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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
DEPARTMENT OF HEALTHCARE
AND FAMILY SERVICES**

FINANCIAL AUDIT

For the Year Ended June 30, 2023

**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, 2023**

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

AGENCY OFFICIALS

Director (Acting) (1/1/24 – Present)	Elizabeth M. Whitehorn
Director (7/1/22 – 12/31/23)	Theresa Eagleson
Assistant Director	Jenny Aguirre
Chief of Staff (1/1/24 – Present)	Dana Kelly
Chief of Staff (7/1/22 – 5/16/24)	Ben Winick
Chief Operating Officer (5/16/24 – Present)	Vacant
Chief Operating Officer (7/1/22 – 5/15/24)	Ben Winick
Chief Internal Auditor	Jamie Nardulli
General Counsel (3/1/24 – Present)	Kathleen Hill
General Counsel (7/1/22 – 3/31/24)	Steffanie Garrett
Inspector General (Acting)	Brian Dunn

DEPUTY DIRECTORS

Community Outreach (6/16/23 – Present)	Vacant
Community Outreach (7/1/22 – 6/15/23)	Kimberly McCullough-Starks
Administrative Operations	Tanya Ford
Human Resources	Terri Shawgo
New Initiatives (5/16/24 – Present)	Laura Phelan
New Initiatives (7/1/22 – 5/15/24)	Vacant

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

DIVISION ADMINSTRATORS

Child Support Services	Bryan Tribble
Finance	Michael Casey
Medical Eligibility (12/10/23 – Present)	Tracy Keen
Medical Eligibility (Interim) (7/1/22 – 12/9/23)	Tracy Keen
Medical Programs	Kelly Cunningham
Personnel & Administrative Services (Interim)	Ruth Ann Day

AGENCY OFFICES

The Department's primary administrative offices are located at:

201 South Grand Avenue East
Springfield, Illinois 62763

401 South Clinton
Chicago, Illinois 62607

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

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 CPA LLC.

Based on their audit, the auditors expressed an unmodified opinion on the Department's basic financial statements.

SUMMARY OF FINDINGS

Number of	<u>Current Report</u>	<u>Prior Report</u>
Findings	7	9
Repeated Findings	5	7*
Prior Recommendations Implemented or Not Repeated	4	3*

* Prior year GAS findings 2021-001 and 2021-002 were repeated, however, they were combined into 2022-001 for the fiscal year 2022 report.

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
Current Findings				
2023-001	56	2022/2017	Inadequate general information technology controls over IES	Material Weakness
2023-002	59	2022/2019	Inadequate disaster recovery controls over the Integrated Eligibility System (IES)	Material Weakness
2023-003	61	New	Inadequate controls over eligibility determinations and redeterminations	Material Weakness and Noncompliance
2023-004	63	2022/2018	Inadequate general information technology controls over IMPACT	Material Weakness
2023-005	65	2022/2018	Insufficient review and documentation of provider enrollment determinations	Material Weakness and Noncompliance
2023-006	67	2022/2022	Financial statement preparation weaknesses	Material Weakness

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
Current Findings				
2023-007	70	New	Failure to properly identify capital assets in accordance with reporting standards	Significant Deficiency
Prior Findings Not Repeated				
A	72	2022/2022	Failure to review service providers' internal controls	
B	72	2022/2022	Inadequate general information technology controls	
C	72	2022/2022	Insufficient controls over administration of Medicaid claims	
D	72	2022/2019	Detailed agreement between the Department of Human Services, the Department of Healthcare and Family Services and the Department of Innovation and Technology (DoIT) over IES not finalized	

EXIT CONFERENCE

The Department waived an exit conference relating to Findings 2023-004 through 2023-007 in correspondence from Amy Lyons, External Audit Liaison, on July 16, 2024. The findings and recommendations appearing in this report as Findings 2023-001 through 2023-003 were discussed with personnel from the Department at an exit conference on August 12, 2024.

Attending were:

Department of Healthcare and Family Services

Dana Kelly, Chief of Staff

Jamie Nardulli, Chief Internal Auditor

Phronsie Spaulding, Audit Liaison for IES Eligibility Area

Department of Human Services

Amy Macklin, Chief Internal Auditor

Ryan Thomas, Assistant Secretary of Operations

Christopher Finley, Audit Liaison

Matt Sporlein, Internal Auditor

Katelyn Nassin, Deputy General Counsel

Priya Khatkhate, Senior Policy Officer

Katie Fromme, Social Services Program Planner

Kim Ledesma, Acting Bureau Chief, FCS Bureau of Performance Management

Elizabeth Lusk, Social Services Program Planner

Jamie McCoy, Associate Director of Office of Integrated Eligibility Support

Office of the Auditor General

Sara Metzger, Assistant Director, Financial/Compliance Division
Courtney Dzierwa, Statewide Single Audit Manager
Megan Green, Senior Audit Manager
Kenny Matthews, Audit Manager

Sikich CPA LLC

Meredith Angel, Director
Andrea Whitacre, Senior Accountant

The responses to Finding 2023-001 through 2023-003 were provided by Elizabeth Whitehorn, Director, on August 14, 2024. The responses to Findings 2023-004 through 2023-007 were provided by Elizabeth Whitehorn, Director, on July 23, 2024.

The Department of Human Services' responses to Findings 2023-001 through 2023-003 were provided by Christopher Finley, Internal Audit Liaison, in correspondence dated August 13, 2024. The Department of Human Services' responses to Findings 2023-004 and 2023-005 were provided by Christopher Finley, Internal Audit Liaison, in correspondence dated July 24, 2024.

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Audit of the Financial Statements

Opinions

As Special Assistant Auditors for the Auditor General, we have audited 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, 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying 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 of the Department, as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the basic 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. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2023, 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 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, 2023, approximately 32% 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.

As discussed in Note 2 and Note 19 to the financial statements, in fiscal year 2023, the Department adopted Governmental Accounting Standard Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. The adoption of this statement resulted in the inclusion of a subscription asset and a subscription liability.

Our opinions are not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgement and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted management's discussion and analysis and budgetary comparison information for any of its funds, pension, and other postemployment benefit (OPEB) related information for its Department-wide basic 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 of the Department in an appropriate operational, economic, or historical context. Our opinions on the financial statements are not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Department's financial statements. The combining schedules of the general fund, nonmajor governmental funds, and custodial funds (accompanying supplementary information) 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. The information has been subjected to the auditing procedures applied in the audit of the 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises of the agency officials page but does not include the basic financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2024, 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
August 19, 2024

State of Illinois
Department of Healthcare and Family Services

Statement of Net Position and Governmental Funds Balance Sheet

June 30, 2023 (Expressed in Thousands)

