



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF CHILDREN AND FAMILY SERVICES

**Financial Audit
 For the Year Ended June 30, 2018**

Release Date: August 22, 2019

FINDINGS THIS AUDIT: 3	AGING SCHEDULE OF REPEATED FINDINGS			
	Repeated Since	Category 1	Category 2	Category 3
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	
Category 1:	3	0	3	No Repeat Findings
Category 2:	0	0	0	
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>	
TOTAL	3	0	3	
FINDINGS LAST AUDIT: 0				

INTRODUCTION

This digest covers the Department of Children and Family Services' Financial Audit as of and for the year ended June 30, 2018. The Department of Children and Family Services' Compliance Examination covering the two years ended June 30, 2018 will be released under separate cover.

SYNOPSIS

- **(18-1)** The Departments (HFS, DHS, DCFS, DoA) 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).

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| <p>Category 1: Findings that are material weaknesses in internal control and/or a qualification on compliance with State laws and regulations (material noncompliance).</p> <p>Category 2: Findings that are significant deficiencies in internal control and noncompliance with State laws and regulations.</p> <p>Category 3: Findings that have no internal control issues but are in noncompliance with State laws and regulations.</p> |
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{Expenditures and Activity Measures are summarized on next page.}

**DEPARTMENT OF CHILDREN AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2018**

STATEMENT OF NET POSITION (in thousands)	2018
Assets	
Unexpended appropriations.....	\$ 59,893
Cash equity with State Treasurer.....	148,215
Cash and cash equivalents.....	1,484
Securities obligations.....	1
Due from other government - federal.....	62,431
Other receivables, net.....	1,827
Due from other State Fiduciary funds.....	354
Due from other State funds.....	259
Prepaid expenses	780
Capital assets being depreciated, net	391
Total assets.....	275,635
Deferred Outflows of Resources	
Pension.....	211,796
OPEB.....	115,333
Total deferred outflows of resources.....	327,129
Total Assets and Deferred Outflows of Resources.....	602,764
Liabilities	
Accounts payable and accrued liabilities.....	134,649
Intergovernmental payables.....	2,566
Due to other State Fiduciary funds.....	65
Due to other State funds.....	14,934
Due to State of Illinois component units.....	8,978
Obligations under Securities Lending of State Treasurer.....	1
Unearned revenue.....	1
Compensated absences	
Due within one year.....	1,891
Due subsequent to one year.....	17,015
Net pension liability.....	1,695,681
Total OPEB liability.....	1,153,815
Total Liabilities.....	3,029,596
Deferred Inflows of Resources	
Pension.....	106,745
Deferred amount on refunding of long-term obligation.....	110,300
Total deferred inflows of resources.....	217,045
Total Liabilities and Deferred Inflows of Resources.....	3,246,641
Net Position	
Invested in capital assets, net of related debt.....	391
Restricted net position.....	238
Unrestricted net position.....	(2,644,506)
Total Net Position.....	\$ (2,643,877)

STATEMENT OF ACTIVITIES (in thousands)	2018
Total Expenses.....	\$ 1,376,435
Program Revenues:	
Total Charges for Services.....	19,624
Total Operating Grant Revenue.....	405,475
Net program revenues (expense).....	(951,336)
Total General Revenues.....	69
Total Other Sources (Uses).....	831,926
Change in Net Position.....	(119,341)
Net Position, Beginning of Year	(2,524,536)
Net Position, End of Year.....	\$ (2,643,877)

AGENCY DIRECTOR

During Engagement Period: Beverly J. Walker - Acting
Currently: Marc D. Smith - Acting

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**STATEWIDE FAILURE TO EXECUTE
INTERAGENCY AGREEMENTS AND PERFORM
ESSENTIAL PROJECT MANAGEMENT FUNCTIONS
OVER PROVIDER ENROLLMENT IN THE MEDICAID
PROGRAM**

**Inadequate internal controls over
IMPACT**

The Department of Healthcare and Family Services (HFS), the Department of Human Services (DHS), the Department of Children and Family Services (DCFS), and the Department on Aging (DoA) (collectively, the “Departments”) failed to execute adequate internal controls over the implementation and operation of the State of Illinois’ Illinois-Michigan Program Alliance for Core Technology system (IMPACT). Specifically, 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.

**Interagency agreements not entered
into by Departments**

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

**HFS responsible for the State’s
Medicaid Program**

**DHS administers human services
programs under Medicaid**

**DCFS administers child welfare
program under Medicaid**

**DoA administers programs for the
elderly under Medicaid**

Auditor Testing and Results

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

**No agreements defining roles of the
Departments**

- The Departments did not have current, formal written agreements defining the roles and responsibilities of HFS or

its Delegated Agencies of the Medicaid Program.

DHS did not use IMPACT as book of record or to verify providers

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

DCFS & DoA did not use IMPACT after approving providers

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

Officials unable to create internal control reports with IMPACT

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

Issues with procedures governing IMPACT

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

Failure to establish IT controls over IMPACT

- The Departments failed to establish and maintain adequate general information technology controls over IMPACT.
- The Departments had inadequate project management over the implementation of IMPACT. According to the

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

Issues with agreement deliverables regarding IMPACT

- HFS did not receive 9 of the 60 (15%) required deliverables,
- For 39 of the 51 (76%) deliverables received, there was no supporting documentation to demonstrate HFS had approved them, and
- One of the 51 (2%) deliverables received, the PE Implementation Plan, was noted as “draft”. As a result, HFS does not have supporting documentation to show it received and approved the “final” version of the deliverable. The purpose of the PE Implementation Plan was to define the overall approach for the implementation of the PE module of IMPACT.

Lack of adequate security controls over IMPACT

- As a result of inadequate project management, the Departments did not implement adequate security controls over IMPACT.

Insufficient review of enrollment determinations

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

Failure to execute IAs and failure to perform essential project management functions could expose the State to unnecessary and avoidable litigation, approval of ineligible providers, excessive expenditures, over-reliance on contractors, and could result in a system that does not meet the needs of the State and the individuals dependent on the State for Medicaid services. In addition, the Departments’ lack of due diligence in performing project management responsibilities has led to a significant increase in project timeline and associated costs. (Finding 1, pages 54-60)

We recommended management of the Departments execute detailed IAs which define the roles and responsibilities of each

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

Department agrees with auditors

Department officials agreed with the recommendation and stated they look forward to discussions and will work towards executing agreement(s) that will define its role, responsibilities and cooperation with other State agencies with regard to IMPACT and the State's Medicaid Program.

OTHER FINDINGS

The remaining findings pertain to inadequate general information technology controls over IMPACT and insufficient review and documentation to provide enrollment determinations. We will review the Department's progress towards the implementation of our recommendations in our next audit.

AUDITOR'S OPINION

The auditors stated the financial statements of the Department as of and for the year ended June 30, 2018, are fairly stated in all material respects.

This financial audit was conducted by Sikich, LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

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

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:APA