



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

Financial Audit

For the Year Ended: June 30, 2013

Compliance Examination

For the Two Years Ended: June 30, 2013

Summary of Findings:

Total this audit: 8

Total last audit: 12

Repeated from last audit: 3

Release Date: May 29, 2014

INTRODUCTION

This report covers our financial audit for the year ended June 30, 2013 and compliance examination for the two years ended June 30, 2013 of the Illinois Department of Healthcare and Family Services (Department).

SYNOPSIS

- The Department's year-end financial reporting contained weaknesses and inaccuracies.
- The Department's fiscal year 2013 records of individuals eligible for participation in the medical assistance program under Title XIX of the Social Security Act included individuals that are deceased according to the Illinois Department of Public Health data.
- The Department's eligibility files included duplicate enrollees for its medical assistance program under Title XIX of the Social Security Act.
- The Department and the Office of Health Information Technology (OHIT), a unit of the Office of the Governor, lacked adequate oversight in the development of the Illinois Health information Exchange project.

{Expenditures and Activity Measures are summarized on the reverse page.}

**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2013**

EXPENDITURE STATISTICS (expressed in thousands)	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2011
Total Expenditures	\$ 16,102,625	\$ 17,745,876	\$ 17,806,416
OPERATIONS TOTAL.....	\$ 1,417,671	\$ 5,358,354	\$ 5,708,952
% of Total Expenditures.....	8.80%	30.19%	32.06%
AWARDS AND GRANTS.....	\$ 14,684,954	\$ 12,387,522	\$ 12,097,464
% of Total Expenditures.....	91.20%	69.81%	67.94%
Total Receipts	\$ 12,293,567	\$ 11,987,820	\$ 13,996,877
Average Number of Employees (Unaudited)	2,097	2,190	2,280

SELECTED ACTIVITY MEASURES	2013	2012	2011
Adjudication Processing Time Elapsing in Calendar Days (Unaudited).....	16.9 days	40.6 days	21.3 days
Accounts Payable and Accrued Liabilities - General Revenue Fund (in thousands).....	\$ 1,834,475	\$ 3,273,418	\$ 1,007,485

AGENCY DIRECTOR
During Examination Period: Ms. Julie Hamos
Currently: Ms. Julie Hamos

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**WEAKNESSES IN INTERNAL CONTROL OVER
FINANCIAL REPORTING**

The Department's year-end reporting in accordance with generally accepted accounting principles (GAAP) submitted to the Illinois Office of the Comptroller contained weaknesses and inaccuracies.

Several errors in year-end financial reporting

Several errors were identified during the audit of the Department's draft financial statements. The errors were deemed immaterial to the financial statements taken as a whole and, therefore, adjusting journal entries were not made.

Some of the conditions we noted follow:

Medical accrual liabilities understated by \$27.5 million

- In making the year-end medical accrual computation, the Department omitted \$301,000 of vouchers from the year-end bills on hand and also had a mathematical error totaling \$27,152,000 with respect to prompt pay interest that is considered by the Department to be a component of its "incurred but not received" portion of the medical accrual liability. The result of these errors was an understatement totaling \$27,453,000 of General Revenue Fund accounts payable and expenditures as of June 30, 2013.

Federal share of receivables and deferred revenue understated by \$13.5 million

- After the accrued prompt payment interest was inadvertently omitted from the medical accrual/accounts payable computation, the Department subsequently deducted the prompt pay interest expense from its calculation of Federal reimbursable costs as prompt pay interest is not deemed to be a qualifying federal expenditure. As a result, the Department understated receivables and deferred revenue by \$13,541,000, the applicable federal share of the prompt payment interest error described above.

Child support allowance for uncollectable receivables computation contain an error of \$3.1 million

- When making the year-end child support allowance for uncollectable receivables computation, the Department had a mathematical error totaling \$3,105,000. Therefore, the obligation to others and allowance for uncollectable receivables was understated by the same amount in the Child Support Enforcement Fund. (Finding 1, pages 11-12) **This finding was first reported in 2009.**

We recommended the Department implement internal control procedures to ensure financial reporting is accurate.

Department accepts recommendation

The Department accepted the recommendation and will ensure calculations are reviewed by another preparer before the GAAP packages are finalized. *(For the previous Department response, see Digest Footnote #1.)*

Deceased individuals eligible in the Department's Title XIX medical assistance program

MEDICAL ASSISTANCE RECORDS NOT UPDATED FOR DECEASED INDIVIDUALS

The Department's fiscal year 2013 records of individuals eligible for participation in the medical assistance program under Title XIX of the Social Security Act (Title XIX) included individuals that were deceased according to the Illinois Department of Public Health Vital Records data.

8,232 deceased individuals were identified as being eligible

During our comparison of the Department's records of individuals eligible for Title XIX services to the Department of Public Health death records, we identified 8,232 individuals for which the Department of Public Health had a death record, but were included in the Department's system as being eligible for medical services. (We recognized that the Department does not have instantaneous access to death records, and for the purpose of this finding, the 8,232 total includes only those individuals still included as eligible for medical services more than 60 days after their date of death.)