	General Fund	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Position
ASSETS					
Unexpended appropriations	\$ (348,617)	\$ 23,590	\$ (325,027)	\$ -	\$ (325,027)
Cash equity with State Treasurer	1,013,973	24,712	1,038,685	-	1,038,685
Cash and cash equivalents	3,239	-	3,239	-	3,239
Securities lending collateral equity with State Treasurer	128,306	944	129,250	-	129,250
Taxes receivable, net	147,511	-	147,511	-	147,511
Due from other government - federal	2,448,206	37,514	2,485,720	-	2,485,720
Due from other government - local	440,767	-	440,767	-	440,767
Other receivables, net	1,466,594	71	1,466,665	-	1,466,665
Due from other Department funds	89	-	89	(89)	-
Due from other State funds	12,834	-	12,834	-	12,834
Due from State of Illinois component units	41,668	-	41,668	-	41,668
Notes receivable	168,170	-	168,170	-	168,170
Prepaid expenses	-	-	-	607	607
Inventories	458	-	458	-	458
Capital assets not being depreciated	-	-	-	262,915	262,915
Capital assets being depreciated, net	-	-	-	41,264	41,264
Total assets	5,523,198	86,831	5,610,029	304,697	5,914,726
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources - SERS pensions	-	-	-	177,492	177,492
Deferred outflows of resources - OPEB	-	-	-	105,977	105,977
Total deferred outflows of resources	-	-	-	283,469	283,469
Total assets and deferred outflows of resources	\$ 5,523,198	\$ 86,831	\$ 5,610,029	588,166	6,198,195
LIABILITIES					
Accounts payable and accrued liabilities	\$ 1,079,094	\$ 30,077	\$ 1,109,171	-	1,109,171
Due to other government - federal	1,116,126	175	1,116,301	-	1,116,301
Due to other government - local	558,289	6,570	564,859	-	564,859
Due to other Department funds	-	89	89	(89)	-
Due to other Department fiduciary funds	1,937	-	1,937	-	1,937
Due to other State funds	122,222	4,222	126,444	-	126,444
Due to other State fiduciary funds	545	1,281	1,826	-	1,826
Due to State of Illinois component units	198,785	-	198,785	-	198,785
Unearned revenue	104,741	-	104,741	-	104,741
Obligations under securities lending of State Treasurer	128,306	944	129,250	-	129,250
Long-term obligations:					
Due within one year	-	-	-	23,874	23,874
Due subsequent to one year	-	-	-	1,357,135	1,357,135
Total liabilities	3,310,045	43,358	3,353,403	1,380,920	4,734,323
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources - Unavailable revenue	2,599,359	21,171	2,620,530	(2,620,530)	-
Deferred inflows of resources - SERS pensions	-	-	-	122,236	122,236
Deferred inflows of resources - OPEB	-	-	-	477,552	477,552
Total deferred inflows of resources	2,599,359	21,171	2,620,530	(2,020,742)	599,788
Total liabilities and deferred inflows of resources	5,909,404	64,529	5,973,933	(639,822)	5,334,111
FUND BALANCES (DEFICITS)/NET POSITION					
Fund balances (deficits)					
Nonspendable for inventories	458	-	458	(458)	-
Restricted for health and social services	504	-	504	(504)	-
Committed for health and social services	1,320,101	22,302	1,342,403	(1,342,403)	-
Unassigned	(1,707,269)	-	(1,707,269)	1,707,269	-
Net investment in capital assets	-	-	-	264,772	264,772
Restricted net position for health and social services	-	-	-	504	504
Unrestricted net position	-	-	-	598,808	598,808
Total fund balances (deficits)/net position	(386,206)	22,302	(363,904)	\$ 1,227,988	\$ 864,084
Total liabilities, deferred inflows of resources, and fund balances (deficit)	\$ 5,523,198	\$ 86,831	\$ 5,610,029		

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, 2023
(Expressed in Thousands)

Total fund balances (deficit) - governmental funds	\$	(363,904)
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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.		304,179
Prepaid expenses for governmental activities are current uses of financial resources for funds.		607
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		2,620,530
Deferred outflows of resources related to pension liability are not reported in the governmental funds since they do not provide current financial resources.		177,492
Deferred inflows of resources related to pension liability are not reported in the governmental funds since they do not use current financial resources.		(122,236)
Deferred outflows of resources related to OPEB liability are not reported in the governmental funds since they do not provide current financial resources.		105,977
Deferred inflows of resources related to OPEB liability are not reported in the governmental funds since they do not use current financial resources.		(477,552)
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:		
Lease obligations		(2,469)
Compensated absences		(11,521)
Subscription-based information technology arrangements obligation		(36,938)
Net pension liability - SERS		(1,009,184)
Total OPEB liability		(320,897)

Net position of governmental activities	\$	864,084
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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 Activities and Governmental Revenues,
Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2023 (Expressed in Thousands)

	General Fund	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
Expenditures/expenses:					
Health and social services	\$ 30,646,958	\$ 397,538	\$ 31,044,496	\$ (135,655)	\$ 30,908,841
Debt service principal	6,134	343	6,477	(6,477)	-
Debt service interest	1,527	102	1,629	-	1,629
Capital outlays	114,833	24,758	139,591	(139,591)	-
Total expenditures/expenses	30,769,452	422,741	31,192,193	(281,723)	30,910,470
Program revenues:					
Charges for services:					
Licenses and fees	36	74	110	2	112
Other, net	185,562	7,713	193,275	86,003	279,278
Total charges for services	185,598	7,787	193,385	86,005	279,390
Operating grant revenue:					
Federal, net	19,380,593	227,261	19,607,854	806,595	20,414,449
Other	1,047,241	-	1,047,241	126,646	1,173,887
Total operating grant revenue	20,427,834	227,261	20,655,095	933,241	21,588,336
Total program revenues	20,613,432	235,048	20,848,480	1,019,246	21,867,726
Net program expenses					(9,042,744)
General revenues:					
Interest and investment income	21,965	168	22,133	-	22,133
Medical provider assessment tax	3,622,333	-	3,622,333	63,792	3,686,125
Other taxes, net	311,876	-	311,876	5,894	317,770
Other	8,794	2	8,796	2,147	10,943
Total general revenues	3,964,968	170	3,965,138	71,833	4,036,971
Other sources (uses):					
Appropriations from State resources	8,968,466	245,010	9,213,476	-	9,213,476
Lapsed appropriations	522,783	(2,069)	520,714	-	520,714
Receipts collected and transmitted to State Treasury	(3,829,059)	(118,793)	(3,947,852)	-	(3,947,852)
Capital transfers to other State agencies	-	-	-	52,090	52,090
Amount of SAMS transfers-out	48,500	-	48,500	-	48,500
Transfers-in	-	40,600	40,600	(40,600)	-
Transfers-out	(80,600)	-	(80,600)	40,600	(40,000)
Lease financing	33,593	2,786	36,379	(36,379)	-
Total other sources (uses)	5,663,683	167,534	5,831,217	15,711	5,846,928
Change in fund balances/net position	(527,369)	(19,989)	(547,358)	1,388,513	841,155
Fund balances (deficits)/net position, July 1, 2022, as restated	140,705	42,291	182,996	(160,067)	22,929
Increase for change in inventories	458	-	458	(458)	-
Fund balances (deficits)/net position, June 30, 2023	\$ (386,206)	\$ 22,302	\$ (363,904)	\$ 1,227,988	\$ 864,084

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, 2023
(Expressed in Thousands)

Net change in fund balances - governmental funds	\$ (547,358)
Change in inventories	458
	<u>(546,900)</u>
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.	130,010
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 from other State funds in the Statement of Activities.	52,090
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.	142
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.	1,091,079
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 increase in deferred outflows over the prior year.	5,813
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 decrease in deferred inflows over the prior year.	12,816
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.	12,703
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.	(218,056)
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.	(29,196)
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	239
Decrease in net pension liability - SERS	12,741
Decrease in total OPEB liability	<u>317,674</u>
Change in net position of governmental activities	<u><u>\$ 841,155</u></u>

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, 2023 (Expressed in Thousands)

	<u>Custodial Funds</u>
ASSETS	
Cash equity with State Treasurer	\$ 24,166
Cash and cash equivalents	1,882
Other receivables, net	166,062
Due from other Department funds	1,937
Total assets	<u>194,047</u>
LIABILITIES	
Accounts payable and accrued liabilities	<u>182,615</u>
Total liabilities	<u>182,615</u>
NET POSITION	
Restricted net position	11,432
Total net position	<u>\$ 11,432</u>

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 Changes in Fiduciary Net Position

For the Year Ended June 30, 2023

(Expressed in Thousands)

	<u>Custodial Funds</u>
Additions	
Custodial fund deposits received	\$ 1,082,228
Total additions	<u>1,082,228</u>
Deductions	
Custodial funds disbursed	<u>1,070,796</u>
Total deductions	<u>1,070,796</u>
Net increase (decrease) in fiduciary net position	11,432
Net position, July 1, 2022	<u>-</u>
Net position, June 30, 2023	<u><u>\$ 11,432</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

Notes to the Financial Statements

June 30, 2023

(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 General Assembly. The Department generally operates under a budget approved by the General Assembly in which resources 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 Office of Comptroller) as defined by the 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' Annual Comprehensive Financial Report (ACFR) may be obtained by accessing the Office of Comptroller's website - <https://illinoiscomptroller.gov/financial-data/find-a-report/comprehensive-reporting/annual-comprehensive-financial-report/>.

(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, 2023, and the changes in financial position for the year then ended in conformity with GAAP.

The financial activities of the Department, which consist only of governmental and fiduciary activities, are reported under the health and social services function in the State of Illinois' Annual Comprehensive Financial

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

Notes to the Financial Statements

June 30, 2023

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 that 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 that 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.

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:

Custodial – These funds account for transactions related to assets collected by the Department, acting in a custodial capacity for distribution to other governmental units or designated beneficiaries.

