years, that staff were unaware of the requirements to obtain and review SOC reports.

Without having obtained and reviewed a SOC report or another form of independent internal control review, the Department does not have assurance the external service provider's internal controls are adequate to ensure program payments and claims are accurate and secure. (Finding Code No. 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.

DEPARTMENT RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. In August 2018, HFS staff implemented a process to review existing contracts and new procurements to determine whether SOC reports were required. Existing contracts requiring SOC reports were then examined to determine if contract deliverables mandated the production of those documents. The implementation of an internal compliance review process for provided SOC reports has been delayed due to development and implementation of the new SAP accounting system and a lack of subject matter experts within the Department. The Department is actively seeking to procure qualified resources to provide these unique skills and anticipates improvement within FY2021.

PRIOR FINDINGS NOT REPEATED

A. **FINDING** (Failure to perform essential project management functions over the Integrated Eligibility System)

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

Phase II of the IES implementation was completed in FY 2018 and there were no significant project management activities in FY 2019. Upon completion of the next significant projection management activity, the auditors will review the applicable State agency's development project. As a result, this finding is not repeated. (Finding Code No. 2018-004)

B. **FINDING** (Deletion of four months of intake eligibility files and significant problems determining eligibility for Human Services programs)

During the previous engagement, the Department of Healthcare and Family Services and the Department of Human Services lacked controls over eligibility determinations and retention of intake documentation for the State of Illinois' human service programs.

During the current engagement, we noted no instances of missing intake documentation for the IES System. However, we noted continuing issues with determinations of eligibility for human service programs. For further details, see Finding No. 2019-001. (Finding Code No. 2018-005, 2017-008, 2016-001, 2015-002)

C. **FINDING** (Inadequate controls over fiscally monitoring Managed Care Organizations)

During the previous engagement, the Department of Healthcare and Family Services failed to implement adequate monitoring controls over its Managed Care Organizations (MCO's) in accordance with the Code of Federal Regulations and provisions outlined in the MCO's contracts.

During the current engagement, we noted various activities and efforts by the Department to adopt and meet federal monitoring suggested best practices and requirements. As a result, this finding is not repeated. (Finding Code No. 2018-010, 2017-001)

D. **FINDING** (Duplicate payments to Medicaid Managed Care Organizations)

During the previous engagement, the Department of Healthcare and Family Services lacked adequate controls over payments to Managed Care Organizations (MCOs), resulting in duplicate payments.

During the current engagement, we noted the Department's internal controls over payments to MCOs improved; however, we continued to note immaterial problems. As such, this matter is reported in the Department's State Compliance Examination *Report of Immaterial Findings*. (Finding Code No. 2018-011)

E. **FINDING** (Inaccurate rates used to pay Managed Care Organizations)

During the previous engagement, the Department of Healthcare and Family Services made inaccurate payments to Managed Care Organizations (MCOs) as a result of utilizing incorrect capitation rates.

During the current engagement, we noted the Department corrected and used the actuarially-determined rates. This finding is not repeated. (Finding Code No. 2018-012, 2017-004)

F. **FINDING** (Inadequate and untimely disclosures)

During the previous engagement, the Department of Healthcare and Family Services did not ensure its financial statement note disclosures were complete and appropriate and did not timely communicate significant matters to the auditors.

During the current engagement, we did not note similar instances of incomplete disclosures or communications. This finding is not repeated. (Finding Code No. 2018-015)

G. **FINDING** (Statewide failure to execute interagency agreements and perform essential project management functions over provider enrollment in the Medicaid program)

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

Phase 2 of the IMPACT implementation was completed in FY 2018 and there were no significant project management activities in FY 2019 at DHS or HFS during the audit period. Upon completion of the next significant project management activity, the auditors will review the applicable State agency's development project. The financial audit of DCFS and the State compliance examination of DoA are biennial engagements, and therefore the prior year findings statuses will be followed up on for the reporting year ended June 30, 2020 and for the two years ended June 30, 2020, respectively. As a result of the aforementioned reasoning, this portion of the prior year finding is not repeated. The auditors have, however, reported in Finding 2019-009 that the Departments have not entered into IAs defining each agency's roles and responsibilities over IMPACT. (Finding Code No. 2018-001)