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OFFICE OF THE AUDITOR GENERAL
FRANK J. MAUTINO

MEMORANDUM

TO: Potential Financial Statement Users and Interested Parties

FROM: Sara Metzger, CPA
Assistant Director of Financial and Compliance Audits

DATE: March 21, 2025

SUBJECT: Notice regarding Fiscal Year 2023 Financial Statements of the Department of Healthcare and Family Services

Following the completion of the Department of Healthcare and Family Services' (Department) Fiscal Year 2023 Financial Statement audit, the Department identified an issue with a potentially material impact to the financial statements and brought this issue to the auditors' attention. The auditors have evaluated this subsequently discovered fact in accordance with AU-C 560. Due to the restricted use paragraph and the knowledge that the intended users of the audit are aware of the issue, the auditors agreed with management that the Department's Fiscal Year 2023 Financial Statements do not need to be revised. However, because of the public release requirements of the Auditor General's office, there is potential for unintended users to exist. As a result, we make the following notice:

The subsequently discovered fact likely affects the following accounts in the Governmental Activities and General Fund opinion units:

1. Other Receivables
2. Accounts Payable
3. Unrestricted Net Position/Committed and Unassigned Fund Balance
4. Expenses (Health and social services)/Expenditures (Health and social services)
5. Beginning Net Position/Beginning Fund Balance

At this time, the full impact of the subsequently discovered fact is unknown. Accordingly, the Department's Fiscal Year 2023 Financial Statements should no longer be relied upon.

More information about this matter will be forthcoming upon the completion and release of the State of Illinois' Annual Comprehensive Financial Report for Fiscal Year 2023 and the Department's Fiscal Year 2024 Financial Statements, which will be released at a later date. Please be advised, all information related to current work of the Office of the Auditor General is held confidential until conclusion of the audit. *See 74 Ill. Adm. Code 420.630(b).*



STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

Financial Audit
For the Year Ended June 30, 2023

Release Date: December 19, 2024

FINDINGS THIS AUDIT: 7				AGING SCHEDULE OF REPEATED FINDINGS			
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	5	6	2022	6		
Category 2:	1	0	1	2019	2		
Category 3:	0	0	0	2018	4, 5		
TOTAL	2	5	7	2017	1		
FINDINGS LAST AUDIT: 9							

INTRODUCTION

The digest covers The Department's Financial Audit as of and for the year ended June 30, 2023. A digest covering the Department's State Compliance Examination for the two years ended June 30, 2023, was separately released.

SYNOPSIS

- (23-01) The Departments (HFS and DHS) had weaknesses in the general information technology (IT) controls over the Integrated Eligibility System (IES).
- (23-06) The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) contained weaknesses and inaccuracies.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).

Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.

Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2023

FINANCIAL INFORMATION - Governmental funds (in thousands)	FY 2023	FY 2022
REVENUES		
Program revenue: charges for service.....	\$ 193,385	\$ 92,424
Program revenue: operating grants.....	20,655,095	18,252,712
General revenue: taxes, interest and other.....	3,965,138	3,452,146
Total revenues.....	24,813,618	21,797,282
EXPENDITURES		
Health and social services.....	31,044,496	26,461,601
Debt service - principal.....	6,477	656
Debt service - interest.....	1,629	21
Capital outlays	139,591	34,919
Total expenditures.....	31,192,193	26,497,197
OTHER SOURCES (USES)		
Appropriations from State resources.....	9,213,476	8,494,035
Transfers in.....	40,600	35,600
Transfers out.....	(80,600)	(75,600)
Receipts collected & transmitted to the State Treasury.....	(3,947,852)	(4,618,390)
Lapsed appropriation.....	520,714	754,844
Other.....	84,879	45,000
Total other sources (uses).....	5,831,217	4,635,489
Net change in fund balance.....	(547,358)	(64,426)
Fund balance July 1.....	182,996	247,422
Increase for change in inventories.....	458	-
Fund balance (deficit) June 30.....	\$ (363,904)	\$ 182,996
SELECTED ACCOUNT BALANCES - Governmental funds (in thousands)	June 30, 2023	June 30, 2022
ASSETS		
Cash and cash equivalents & investments.....	\$ 846,147	\$ 1,302,190
Due from other governments - federal & local.....	2,926,487	1,869,926
Loans, taxes and other receivables, net.....	1,782,346	1,873,183
Due from other Department and State funds.....	54,591	18,261
Inventories.....	458	-
Total assets.....	\$ 5,610,029	\$ 5,063,560
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Accounts payable and other liabilities.....	\$ 1,109,171	\$ 688,083
Unearned revenue.....	104,741	98,949
Obligations under securities lending of State Treasurer.....	129,250	189,010
Due to other funds - State, federal, local & Department.....	2,010,241	2,375,071
Deferred inflows of resources.....	2,620,530	1,529,451
Total liabilities and deferred inflows of resources.....	5,973,933	4,880,564
FUND BALANCE (DEFICIT)		
Fund balance (deficit).....	(363,904)	182,996
Total liabilities, deferred inflows of resources and fund balance (deficit).....	\$ 5,610,029	\$ 5,063,560
AGENCY DIRECTOR		
During Audit Period: Theresa Eagleson (7/1/22 - 12/31/23)		
Currently: Elizabeth M. Whitehorn (1/1/24 - Present)		

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE GENERAL INFORMATION TECHNOLOGY (IT) CONTROLS OVER IES

Weaknesses over IES general IT controls

The Department of Healthcare and Family Services (HFS) and the Department of Human Services (collectively, the “Departments”) had weaknesses in the general information technology (IT) controls over the Integrated Eligibility System (IES).

Management of the Departments have a 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 to intake, process (with the assistance of caseworkers), and approve assistance applications, maintenance items, Mid-Point Reports, and redeterminations of eligibility as well as to make payments for the State’s human service programs.

In addition to the conditions noted below, related IES issues over disaster recovery controls are noted in Finding Code No. 2023-002.

Environment

The IES application and data reside on the Department of Innovation and Technology (DoIT) environment. In this regard, DoIT is a service provider to the Departments.

Significant threats over DoIT’s general IT environment were identified

During the Departments’ internal security review, completed as part of its Plan of Actions and Milestones (2023) report to the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS), significant threats over DoIT’s general IT environment, which hosts IES, were identified.

Three security breaches were identified, two during the engagement period and one subsequent to June 30, 2023

Further, during our fieldwork it was noted the Departments experienced three security breaches related to the IES system; the first breach occurred in August 2022, the second breach was discovered in March 2023, and the third breach occurred in August 2023.

Change Control

IES infrastructure backout plans were not prepared

IES Application Changes – Policies and Procedures
Based on our review of sampled infrastructure changes, we noted backout plans to return the system to a previous functional version in the event a change moved into production caused undesired results had not been prepared for individual infrastructure changes for 5 out of 5 (100%) changes reviewed. (Finding 1, pages 56-57) **This finding has been reported since 2017.**

We recommended management of both Departments work together to strengthen controls over the IES environment by addressing all significant threats identified in the Plan of Actions and Milestones (2023) report to the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services. We also recommended management of both Departments ensure backout plans are developed and documented for infrastructure changes.

HFS accepted the recommendations

HFS accepted the recommendation. HFS stated that the IES application and data reside on the DoIT infrastructure and as the service provider, they are responsible for ensuring a secure environment, significant threats are identified and backout plans are developed. HFS stated it will work with DoIT to implement the IES technology refresh projects as planned in FY25 to resolve security weaknesses and close out aged Plan of Action and Milestone findings. HFS will also require DoIT to provide documented backout plans with all IES infrastructure changes.

FINANCIAL STATEMENT PREPARATION WEAKNESSES

The Department of Healthcare and Family Services' (Department) year-end financial reporting in accordance with generally accepted accounting principles (GAAP) contained inaccuracies and omitted amounts affecting balances.