STATE OF ILLINOIS
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June 30, 2023

(c) Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues and additions are recorded when earned and expenses and deductions 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 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, including entering into contracts giving the Department the right to use leased assets, are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under leases are reported as other financing sources.

Significant revenue sources that 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 measurable and available only when cash is received.

(d) Shared Fund Presentation

The financial statement presentation for the General Fund accounts, General Revenue, State Coronavirus Urgent Remediation Emergency, Care Provider for Persons with Developmental Disabilities, and the Trauma Center, as well as the nonmajor governmental fund, 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' Annual Comprehensive 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 Office of Comptroller 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 Office of Comptroller at June 30.

Appropriations from State Resources

The "other financing source" account represents the final legally adopted appropriation according to SAMS records.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

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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 16 month period from July to October of the following year. The Department also considers the effect of the change in the amount of warrants and interfund transactions held by the Office of Comptroller 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 2023 reduced the Department's net position/fund balance by \$402 million.

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 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 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) Inventories

For governmental funds, the Department recognizes the costs of inventories as expenditures when purchased. At year-end, physical counts are taken of significant inventories, consisting primarily of mailing and office supplies, in governmental funds and are reported at first-in, first-out (FIFO). Inventories reported in

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June 30, 2023

governmental funds do not reflect current appropriable resources, and therefore, the Department reports an equivalent portion of fund balance as non-spendable.

(i) Prepaid items

Payments made to vendors for services that will benefit periods beyond the date of this report are recorded as expenditures in the governmental funds and as prepaid expenses in the government-wide statement of net position.

(j) 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.

(k) 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. Right-to-use lease assets and subscription-based information technology arrangements (SBITAs) are recorded at cost based on the present value of expected payments over the lease or SBITA term plus any payments made to the lessor at or before the commencement of the lease or SBITA term and certain direct costs that are ancillary charges necessary to place the asset into service. Capital assets, right-to-use lease assets, and SBITAs are depreciated and amortized using the straight-line method over the following estimated useful lives or over the lease or SBITA term. Intangible assets (purchased computer software and internally generated computer software) are assets that do not have a physical existence, are non-financial 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
Right-to-use-lease assets	\$ 25,000	Lease Term
SBITAs	\$ 25,000	SBITA Term

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Notes to the Financial Statements

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(l) 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 11 and the total post-employment benefits liability reported and explained in Note 12. Unavailable revenues in governmental funds include receivables not “available” to finance the current period.

(m) 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.

(n) 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.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

Notes to the Financial Statements

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(o) 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 12).

The OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and OPEB expense have been recognized in the government-wide financial statements.

(p) 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 General Assembly and the Governor. The State enacts "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.

(q) 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

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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”.

(r) 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.

(s) Adoption of New Accounting Pronouncements

Effective for the year ending June 30, 2023, the Department adopted the following GASB statements:

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 implementation of this statement had no financial impact on the Department's net position or results of operations.

Statement No. 94, *Public-Private and Public-Public Partnerships and Available Payment Arrangements*, which is intended to improve financial reporting by addressing issues related to public-private and public-public partnerships (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The implementation of this statement had no financial impact on the Department's net position or results of operations.

Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is intended to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The impact of implementing this statement has been disclosed in Note 19.

The portion of Statement No. 99, *Omnibus 2022*, which is intended to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees related to leases, public-private and public-public partnerships, and subscription-based information technology arrangements. The implementation of this statement had no financial impact on the Department's net position or results of operations.

(t) Future Adoption of GASB Statements

Effective for the year ending June 30, 2024, the Department will adopt the following GASB statements:

The portion of Statement No. 99, *Omnibus 2022*, related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No 53.

Statement No. 100, *Accounting Changes and Error Corrections*, which is intended to enhance accounting and financial reporting requirements for accounting changes and error corrections to

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provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

Effective for the year ending June 30, 2025, the Department will adopt the following GASB statements:

Statement No. 101, *Compensated Absences*, which is intended to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required 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' Annual Comprehensive Financial Report.

Cash on deposit for locally held funds of fiduciary activities had carrying amounts and bank balances of \$1.882 million and \$13.170 million, respectively, at June 30, 2023. Balances in excess of FDIC depository insurance were covered by collateral held by the Department's 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, 2023, the Department had \$3.239 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 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.

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Credit Risk: The Department does not have a formal investment policy that limits investment choices. The Illinois Funds were rated AAmmf by Fitch.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Department's investment in a single user. The Department does not have a formal investment policy which restricts investments to address concentration of credit risk.

Custodial Credit Risk: The Department does not have a formal investment policy that restricts investments to address custodial credit risk. Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the Department would not be able to recover the value of investment or collateral securities in the possession of an outside party.

(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 contain certain short-term investments (included as investments above) to reflect their liquidity. A reconciliation (amounts expressed in thousands) follows:

	<u>Deposits</u>	<u>Investments</u>
<i>Governmental Activities</i>		
Amount per note	\$ -	\$ 3,239
Cash equivalents	3,239	(3,239)
Amounts per Statement of Net Position	<u>\$ 3,239</u>	<u>\$ -</u>
 <i>Fiduciary Funds</i>		
Cash on deposit	\$ 1,614	\$ -
Cash due to/from Fund 0957	268	-
Amounts per Statement of Fiduciary Net Position	<u>\$ 1,882</u>	<u>\$ -</u>

(4) Accounts Receivable

(a) Taxes Receivable

Taxes receivable (amounts expressed in thousands) at June 30, 2023 are as follows:

	<u>General Fund</u>
Taxes receivable	\$ 149,487
Less: allowance for uncollectible taxes	(1,976)
Taxes receivable, net	<u>\$ 147,511</u>

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(b) Other Receivables

Other receivables (amounts expressed in thousands) at June 30, 2023 are as follows:

	General Fund	Nonmajor Governmental Funds	Fiduciary Funds
Other receivables	\$ 1,745,436	\$ 80	\$ 3,131,984
Less: allowance for uncollectible accounts	(278,842)	(9)	(2,965,922)
Other receivables, net	\$ 1,466,594	\$ 71	\$ 166,062

(5) Notes Receivable

Notes Receivable at June 30, 2023, consisted of amounts owed to the Department for advances issued to long-term care providers and hospitals with a 0% interest rate charged. The balances consisted of the following (amounts expressed in thousands):

	General Fund
Notes receivable due within one year	\$ 148,128
Notes receivable due after one year	20,042
Total	\$ 168,170

(6) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2023 represent amounts due from Department funds and other State funds.

Fund	Due from		Description/Purpose
	Other Department Funds	Other State Funds	
General	\$ 89	\$ 12,834	Due from other Department funds for PAERF reimbursements and from other State funds for subgrant expenditures.
Fiduciary	1,937	-	Due from other Department funds for over-transfer of child support funds due to change in statute.
	\$ 2,026	\$ 12,834	

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The following balances (amounts expressed in thousands) at June 30, 2023 represent amounts due to Department funds, other Department fiduciary funds, other State funds, and other State fiduciary funds.

Fund	Due to			
	Other Department Funds	Other Department Fiduciary Funds	Other State Funds	Other State Fiduciary Funds
General	\$ -	\$ 1,937	\$ 122,222	\$ 545
Nonmajor governmental funds	89	-	4,222	1,281
	<u>\$ 89</u>	<u>\$ 1,937</u>	<u>\$ 126,444</u>	<u>\$ 1,826</u>

Within the General fund, amounts were reported as due to (1) other Department fiduciary funds for an over-transfer of child support funds due to change in statute, (2) other State funds for services, Court of Claims reimbursements, awards and grant payments, and (3) other State fiduciary funds for retirement benefits.

Within the Nonmajor governmental funds, amounts were reported as due to (1) other Department funds for PAERF reimbursements, (2) other State funds for services and Court of Claims awards, and (3) other State fiduciary funds for retirement benefits.

(b) Transfers to/from Other Funds

Interfund transfers-in (amounts expressed in thousands) for the year ended June 30, 2023 were as follows:

Fund	Other Department Funds	Description/Purpose
Nonmajor governmental funds	\$ 40,600	Transfer from other Department funds per State appropriation.

Interfund transfers-out (amounts expressed in thousands) for the year ended June 30, 2023 were as follows:

Fund	Other Department Funds	Other State Funds	Description/Purpose
General	\$ 40,600	\$ 40,000	Transfers to other Department funds and other State funds per State appropriation.
	<u>\$ 40,600</u>	<u>\$ 40,000</u>	

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

The following balances (amounts expressed in thousands) at June 30, 2023 represent amounts due from State of Illinois Component Units to the General Fund for intergovernmental agreement reimbursements.

