



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF HUMAN SERVICES

**Financial Audit
For the Year Ended: June 30, 2010**

Release Date: April 28, 2011

**Summary of Government Auditing
Standards Findings:**

Total this report	5
Total last report	6
Repeated from last report:	5

INTRODUCTION

This digest covers our financial audit of the Department of Human Services (Department) for the year ended June 30, 2010. A two year compliance attestation examination and a one year financial statement audit will be performed for the period(s) ending June 30, 2011. The auditors identified four findings involving the internal control over financial reporting and one finding related to noncompliance with laws, rules and regulations that affect financial reporting. The findings are presented in the report beginning at page 52. Following is a summary of three of the findings included in this report digest.

SYNOPSIS

- Weaknesses were identified in the preparation of the generally accepted accounting principle (GAAP) reporting forms submitted to the Illinois Office of the Comptroller and preparation of year-end Department financial statements.
- The Department had various internal control weaknesses over commodity inventories at several locations.
- Two of the Department's Centers remained decertified as eligible Medicare or Medicaid service providers.

{Financial data is summarized on the reverse page.}

DEPARTMENT OF HUMAN SERVICES

FINANCIAL AUDIT

For The Year Ended June 30, 2010

FINANCIAL INFORMATION - Governmental funds (in thousands)	FY 2010	FY 2009
REVENUES		
Program revenue: charges for service.....	\$ 49,816	\$ 66,284
Program revenue: operating grants.....	4,542,763	3,718,031
General revenue: taxes, interest and other.....	8,781	7,922
Total revenue (1).....	<u>\$ 4,601,360</u>	<u>\$ 3,792,237</u>
EXPENDITURES		
Health and social services.....	\$ 7,883,758	\$ 7,391,386
Debt service - principle.....	619	241
Debt service - interest.....	42	35
Capital outlays	2,439	1,016
Total expenditures (2).....	<u>\$ 7,886,858</u>	<u>\$ 7,392,678</u>
OTHER SOURCES (USES)		
Appropriations from State resources.....	\$ 4,129,274	\$ 4,406,735
Transfers in.....	102,942	105,534
Transfers out.....	(103,744)	(105,694)
Receipts collected & transmitted to the State treasury.....	(629,359)	(661,193)
Lapsed appropriation.....	(60,939)	(104,490)
Other.....	(94,804)	(77,875)
Total other sources (uses) (3).....	<u>\$ 3,343,370</u>	<u>\$ 3,563,017</u>
FUND BALANCE		
Increase (decrease) in fund balance (1) - (2) + (3).....	\$ 57,872	\$ (37,424)
Fund balance July 1.....	79,464	117,431
Increase (decrease) for changes in inventories.....	834	(543)
Fund balance June 30.....	<u>\$ 138,170</u>	<u>\$ 79,464</u>
SELECTED ACCOUNT BALANCES - June 30, Governmental funds (in thousands)	2010	2009
ASSETS		
Cash and cash equivalents & investments.....	\$ 184,940	\$ 193,597
Due from other governments - federal & local.....	266,907	187,268
Loans, taxes and other receivables, net.....	50,076	43,983
Due from other Department and State funds.....	29,489	22,505
Inventories.....	9,420	8,586
Unexpended appropriations.....	265,450	270,403
Total assets.....	<u>\$ 806,282</u>	<u>\$ 726,342</u>
LIABILITIES		
Accounts payable and other liabilities.....	\$ 404,888	\$ 415,772
Unearned revenue.....	72,227	61,762
Due to other funds - State, federal, local & Department.....	90,726	78,579
Unavailable revenue.....	100,271	90,765
Total liabilities.....	<u>\$ 668,112</u>	<u>\$ 646,878</u>
FUND BALANCE		
Fund balance, reserved and unreserved.....	\$ 138,170	\$ 79,464
Total liabilities and fund balance.....	<u>\$ 806,282</u>	<u>\$ 726,342</u>
SECRETARY		
During Audit Period: Carol L. Adams, Ph.D (through 10/31/09); Michelle R. B. Saddler (10/11/09 through 09/30/10); Grace Hong Duffin (Acting, 10/01/10 through 12/16/10) Currently: Michelle R. B. Saddler (effective 12/16/10)		