Errors brought to Department's attention

During our audit of the Departments' financial statements, we brought errors to the Departments' attention. The table below summarizes the impact on the financial statements. Some of the errors were individually inconsequential to the overall fairness of the presentation of the Department's financial statements. The Department subsequently corrected these errors.

<i>Financial Statement Line Description</i>	<i>Overstated (Understated) (expressed in thousands)</i>
Asset	(32,378)
Due from Other Government – Federal	105,148
Allowance for Uncollectible, Other Receivables	(68,534)
Inventories	(458)
Due from other Department Funds	(68,534)
Expenditure	53,478
Health and Social Services	53,478
Liability	21,768
Accounts payable & accrued liabilities	30,215
Due to Other Government – Federal	(45,061)
Due to Other Department Funds	(68,534)
Unavailable Revenue – Federal Operating Grants	105,148
Revenue	(668)
Medical Providers Assessment Taxes	(668)

In addition to the financial statement errors noted above, we brought the following footnote errors to the Departments' attention.

Postemployment Benefits disclosed incorrect deferred outflows of resources, overstated by \$77 thousand

- Footnote 3(a), Deposits: Cash on deposit for locally held funds of fiduciary activities reported a carrying amount of \$1.61 million and should have been \$1.88 million.
- Footnote 12, Postemployment Benefits: The Deferred Outflows of Resources table originally disclosed incorrect balances for the Department contributions subsequent to the measurement date line. The balance should have been \$14 thousand and was initially reported as \$92 thousand. As a result, the total deferred outflows of resources was incorrectly reported as \$183 thousand and should have been \$106 thousand.

The Department subsequently corrected these errors.

Ineffective communication between program and fiscal areas cause errors

Further, the Department lacked effective communication between its program and fiscal areas and external sources, resulting in the untimely identification of information pertinent to the financial statements. The financial reporting staff continued to receive updates from program areas and third parties after the initial financial statements were prepared, resulting in further modifications. Consequently, the preparation of the final financial statements was delayed. The errors and revisions noted below were identified after the initial financial statements were prepared by the Department, resulting in multiple versions of the financial statements. The final revision was provided on April 2, 2024, and the Department confirmed this was the final revision on April 18, 2024. The table below summarizes the adjustments required for the Department to present, fairly, in all material respects, the financial position of the Department. Additional adjustments were made by the Department based on further analysis performed. These adjustments were individually inconsequential to the overall fairness of the presentation of the Department's financial statements and therefore were not included in the summary below. (Finding 6, pages 67-69)

Final, draft FY23 financial statements not provided until April 2, 2024 – 278 days after year end

Further adjustments identified and made between penultimate and final draft of financial statements

<i>Financial Statement Line Description</i>	<i>Overstated (Understated) (expressed in thousands)</i>
Asset	(180,777)
Due from Other Government – Federal	(180,777)
Expenditure	(163,559)
Health and Social Services	(163,559)
Liability	(344,336)
Due to Other Government – Local	(163,559)
Unavailable Revenue – Federal Operating Grants	(180,777)

We recommended the Department evaluate its methodologies in determining estimates for information not readily available at the time the financial statements are prepared and

strengthen its internal controls to ensure its financial reporting is timely completed and in accordance with GAAP.

**Department accepted
recommendation**

The Department accepted the recommendation and stated that it will work with the program staff area and with external partners to review current processes and investigate potential improved methodologies for determining estimates. The Department also stated that it will strengthen its processes for review and approval of financial reporting documents.

OTHER FINDINGS

The remaining findings pertain to inadequate disaster recovery controls over the IES, inadequate controls over eligibility determination and redeterminations, inadequate general information technology controls over IMPACT, insufficient review and documentation of provider enrollment determinations, and failure to properly identify capital assets in accordance with reporting standards. We will review the Department's progress towards the implementation of our recommendations in our next financial audit.

AUDITOR'S OPINION

The auditors stated the financial statements of the Department of Healthcare and Family Services as of and for the year ended June 30, 2023 are fairly stated in all material respects.

This financial audit was performed by Sikich CPA LLC.

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

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