Component Unit	Due From General Fund
Southern Illinois University	\$ 1,378
University of Illinois	40,290
	<u>\$ 41,668</u>

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The following balances (amounts expressed in thousands) at June 30, 2023 represent amounts due to State of Illinois Component Units for medical reimbursements.

Component Unit	Due To General Fund
Illinois State University	\$ 46
Northern Illinois University	530
Southern Illinois University	5,404
University of Illinois	192,805
	<u>\$ 198,785</u>

(7) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2023 is as follows:

	Balance July 1, 2022 as restated	Additions	Deletions	Net Transfers	Balance June 30, 2023
Governmental Activities:					
Capital assets not being depreciated/amortized:					
Internally generated intangible assets in development	\$ 109,671	\$ 101,154	\$ -	\$ 52,090	\$ 262,915
Total capital assets not being depreciated/amortized:	<u>109,671</u>	<u>101,154</u>	<u>-</u>	<u>52,090</u>	<u>262,915</u>
Capital assets being depreciated:					
Equipment	4,767	-	109	-	4,658
Right-to-use leased equipment	1,019	2,667	1,019	-	2,667
Non-internally generated software	12,970	-	-	(8,472)	4,498
Internally generated Software	-	2,058	-	8,472	10,530
Subscription-based IT arrangements	10,516	33,712	-	-	44,228
Less accumulated depreciation:					
Equipment	(4,316)	(309)	(109)	-	(4,516)
Right-to-use leased equipment	(644)	(626)	(1,019)	-	(251)
Non-internally generated software	(4,498)	-	-	-	(4,498)
Internally generated software	(7,406)	(878)	-	-	(8,284)
Subscription-based IT arrangements	-	(7,768)	-	-	(7,768)
Total capital assets being depreciated, net	<u>12,408</u>	<u>28,856</u>	<u>-</u>	<u>-</u>	<u>41,264</u>
Governmental activity capital assets, net	<u>\$ 122,079</u>	<u>\$ 130,010</u>	<u>\$ -</u>	<u>\$ 52,090</u>	<u>\$ 304,179</u>

Depreciation/amortization expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2023 was charged as follows:

Health and social services \$ 9,581

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(8) Long-Term Obligations

Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2023 were as follows:

	Balance July 1, 2022, as restated	Additions	Deletions	Balance June 30, 2023	Amounts Due Within One Year
Governmental Activities:					
Compensated absences	\$ 11,760	\$ 10,662	\$ 10,901	\$ 11,521	\$ 1,312
Lease obligations	363	2,667	561	2,469	493
SBITA obligations	9,848	33,006	5,916	36,938	7,631
Net OPEB liability	638,571	-	317,674	320,897	14,438
Net pension liability	1,021,925	-	12,741	1,009,184	-
Total Governmental Activities	\$ 1,682,467	\$ 46,335	\$ 347,793	\$ 1,381,009	\$ 23,874

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.

(9) Leases

The Department has entered into one equipment lease as a right-to-use asset lease with a remaining lease term of four years. Although lease terms vary, certain leases are renewable subject to appropriation from the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered noncancelable leases for financial reporting purposes. The renewal and termination options are not included in the right-to-use asset or lease liability balance until they are reasonably certain of exercise.

At June 30, 2023, the right-to-use asset under leases are as follows (amount expressed in thousands):

Equipment	\$ 2,667
Less: Accumulated amortization	(251)
	<u>\$ 2,416</u>

Future minimum commitments for non-cancelable leases as of June 30, 2023, are as follows:

Year Ending June 30,	Principal	Interest
2024	\$ 493	\$ 121
2025	520	94
2026	549	65
2027	580	34
2028	327	6
Total minimum lease payments	<u>\$ 2,469</u>	<u>\$ 320</u>

(10) Subscription-Based Information Technology Arrangements (SBITAs)

The Department has entered into various SBITAs with remaining contract terms ranging from less than one year to nine years. Although subscription terms vary, certain agreements are renewable subject to appropriation by the

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General Assembly. If renewal is reasonably assured, agreements requiring appropriation by the General Assembly are considered noncancelable agreements for financial reporting purposes. The renewal and termination options are not included in the subscription asset or subscription liability balance until they are reasonably certain of exercise.

One of the Department's agreements contains a variable subscription payment. The variable payments are not included in the calculation of the subscription liability. The total expenditures for variable payments not previously included in the measurement of the subscription liability during the fiscal year end June 30, 2023 were \$31 (amount expressed in thousands).

At June 30, 2023, the Department had no commitments under subscriptions prior to the commencement of the subscription term.

At June 30, 2023, subscription assets under SBITAs are as follows (amounts expressed in thousands):

Subscription Assets	\$ 44,228
Less: Accumulated amortization	(7,768)
	<u>\$ 36,460</u>

Future minimum commitments for non-cancelable SBITAs as of June 30, 2023, are as follows:

Year Ending June 30,	Principal	Interest
2024	\$ 7,631	\$ 1,554
2025	2,876	1,325
2026	3,143	1,184
2027	3,360	1,031
2028	3,632	866
2029-2033	16,296	1,677
Total minimum SBITA payments	<u>\$ 36,938</u>	<u>\$ 7,637</u>

(11) Defined Benefit Pension Plan

Plan description. Substantially all 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 ACFR 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.

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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 2022 rate is \$119,892. 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.

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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 2023, this amount was \$123,489.

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 2023, 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 2023, the employer contribution rate was 53.258%. The Department's contribution amount for fiscal year 2023 was \$43.154 million. In addition, the Department recorded \$39.269 million of revenue and expenditures in the General Revenue account of the General Fund to account for payments to SERS for Department employees that were paid from statewide General Revenue Fund appropriations.

Pension liability, deferred outflows of resources, deferred inflows of resources, and expense related to pensions.

At June 30, 2023, the Department reported a liability of \$1,009.184 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, 2022 (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, 2022. As of the current year measurement date of June 30, 2022, the Department's proportion was 3.1208%, which was an increase of .0335% from its proportion measured as of the prior year measurement date of June 30, 2021.

For the year ended June 30, 2023, the Department recognized pension expense of \$51.370 million. At June 30, 2023, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2022, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	11,364	111
Changes of assumptions	26,191	86,426
Net difference between projected and actual investment earnings on pension plan investments	19,390	-
Changes in proportion	38,124	35,699
Department contributions subsequent to the measurement date	82,423	-
Total	\$ 177,492	\$ 122,236

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\$82.423 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, 2024. 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,		
2024	\$	(9,005)
2025		(9,497)
2026		(17,399)
2027		8,734
Total	\$	(27,167)

Actuarial methods and assumptions. The total pension liability was determined by an actuarial valuation and measurement date as of June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.25%

Investment Rate of Return: 6.75%, net of pension plan investment expense, including inflation.

Projected salary increases: 2.50% - 7.41%, 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, 2022 valuation pursuant to an experience study of the period July 2018 – June 2021.

Mortality: Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2021 generational mortality improvement factors were updated to projection scale MP-2021.

The actuarial assumptions used to calculate the total pension liability as of the current year measurement date are consistent with the actuarial assumptions used to calculate the total pension liability as of the prior year measurement date, except for the following:

Projected salary increases: 2.75% - 7.17%

Retirement age experience study: July 2015 – June 2018

Mortality: Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018.

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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, 2022, 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%	4.60%
Developed Foreign Equity	13.0%	4.90%
Emerging Market Equity	8.0%	5.90%
Private Equity	9.0%	6.90%
Intermediate Investment Grade Bonds	15.0%	-0.50%
Long-term Government Bonds	5.0%	0.30%
TIPS	3.0%	-0.50%
High Yield and Bank Loans	2.0%	1.90%
Opportunistic Debt	9.0%	4.40%
Emerging Market Debt	0.0%	0.00%
Real Estate	10.0%	3.30%
Infrastructure	3.0%	6.80%
Total	100%	

Discount rate. A discount rate of 6.58% was used to measure the total pension liability as of the measurement date of June 30, 2022 as compared to a discount rate of 6.20% used to measure the total pension liability as of the prior year measurement date of June 30, 2021. The June 30, 2022 single blended discount rate was based on the expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 3.69%, 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 employer contributions will be made at rates equal to the difference between the statutory contributions and the member rate. 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 2076. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2076, 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 5.58%	Discount Rate 6.58%	1% Increase 7.58%
Department's Proportionate Share of the Net Pension Liability	1,227,864	\$ 1,009,184	828,335

Payables to the pension plan. At June 30, 2023, the Department reported a payable of \$1.826 million to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2023.