\$12.3 million was paid for capitation and fee-for-service medical costs for 2,850 deceased individuals

We also determined the Department paid \$12.3 million for capitation and fee-for-service medical costs for 2,850 of the 8,232 deceased individuals. Capitation costs of \$11.4 million were paid on behalf of 993 individuals whose date of death was more than 60 days prior to the payment date. Of the 993 individuals whose date of death was more than 60 days prior to the payment date, we identified 561 who were enrolled in managed care and had capitation services paid on their behalf more than 90 days after their date of death. Due to the fact that these individuals were deceased, the State in most cases was not paying for any fee-for-services expenses for these individuals after their date of death. However, once the Department enrolled these 561 deceased individuals into managed care, the State began paying their monthly premiums, which totaled \$6.96 million through October 1, 2013 which was the last set of data received in connection with this testing. (Finding 2, pages 13-16)

We recommended the Department improve its system of controls to ensure death dates for current enrollees are entered into its eligibility system and ensure that deceased individuals are not enrolled in managed care. We also recommended the Department take action to recover the payments it made on behalf of individuals for capitation or fee-for-services related to periods after their date of death.

Department accepted the recommendation

The Department accepted the recommendation and stated they have taken immediate corrective action and continues to take action, to identify deceased clients enrolled in Medicaid, to record their death dates, and to recoup all improper payments for these individuals.

Auditor's comment

In news reports made prior to the public release of this audit report, the Department and the Department of Human Services indicated that the majority of the overpayments identified by the auditors in this finding have already been recovered. In the 4 weeks since that statement, the auditors were not provided with documentation from the Departments concerning recovery of overpayments; therefore, the auditors cannot at this time verify whether the Departments have recovered any of the overpayments or whether the Departments have instituted adequate corrective actions to address the finding.

DUPLICATION OF MEDICAL ASSISTANCE ENROLLEES

The Department's eligibility files included duplicate enrollees for its medical assistance program under Title XIX of the Social Security Act (Title XIX).

29,684 Social Security Numbers assigned to 60,840 recipient identification numbers

During our review of the Department's fiscal year 2013 Title XIX eligibility data files, we noted 29,684 Social Security Numbers had been assigned to approximately 60,840 recipient identification numbers. Recipient identification numbers are unique identification numbers that are assigned to enrollees.

\$192,432 paid for duplicative capitation and coordinated care fees

We also identified overpayments for duplicative capitation and coordinated care fee payments made by the Department totaling \$192,432 in fiscal year 2013. These payments were for individuals that had more than one recipient identification number in the eligibility data. (Finding 3, page 17)

We recommended the Department implement controls to ensure only one recipient identification number is assigned to a social security number/individual.

Department accepted the recommendation

The Department accepted the recommendation and stated it will continue to review and correct duplicate IDs and to recover any improper payments.

LACK OF PROJECT MANAGEMENT OVER THE ILLINOIS HEALTH INFORMATION EXCHANGE

Inadequate project management framework

The Department of Healthcare and Family Services (Department) and the Office of Health Information Technology (OHIT), a unit of the Office of the Governor, did not have an adequate project management framework and had not ensured the development process over the Illinois Health

Information Exchange (Exchange) was properly controlled and documented.

As a result of a grant, totaling \$18.8 million, from the U.S. Department of Health and Human Services for the development and implementation of the State-level health information exchange, the Office of the Governor and the Department entered into an interagency agreement for the Department to provide staffing, technical support and be the fiscal agent for the Office of Health Information Technology (OHIT), the office responsible for creating the Exchange. In November 2011, the Department and OHIT entered into a \$7.25 million contract, expiring June 30, 2013, for the development of the State's Exchange.

During our audit, we noted problems in the Exchange project. Some of the problems we noted are as follows:

Exchange not in production by December 2012 as required by contract

- A project management framework to help ensure the exchange project met its timeline and objectives had not been implemented.
- The Exchange was not in production by December 31, 2012, as required by the contract and the contract had not been amended to reflect the change in production date.
- Evidence of review and acceptance of deliverables was lacking.

Contract renewal of \$270,000 was increased to \$2,683,000

- The total of the renewal was \$2,683,000; however, the original contract stated the total for the first year renewal option would be \$270,000.
- As a result of the vendor only providing 34% of the required original deliverables, the contract renewal became an extension of the timeframe for the delivery of the original milestones (deliverables).

Contract renewal relieved vendor from developing a complete and fully functional Exchange

- The renewal relieved the vendor from the requirement to develop a complete and fully functional utilization-based model for the Illinois Health Information Exchange service costs by December 31, 2012, as set forth in the original contract. (Finding 4, pages 18-21)

We recommended the Department and OHIT develop and implement a project management framework and systems development methodology to ensure projects are adequately monitored and documented. Further, we recommended all required contract deliverables and required documentation are developed, received, reviewed, and approved prior to payments and system implementation.

Department did not agree with its mention in the finding, however, the Office of the Governor accepted the recommendation

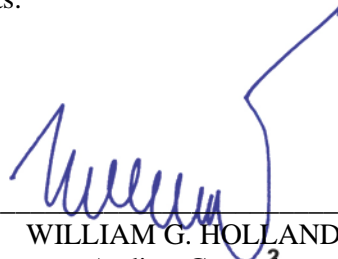
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OTHER FINDINGS

The remaining findings pertain to: (1) inadequate controls over personal services, (2) inadequate controls over collections of accounts receivable, (3) property control weaknesses, and (4) inadequate controls over County Provider Trust Fund. We will review the Department's progress towards the implementation of our recommendations in the next engagement.

AUDITOR'S OPINION

Our auditors stated the Department's financial statements as of and for the year ended June 30, 2013 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:JV

SPECIAL ASSISTANT AUDITORS

Sikich LLP was our special assistant auditors.

DIGEST FOOTNOTES

#1 –Weaknesses in Internal Control Over Financial Reporting –Previous Department Response

Department officials accepted the recommendation and stated that they have and will continue to assess the financial reporting process and related procedures and implement necessary internal control changes to improve the accuracy of the financial statements.