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

WEAKNESSES IN PREPARATION OF FINANCIAL INFORMATION AND GAAP REPORTING FORMS

During the audit of the June 30, 2010 Department financial statements numerous problems were noted. Some of the conditions identified are as follows:

Financial reporting forms contained numerous errors and financial statements were provided 5 months late

- Year end Generally Accepted Accounting Principle (GAAP) reports submitted to the State Comptrollers' Office contained numerous inaccuracies and required corrections which delayed audit testing of the financial statements and the Schedule of Expenditures of Federal Awards prepared by the Department. Auditors did not receive the final draft of the financial statements from the Department until February 22, 2011, approximately five months late.

Duplicated liabilities resulted in a \$23.420 million adjustment

- During testing of liabilities for the General Revenue Fund, auditors noted amounts that were duplicated. As a result, an adjusting entry in the amount of \$23.420 million was proposed by the auditors and made by the Department to correct the misstatement.

Receivables totaling \$11.889 million were not recorded

- Receivable totaling \$11.889 million in the USDA Women, Infants and Children Fund were not recorded or considered when completing the fund GAAP reporting package. As a result, current year expenditures were overstated by this amount. This resulted in the auditors proposing a material adjustment to correct the misstatement.

Submitted GAAP reporting form was revised two times to correct errors of \$12.521 and \$5 million.

- Expenditures as originally reported for the Rehabilitation Services program were understated by \$12.521 million. The Department identified the error and submitted an updated GAAP report to the Comptroller. Upon subsequent completion and final reconciliation of expenditures for the program, the Department noted expenditures reported for the fund were not accurate. As a result, the GAAP reporting form required a second revision to reduce expenditures by \$5 million.

Department attributed problems to delays in receiving financial information from other sources and staffing

Department Management attributed the delays and errors to the late submission of financial information from other State agencies and component units, as well as a lack of sufficient staff with adequate qualifications, education and experience to prepare the GAAP forms and financial statements.

Because of significance of the exceptions this is noted as a material weakness in the Department's internal control

Because of the significance of the weaknesses in preparation of GAAP reporting forms submitted to the Illinois Office of the Comptroller and preparation of year end Department financial statements, this is considered a material weakness in the Department's internal control. 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. (Finding 10-1, pages 52-55)

We recommended the Department implement procedures and cross-training measures to ensure GAAP Reporting Packages are prepared in a timely, accurate and complete manner.

Department accepted the auditor's recommendation

Department officials accepted the recommendation and indicated they are working to gain approval to hire staff with necessary qualifications and a corrective action plan is being implemented that includes cross-training wherever possible.

INADEQUATE CONTROLS OVER COMMODITIES

During testing several exceptions and weaknesses were noted in the area of commodity inventories. The exceptions and weaknesses were noted at individual facilities, multiple warehouses, and Central Office locations. Following are some of the inventory problems noted during testing:

Facilities failed to perform timely year-end inventories

- Nineteen facilities, 2 warehouses, and 13 pharmacies failed to perform a complete year-end physical inventory count in close proximity to the end of the fiscal year.

Segregation of duties issues regarding annual inventory counts were noted

- Weaknesses in segregation of duties for annual inventory counting were noted at nine of twenty-one (43%) locations.

Errors noted in year-end inventory count documents

- Three clerical errors in year-end inventory count documentation were noted including incomplete forms and incorrect inventory count dates.