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(12) 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 General Assembly Retirement System (GARS), Judges' Retirement System (JRS), State Employees' Retirement System of Illinois (SERS), Teachers' Retirement System (TRS), and State Universities Retirement System of Illinois (SURS) are eligible for these other post-employment benefits (OPEB). The eligibility provisions for each of the retirement systems are defined within Note 11 Defined Benefit Pension Plan. Certain TRS members eligible for coverage under SEGIP include: certified teachers employed by certain State agencies, executives employed by the Board of Education, regional superintendents, regional assistant superintendents, TRS employees, and members with certain reciprocal service.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (GARS, JRS, SERS, TRS and SURS). 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 State Employee's Retirement System 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 2023, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was \$12,635.52 (\$6,989.76 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and \$14,646.00 (\$5,882.40 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, 2023, was measured as of June 30, 2022, with an actuarial valuation as of June 30, 2021. At June 30, 2023, the Department recorded a liability of \$320.897 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

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during the year ended June 30, 2022. As of the current year measurement date of June 30, 2022, the Department's proportion was 1.8788%, which was an increase of 0.0497% from its proportion measured as of the prior year measurement date of June 30, 2021.

The Department recognized a reduction in OPEB expenses for the year ended June 30, 2023, of \$94.173 million. In addition, the Department recorded \$6.713 million of revenue and expenditures in the General Revenue account of the General Fund to account for contributions to SEGIP for Department employees that were paid from statewide General Revenue Fund appropriations. At June 30, 2023, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2022, from the following sources (amounts expressed in thousands):

Deferred outflows of resources		
Differences between expected and actual experience	\$	3,283
Changes of assumptions		7,920
Changes in proportion and differences between employer contributions and proportionate share of contributions		80,336
Department contributions subsequent to the measurement date (a)		14,438
Total deferred outflows of resources	\$	105,977
Deferred inflows of resources		
Differences between expected and actual experience	\$	87,749
Changes of assumptions		314,324
Changes in proportion and differences between employer contributions and proportionate share of contributions		75,479
Total deferred inflows of resources	\$	477,552

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, 2024. 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,		
2024	\$	(102,907)
2025		(109,631)
2026		(91,326)
2027		(65,525)
2028		(16,624)
Total	\$	(386,013)

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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 GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2021, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2021.

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry Age Normal
Actuarial assumptions:	
Inflation Rate	2.25%
Projected Salary Increases*	2.50% - 12.75%
Healthcare Cost Trend Rate:	
Medical and RX	
Pre-Medicare - QCHP**	Trend rates start at 8.00% in 2024, decreasing by 0.25% per year to an ultimate trend rate of 4.25% in year 2039.
Post-Medicare - MAPD***	Trend rates are 0.00% in years 2024 to 2028, 19.42% from 2029 to 2033, then 5.77% in 2034 decreasing ratably to an ultimate trend rate of 4.25% in 2039.
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 2022 and 2023 are based on actual premiums. Premiums after 2023 were projected based on the same healthcare cost trend rates applied to per capita claim costs.
Note: the above actuarial assumptions were used to calculate the OPEB liability as of the current year measurement date and are consistent with the actuarial assumptions used to calculate the OPEB liability as of the prior year measurement date except for the following:	
Healthcare Cost Trend Rate:	
Medical and Rx	1.80% grading up 6.20% in the first year to 8.00%, then
(Pre-Medicare & Post-Medicare)	grading down 0.25% per year to an ultimate trend of 4.25% in year 2038. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Medical and Rx	-7.56% grading up 15.56% in the first year to 8.00%, then
(Post-Medicare)	grading down 0.25% per year to an ultimate trend of 4.25% in year 2038.
Dental and Vision	3.75% grading up 0.25% in the first year to 4.00% through 2038.
* Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.	
** Quality Care Health Plan	
*** Medicare Advantage Prescription Drug	

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Notes to the Financial Statements

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Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2021 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study [^]	Mortality ^{^^}
GARS	July 2018 - June 2021	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 99% for males and females, and the MP-2018 two-dimensional generational mortality improvement scales
JRS	July 2018 - June 2021	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 102% for males and 98% for females, and the MP-2018 two-dimensional generational mortality improvement scales
SERS	July 2018 - June 2021	Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018
TRS	July 2017 - June 2020	Pub-2010 adjusted for TRS experience for future mortality improvements on a fully generational basis using projection table MP-2020
SURS	July 2017 - June 2020	Rates based on Pub-2010 Healthy Retiree Mortality tables and the most recent MP-2020 projection scale. Teachers table was used for Academic members and
[^] The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined.		
^{^^} Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.		

Demographic assumptions used in OPEB valuation are identical to those used in the June 30, 2021 valuations for Pensions. Thus, for all five plans, the 2021 valuation information for pensions is presented in the FY 2022 ACFR in FN 16. For TRS and SURS, the total pension liability presented in the June 30, 2021, actuarial valuation is based on census data as of June 30, 2020, rolled-forward to the measurement date of June 30, 2021.

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 1.92% at June 30, 2021, and 3.69% at June 30, 2022, 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 3.69%, 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 (4.69%) or lower (2.69%) than the current rate (amounts expressed in thousands):

	1% Decrease (2.69%)	Current Single Discount Rate Assumption (3.69%)	1% Increase (4.69%)
Total OPEB liability	354,044	320,897	285,024

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Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate. The key trend rates are 8.00% in 2024 decreasing to an ultimate trend rate of 4.25% in 2039.

	1% Decrease**	Current Healthcare Cost Trend Rates Assumption*	1% Increase***
Total OPEB Liability	277,833	320,897	364,544
* Current healthcare trend rates - Pre-Medicare per capita costs: 6.08% in 2023, 8.00% in 2024, decreasing by 0.25% per year to an ultimate rate of 4.25% in 2039. Post-Medicare per capita costs: 2.78% in 2023, 0.00% in 2024 to 2028, 19.42% from 2029 to 2033, 5.77% in 2034 decreasing ratably to an ultimate trend rate of 4.25% in 2039. ** One percentage point decrease in current healthcare trend rates - Pre-Medicare per capita costs: 5.08% in 2023, 7.00% in 2024, decreasing by 0.25% per year to an ultimate rate of 3.25% in 2039. Post-Medicare per capita costs: 1.78% in 2023, 0.00% in 2024 to 2028, 18.42% from 2029 to 2033, 4.77% in 2034 decreasing ratably to an ultimate trend rate of 3.25% in 2039. *** One percentage point increase in current healthcare trend rates - Pre-Medicare per capita costs: 7.08% in 2023, 9.00% in 2024, decreasing by 0.25% per year to an ultimate rate of 5.25% in 2039. Post-Medicare per capita costs: 3.78% in 2023, 1.00% in 2024 to 2028, 20.42% from 2029 to 2033, 6.77% in 2034 decreasing ratably to an ultimate trend rate of 5.25% in 2039.			

(13) Fund Deficits

The following funds had deficit balances at June 30, 2023 (amounts expressed in thousands):

	<u>Governmental Activities</u>
General Revenue Fund (0001)	\$ (1,152,272)
U of I Hospital Services Fund (0136)	(126,564)
County Provider Trust Fund (0329)	(217,074)
Special Education Medicaid Matching (0355)	(206,057)
Medical Interagency Program Fund (0720)	(5,302)

These deficits are expected to be recovered from future years' State appropriations and federal funds.

(14) Fiduciary Fund Net Position

In fiscal year 2023, a net position balance was reported within the Child Support Enforcement Trust fund (Fund 0957), a fiduciary fund. In prior years no net position was reported. The change in net position resulted from the passage of Public Act 102-1115 Section 5-36, which amended the Illinois Public Aid Code 305 ILCS 5/4-1.6 by requiring all child support (current, past and future) collected on or after January 1, 2023, to be passed through to the family, and to not be considered in determining the amount of the assistance grant provided to the family. Previously, a portion was held and transferred to the Child Support Administrative fund (Fund 0757) for administrative purposes.