Department expended over \$26.14 million for commodities in fiscal year 2010

Strong internal controls require a centralized oversight function related to commodities. This is important considering the Department made commodities expenditures of \$26.14 million during fiscal year 2010. In addition, the Department recorded ending commodity inventories of \$9.42 million at June 30, 2010. (Finding 10-2, pages 56-58) **This finding was first reported in 1999.**

We recommended the Department continue strengthening its oversight function related to commodities to allow for improved internal controls.

Department agreed with the recommendation

Department officials agreed with the recommendation and noted they will identify strategies to continue strengthening its oversight function related to commodities. (For the previous Department response, see Digest Footnotes #1.)

FAILURE TO COMPLY WITH MEDICARE AND MEDICAID CERTIFICATION REQUIREMENTS

Two facilities remained decertified as eligible Medicare and Medicaid providers

Two of the Department's facilities, Howe Developmental Center (Howe) and Tinley Park Mental Health Center (Tinley), continued to remain decertified during fiscal year 2010 as eligible Medicare or Medicaid service providers.

\$21.6 million in federal revenue lost at Howe prior to closing in fiscal year 2010

The Department lost approximately \$21.646 million of federal revenue during fiscal year 2010 due to the decertification status of Howe. As the process of closing Howe proceeded, and residents were moved from Howe into settings that were certified, the revenue lost was reduced.

Tinley Park continues to remain out of compliance and decertified

Tinley, which was decertified on February 23, 2007, had applied for its recertification. A certification survey was completed on September 16, 2009, on October 21, 2009 a report ruling was issued that Tinley remained out of compliance and that the facility remain decertified. The Department disagreed with the report and filed an appeal on December 16, 2009 which was denied. A request for a hearing was submitted and was also denied. The Department must now initiate a new application for certification of Tinley.

Medicaid / Medicare patients that would have been housed at Tinley Park are sent to other State facilities

As of June 30, 2010, Tinley did not maintain housing for any Medicare/Medicaid patients. A screening process was implemented at Madden Mental Health Center to identify patients with Medicaid or Medicare eligibility. These patients were sent to State hospitals with certification, as opposed to Tinley, increasing the burden to provide care at those locations. (Finding 10-5, pages 63-64) **This finding was first reported in 2007.**

We recommended the Department continue its efforts to recertify Tinley Park Mental Health Center.

Department agreed with the recommendation

Department officials agreed with the recommendation and indicated the Department will continue its efforts to recertify Tinley Park Mental Health Center and will reapply for certification by the end of fiscal year 2012. (For the previous Department response, see Digest Footnotes #2.)

OTHER FINDINGS

The remaining findings are reportedly being given attention by the Department. We will review the Department's progress towards the implementation of our recommendations in our next engagement.

AUDITORS' OPINION

The auditors stated the Department of Human Services financial statements as of June 30, 2010 and for the year then ended were presented fairly in all material respects.



WILLIAM G. HOLLAND
Auditor General

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SPECIAL ASSISTANT AUDITORS

Sikich LLP were our Special Assistant Auditors for this engagement.

DIGEST FOOTNOTES

**#1 - INADEQUATE CONTROLS OVER COMMODITIES –
Previous Department Response**

2009: Accepted. The Department will continue strengthening its oversight function related to commodities and the process of obtaining a new Asset Management System to allow for improved internal control.

**#2 - FAILURE TO COMPLY WITH MEDICARE AND
MEDICAID CERTIFICATION REQUIREMENTS -
Previous Department Response**

2009: Accepted. The Division of Mental Health will continue its efforts to recertify Tinley Park Mental Health Center. In an effort to reduce the amount of revenue lost in the General Revenue Fund, the Howe Developmental Center, in fiscal year 2010 year to date (5/25/10), has facilitated 62 community transitions and 170 State Operated Developmental Center transfers to restore Federal Financial Participation (FFP) / lost revenue. The remaining individuals residing at Howe (30) are projected to transition or transfer by June 18, 2010, thus restoring FFP. The effective closure date of the Center is scheduled for June 30, 2010.