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While the change applies to monies collected on or after January 1, 2023, it does not take effect until July 1, 2024. Prior to this legislative change, these amounts would have been available to transfer to the 0757 fund, and any amounts remaining at the end of the fiscal year would have been recorded as “Due to Other funds.” To ensure there is sufficient cash available to issue to the families on July 1, 2024, the Department is holding the collections in the fund until the effective date of the legislation. Once the changes are fully implemented, the Department anticipates the fund to show a zero balance net position again, with all remaining assets being recorded as liabilities at year-end.

(15) 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.

The Department is exposed to various risks of loss related to employee health and dental insurance programs. The State uses the Health Insurance Reserve Fund to account for employee health and dental insurance benefit programs, which is partially self-funded. The Department of Central Management Services administers and reports the Health Insurance Reserve Fund.

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, 2023.

(16) Commitments and Contingencies

(a) Litigation

A lawsuit existed at June 30, 2023. The plaintiff managed care organization filed an action in the Court of Claims to dispute the Department’s Prompt Payment Act interest calculation methodology. The plaintiff contends that the Department should calculate interest based on total capitation rather than at the individual claim level plus pay all interest calculated under \$5. The plaintiff is seeking \$7.5 million in additional interest payments. No liability was reported in the financial statements.

A lawsuit existed at June 30, 2023. The plaintiff hospital is alleging that the Department is in violation of federal law due to purported payment delays from Medicaid Managed Care Organizations (MCO’s) to the hospital. The plaintiff’s requested relief includes an injunction requiring the Department to make payments owed by MCO’s and termination of the Medicaid MCO contracts. The district court granted the Department’s motion to dismiss, and the plaintiff appealed. The appellate court reversed the dismissal, and subsequently denied a petition for rehearing, without making any findings on the merits of the plaintiff’s claims and allowed the case to proceed. The Department filed a petition for certiorari with the United States Supreme Court seeking review of the appellate court’s decision. The Supreme Court granted the Department’s petition, vacated the appellate court’s decision, and remanded the case to the appellate court for reconsideration in light of a recent Supreme Court decision. The appellate court had not ruled as of June 30, 2023; however, on April 25, 2024, the appellate court again reversed the dismissal, without making any findings on the merits of the plaintiff’s claims. The Department has filed a petition for rehearing in the appellate court. The district court stayed the litigation and referred the case to a magistrate judge for settlement conference proceedings. On July 24, 2024, the appellate court granted the Department’s petition for rehearing *en banc* and vacated the

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appellate court's opinion of April 25, 2024. The case is awaiting further proceedings and a decision on rehearing. An estimate of the possible loss cannot be made. No liability was reported in the financial statements.

(b) Noncompliance with Federal Regulations

U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services (Federal CMS) conducted its Payment Error Rate Measurement (PERM) program to determine improper payment rates for Illinois for the reporting year 2022 (RY22) for the Medicaid and the Children's Health Insurance Program (CHIP). On November 15, 2022, the Department received notification from Federal CMS of its RY22 PERM results. The improper rate estimate for Medicaid was reduced from 35.37% to 10.44% and from 34.15% to 28.58% for CHIP. With respect to other errors (medical records and data processing) identified in the report, the Department has been informed of federal recoveries of \$89,137. 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 RY22 PERM Corrective Action Plan (CAP) was finalized and submitted to Federal CMS in February 2023. The Department received notice of CAP acceptance on July 14, 2023. No liability was reported within the financial statements.

(c) Requested Return of Federal Financial Participation (FFP)

In December 2018, the Department received a total of four Demand Letters from Federal CMS for the return of 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 Demand 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 Federal 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, Federal CMS issued three Disallowance Letters related to the inpatient psychiatric and DSH payments.

The Department appealed the three disallowances to the U.S. Department of Health and Human Services Departmental Appeals Board (DAB). The \$121.054 million was offset by the federal government via adjustment to the federal grant award and subsequently adjusted on the federal claim for December 31, 2019, pending the outcome of the appeal. Per agreement of the parties, the three appeals were consolidated and stayed pending the results of two other similar disallowance cases involving other states currently under consideration by the DAB. On June 23, 2021, the Department received a disallowance letter related to optical supplies and services. The \$488 thousand was returned to the federal government with the December 31, 2021, federal claim. The Department appealed the optical services disallowance to the DAB and the appeal is pending determination at the DAB. No receivable was reported within the financial statements.

(d) Federal Grants

The Department receives other federal grants that 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, 2023, 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.

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Notes to the Financial Statements

June 30, 2023

(e) Developmental Disabilities (DD) Waiver Backlog

In January 2023, it was determined there was an information technology system error at the Illinois Department of Human Services (DHS) causing a backlog in submission of data to the Department related to DD waiver services. DD waiver expenditures are remitted by DHS to the Department for federal claiming purposes. It was determined the backlog extended back through services in November 2020. Approximately \$78 million in payments to providers were outside of the two-year claiming period, resulting in a potential federal revenue loss of approximately \$40 million. The Department sent a letter on December 22, 2023, requesting an exception to the two-year claiming period from Federal CMS for these expenditures. No receivable was reported within the financial statements.

(17) 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 2023, 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 2023 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 2023 resulting from a default of the borrowers or Deutsche Bank AG.

During Fiscal Year 2023, 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.

In accordance with GASB Statement No. 28, Accounting and Financial Reporting for Securities Lending Transactions, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2023 arising from securities lending agreements to the various funds of the State. The total allocated to the Department at June 30, 2023 was \$129.250 million.

(18) Coronavirus Pandemic Federal Assistance Distributions

The coronavirus pandemic, declared a state of emergency in 2020, continued to impact the Department. During fiscal year 2023, the General Assembly appropriated \$315 million to the Department for distribution to Medicaid providers and other pandemic related expenditures for funding made available through the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) (Assistance Listing Number 21.027). The Department expended \$277.4 million of the appropriated funds, net of provider returns, to cover costs related to the COVID-19 Public Health Emergency. The pass-through financial assistance was made available through the U.S. Department of the Treasury, the federal awarding agency. Federal funding for this program was received by the Illinois Emergency Management Agency, so the receipts are not reported on the Department's financial statements. The CSLFRF program allows spending through December 31, 2027. As the CSLFRF program is ongoing, the Department anticipates continued impact to its financial position.

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Notes to the Financial Statements

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In fiscal year 2022, a plan was submitted to the federal government for Home and Community Based Services (HCBS) funding. The plan allows for a 10% enhanced federal match on eligible records with a claim paid date April 1, 2021 through March 31, 2022. The resulting enhanced federal revenue is expected to be utilized for spending related to fiscal years 2022 – 2025 to enhance HCBS. As of June 30, 2023, \$153 million of spending related to the 10% enhanced rate was incurred, and the amount was reported as a federal receivable at June 30, 2023. Accordingly, the \$153 million was reported as federal revenue within the financial statements. The Department of Human Services and the Department on Aging also incurred HCBS spending, and \$108.1 million was reported as a liability within the financial statements for their share of reimbursable expenditures.

The Department continues to monitor and evaluate the pandemic situation to determine any additional impacts, both operationally and financially.

(19) Restatement

Implementation of GASB Statement No. 96, Subscription-Based Information Technology Arrangements

The Department's financial statements and footnotes have been restated as of June 30, 2022 as a result of the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which establishes that a subscription-based information technology arrangement (SBITA) results in a right to use a subscription asset - an intangible asset - and a corresponding subscription liability. Restatement of beginning net position, SBITA assets and obligations as of June 30, 2022 were as follows (amounts expressed in thousands):

	Governmental Activities Net Position (Deficit)	Note 7 - Capital Assets	Note 8 - Long-Term Obligations
June 30, 2022, as previously reported	\$ 22,261	\$ 111,563	\$ 1,672,619
Implementation of GASB 96			
Subscription-based information technology arrangements	10,516	10,516	-
Subscription-based information technology arrangement obligations	(9,848)	-	9,848
June 30, 2022, as restated	<u>\$ 22,929</u>	<u>\$ 122,079</u>	<u>\$ 1,682,467</u>

(20) Subsequent Event

(a) FEMA Medical Staffing Reimbursement

During the COVID-19 pandemic, a joint program (COVID-19 Surge Staffing Program) between the Illinois Department of Healthcare and Family Services, the Illinois Department of Public Health, and the Illinois Emergency Management Agency was implemented to provide supplemental staff to acute inpatient care facilities affected by high regional COVID-19 rates, such that they could expand their bed capacity, thus allowing them to take increased numbers of COVID-19 patients. It also provided staffing to reinforce larger institutions who typically received more acutely ill patients and transfers.

During fiscal year 2022, the Department became aware of an opportunity to seek reimbursement through the Illinois Emergency Management Agency from the Public Assistance (PA) Program under the FEMA-4489-DR-IL disaster declaration. The Department submitted two separate applications for fiscal year 2021 and fiscal year 2022 expenses in the amount of \$11.234 million and \$390.330 million, respectively.

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The Department was notified in September 2022 that the award was approved for the fiscal year 2021 expenses in the amount of \$11.234 million. The Department received this payment January 31, 2023.

The application for reimbursement for the fiscal year 2022 expenses of \$390.330 million was modified during FEMA review by Department exclusion of certain expenses and the separation of some costs into a separate federal reimbursement request per FEMA suggestion. Those actions resulted in a primary pending claim amount of \$352.573 million and a second claim of \$34.115 million.

The Department was notified that \$352.573 million was obligated by FEMA on May 20, 2024. On August 8, 2024, the Department received payment via the Illinois Emergency Management Agency.

The claim for \$34.115 million is in an early stage of review and an estimate on when a decision approving or denying the application is unknown.

State of Illinois
Department of Healthcare and Family Services

**Combining Schedule of Accounts -
General Fund**

June 30, 2023 (Expressed in Thousands)

	General Revenue 0001	U of I Hospital Services 0136	State Coronavirus Urgent Remediation Emergency 0324	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	\$ (349,374)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 757	\$ -
Cash and cash equivalents	39	108	3	13,989	7	129,298	207,261	-	-	443,069
Securities lending collateral equity with State Treasurer	3,239	-	-	-	-	-	-	-	-	-
Due from other government - federal	-	729	-	7,925	-	18,260	25,608	-	-	-
Due from other government - local	1,261,109	89,948	-	120,236	613	53,277	-	236,038	443	31,873
Taxes receivable, net	-	-	480	117,659	-	-	-	9	-	-
Other receivables, net	115,625	15	21,394	159	693	3,089	140,609	-	-	1,216,136
Notes receivables	-	-	-	-	-	12,226	515	-	-	-
Due from other Department funds	44,832	38,085	-	-	-	-	-	-	-	-
Due from other State funds	39	-	-	-	-	124	-	-	-	27
Due from State of Illinois component units	-	40,290	249	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-	458
Total assets	\$ 1,075,509	\$ 169,175	\$ 22,126	\$ 259,968	\$ 1,313	\$ 216,274	\$ 373,993	\$ 236,047	\$ 1,200	\$ 1,691,563

LIABILITIES										
Accounts payable and accrued liabilities	\$ 691,644	\$ -	\$ 3,397	\$ 79	\$ -	\$ 67,777	\$ 1	\$ -	\$ 678	\$ 33,072
Due to other government - federal	213,598	-	15,530	6	-	1	16,410	-	-	70
Due to other government - local	1,009	-	-	251,894	-	524	-	236,047	79	1,219
Due to other Department funds	38,085	-	-	-	-	-	-	-	-	1,563,617
Due to other Department fiduciary funds	1,937	-	-	-	-	-	-	-	-	-
Due to other State funds	2,982	-	3,199	22	-	26	-	-	-	1,388
Due to other State fiduciary funds	-	-	-	42	-	7	-	-	-	489
Due to State of Illinois component units	23,554	168,323	-	-	-	-	-	-	-	860
Unearned revenue	-	-	-	-	-	-	-	-	-	-
Obligations under securities lending of State Treasurer	-	729	-	7,925	-	18,260	25,608	-	-	-
Total liabilities	\$ 972,809	\$ 169,052	\$ 22,126	\$ 259,968	\$ 1,313	\$ 86,595	\$ 42,019	\$ 236,047	\$ 757	\$ 1,600,715

DEFERRED INFLOWS OF RESOURCES										
Unavailable revenue - Federal operating grants	1,254,972	86,397	-	117,944	612	32,500	-	206,057	45	30,595
Unavailable revenue - Medical provider assessment tax	-	-	-	-	110	2,500	133,971	-	-	-
Unavailable revenue - Other taxes	-	-	-	-	-	5,909	-	-	-	-
Unavailable revenue - Other operating grants	-	40,290	-	99,130	-	-	-	-	-	-
Unavailable revenue - Other revenues	-	-	-	-	-	-	-	-	-	4
Unavailable revenue - Other charges for services	-	-	-	-	-	-	-	-	-	8,313
Total deferred inflows of resources	\$ 1,254,972	\$ 126,687	\$ -	\$ 217,074	\$ 722	\$ 40,909	\$ 133,971	\$ 206,057	\$ 45	\$ 38,912

FUND BALANCES (DEFICITS)										
Nonspendable for inventories	-	-	-	-	-	-	-	-	-	458
Restricted for health and social services	-	-	-	-	-	-	-	-	-	-
Committed for health and social services	-	-	-	-	591	88,770	198,003	-	398	51,478
Unassigned	(1,152,272)	(126,564)	-	(217,074)	-	-	-	(206,057)	-	-
Total fund balances (deficits)	\$ (1,152,272)	\$ (126,564)	\$ -	\$ (217,074)	\$ 591	\$ 88,770	\$ 198,003	\$ (206,057)	\$ 398	\$ 51,936

Total liabilities, deferred inflows of resources, and fund balances (deficits)	\$ 1,075,509	\$ 169,175	\$ 22,126	\$ 259,968	\$ 1,313	\$ 216,274	\$ 373,993	\$ 236,047	\$ 1,200	\$ 1,691,563
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State of Illinois
Department of Healthcare and Family Services

**Combining Schedule of Accounts -
General Fund**

June 30, 2023 (Expressed in Thousands)

	Medicaid Technical Assistance Center 0448	Electronic Health Record Incentive 0503	Juvenile Rehab Services Medicaid Matching 0575	Health Information Exchange 0606	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (348,617)
Cash equity with State Treasurer	502	-	-	328	4	48,842	976	168,431	1,116	-	1,013,973
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	3,239
Securities lending collateral equity with State Treasurer	91	-	-	59	23	23,160	179	52,272	-	-	128,306
Due from other government - federal	-	-	-	-	4,173	8,352	-	642,139	5	-	2,448,206
Due from other government - local	-	-	-	-	-	-	-	322,619	-	-	440,767
Taxes receivable, net	-	-	-	-	-	-	-	3,120	-	-	147,511
Other receivables, net	2	-	-	1	13	464	4	100,026	14	-	1,466,594
Notes receivables	-	-	-	-	-	-	-	168,170	-	-	168,170
Due from other Department funds	-	-	-	-	-	1,563,617	-	-	-	(1,646,445)	89
Due from other State funds	-	-	-	-	-	-	-	12,644	-	-	12,834
Due from State of Illinois component units	-	-	-	-	1,129	-	-	-	-	-	41,668
Inventories	-	-	-	-	-	-	-	-	-	-	458
Total assets	\$ 595	\$ -	\$ -	\$ 388	\$ 5,342	\$ 1,644,435	\$ 1,159	\$ 1,469,421	\$ 1,135	\$ (1,646,445)	\$ 5,523,198
LIABILITIES											
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ 12	\$ 17,098	\$ 13	\$ 265,319	\$ 4	\$ -	\$ 1,079,094
Due to other government - federal	-	-	-	-	-	870,509	1	1	-	-	1,116,126
Due to other government - local	-	-	-	-	-	1	-	67,516	-	-	558,289
Due to other Department funds	-	-	-	-	-	-	-	44,743	-	(1,646,445)	-
Due to other Department fiduciary funds	-	-	-	-	-	-	-	-	-	-	1,937
Due to other State funds	-	-	-	-	-	-	4	114,601	-	-	122,222
Due to other State fiduciary funds	-	-	-	-	-	-	7	-	-	-	545
Due to State of Illinois component units	-	-	-	-	5,307	99	-	642	-	-	198,785
Unearned revenue	-	-	-	-	-	-	-	104,741	-	-	104,741
Obligations under securities lending of State Treasurer	91	-	-	59	23	23,160	179	52,272	-	-	128,306
Total liabilities	91	-	-	59	5,342	910,867	204	649,835	4	(1,646,445)	3,310,045
DEFERRED INFLOWS OF RESOURCES											
Unavailable revenue - Federal operating grants	-	-	-	-	4,173	8,352	-	241,589	5	-	1,983,241
Unavailable revenue - Medical provider assessment tax	-	-	-	-	-	-	-	-	-	-	136,581
Unavailable revenue - Other taxes	-	-	-	-	-	-	-	-	-	-	5,909
Unavailable revenue - Other operating grants	-	-	-	-	1,129	-	-	-	-	-	140,549
Unavailable revenue - Other revenues	-	-	-	-	-	-	-	2,143	-	-	2,147
Unavailable revenue - Other charges for services	-	-	-	-	-	-	-	322,619	-	-	330,932
Total deferred inflows of resources	-	-	-	-	5,302	8,352	-	566,351	5	-	2,599,359
FUND BALANCES (DEFICITS)											
Nonspendable for inventories	-	-	-	-	-	-	-	-	-	-	458
Restricted for health and social services	504	-	-	-	-	-	-	-	-	-	504
Committed for health and social services	-	-	-	329	-	725,216	955	253,235	1,126	-	1,320,101
Unassigned	-	-	-	-	(5,302)	-	-	-	-	-	(1,707,269)
Total fund balances (deficits)	504	-	-	329	(5,302)	725,216	955	253,235	1,126	-	(386,206)
Total liabilities, deferred inflows of resources, and fund balances (deficits)	\$ 595	\$ -	\$ -	\$ 388	\$ 5,342	\$ 1,644,435	\$ 1,159	\$ 1,469,421	\$ 1,135	\$ (1,646,445)	\$ 5,523,198

State of Illinois
Department of Healthcare and Family Services
**Combining Schedule of Revenues,
Expenditures, and Changes in Fund Balance -
General Fund**
For the Year Ended June 30, 2023
(Expressed in Thousands)

	State Coronavirus Urgent						
	General Revenue 0001	U of I Hospital Services 0136	Remediation Emergency 0324	County Provider Trust 0329	Care Provider for Persons with DD 0344	Long-Term Care Provider 0345	Hospital Provider 0346
REVENUES							
Operating grants - federal, net	\$ 4,241,120	\$ 118,938	\$ -	\$ 1,917,092	\$ 32,530	\$ 448,360	\$ 2,876,642
Other operating grants	243,700	33,007	-	769,612	-	-	-
Licenses and fees	36	-	-	-	-	-	-
Other charges for services, net	-	-	-	-	-	-	-
Interest and other investment income	-	294	-	887	-	2,805	6,536
Medical provider assessment tax	-	-	-	297,936	20,750	271,518	1,868,109
Other taxes, net	-	-	-	-	-	38,697	-
Other	4,313	-	-	-	-	-	-
Total revenues	4,489,169	152,239	-	2,985,527	53,280	761,380	4,751,287
EXPENDITURES							
Health and social services	7,878,068	329,995	291,819	3,200,411	-	690,538	4,413,778
Debt service principal	179	-	-	-	-	-	-
Debt service interest	52	-	-	-	-	-	-
Capital outlays	19,748	-	-	-	-	181	-
Total expenditures	7,898,047	329,995	291,819	3,200,411	-	690,719	4,413,778
Excess (deficiency) of revenues over (under) expenditures	(3,408,878)	(177,756)	(291,819)	(214,884)	53,280	70,661	337,509
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	8,641,956	-	315,000	-	1,300	-	-
Lapsed appropriations	555,419	-	(22,782)	-	(1,300)	-	-
Receipts collected and transmitted to State Treasury	(3,774,831)	-	(399)	-	(53,189)	-	-
Amount of SAMS transfers-in	-	-	-	-	-	-	-
Amount of SAMS transfers-out	48,500	-	-	-	-	-	-
Transfers-in	-	76,690	-	-	-	30,000	-
Transfers-out	(1,636,420)	-	-	-	-	(20,000)	(415,000)
Lease financing	1,453	-	-	-	-	-	-
Net other sources (uses) of financial resources	3,836,077	76,690	291,819	-	(53,189)	10,000	(415,000)
Net change in fund balances	427,199	(101,066)	-	(214,884)	91	80,661	(77,491)
Fund balances (deficits), July 1, 2022	(1,579,471)	(25,498)	-	(2,190)	500	8,109	275,494
Increase for change in inventories	-	-	-	-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2023	\$ (1,152,272)	\$ (126,564)	\$ -	(217,074)	\$ 591	\$ 88,770	\$ 198,003

(Continued)

State of Illinois
Department of Healthcare and Family Services

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

For the Year Ended June 30, 2023
(Expressed in Thousands)

	Special Education Medicaid Matching 0355	Trauma Center 0397	Public Aid Recoveries Trust 0421	Medicaid Technical Assistance Center 0448	Electronic Health Record Incentive 0503	Juvenile Rehab Services Medicaid Matching 0575	Health Information Exchange 0606
REVENUES							
Operating grants - federal, net	\$ 195,562	\$ 894	\$ 151,696	\$ -	\$ -	\$ -	-
Other operating grants	-	-	-	-	-	-	-
Licenses and fees	-	-	-	-	-	-	-
Other charges for services, net	-	-	74,308	-	-	-	-
Interest and other investment income	-	-	-	4	-	-	11
Medical provider assessment tax	-	-	-	-	-	-	-
Other taxes, net	-	-	-	-	-	-	-
Other	-	-	-	500	-	-	-
Total revenues	195,562	894	226,004	504	-	-	11
EXPENDITURES							
Health and social services	367,897	1,656	107,571	-	-	-	-
Debt service principal	-	-	5,495	-	-	-	-
Debt service interest	-	-	1,325	-	-	-	-
Capital outlays	-	-	66,937	-	-	-	-
Total expenditures	367,897	1,656	181,328	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(172,335)	(762)	44,676	504	-	-	11
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	10,210	-	-	-	-	-
Lapsed appropriations	-	(8,554)	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	(640)	-	-	-	-	-
Amount of SAMS transfers-in	-	-	-	-	-	-	-
Amount of SAMS transfers-out	-	-	-	-	-	-	-
Transfers-in	-	-	4,980	-	-	-	-
Transfers-out	-	-	(98,871)	-	-	-	-
Lease financing	-	-	23,872	-	-	-	-
Net other sources (uses) of financial resources	-	1,016	(70,019)	-	-	-	-
Net change in fund balances	(172,335)	254	(25,343)	504	-	-	11
Fund balances (deficits), July 1, 2022	(33,722)	144	76,821	-	-	-	318
Increase for change in inventories	-	-	458	-	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2023	\$ (206,057)	\$ 398	\$ 51,936	\$ 504	\$ -	\$ -	\$ 329

(Continued)

State of Illinois
Department of Healthcare and Family Services

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

For the Year Ended June 30, 2023
(Expressed in Thousands)

	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	\$ 9,075	\$ (2,426)	\$ -	\$ 9,390,629	\$ 481	\$ -	\$ 19,380,593
Other operating grants	922	-	-	-	-	-	1,047,241
Licenses and fees	-	-	-	-	-	-	36
Other charges for services, net	-	-	-	185,562	-	(74,308)	185,562
Interest and other investment income	22	5,315	37	6,054	-	-	21,965
Medical provider assessment tax	-	-	-	1,164,020	-	-	3,622,333
Other taxes, net	-	-	-	273,179	-	-	311,876
Other	-	-	-	3,914	67	-	8,794
Total revenues	10,019	2,889	37	11,023,358	548	(74,308)	24,578,400
EXPENDITURES							
Health and social services	11,338	611,725	305	12,815,532	633	(74,308)	30,646,958
Debt service principal	-	-	-	460	-	-	6,134
Debt service interest	-	-	-	150	-	-	1,527
Capital outlays	-	-	-	27,967	-	-	114,833
Total expenditures	11,338	611,725	305	12,844,109	633	(74,308)	30,769,452
Excess (deficiency) of revenues over (under) expenditures	(1,319)	(608,836)	(268)	(1,820,751)	(85)	-	(6,191,052)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	-	-	-	-	8,968,466
Lapsed appropriations	-	-	-	-	-	-	522,783
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	(3,829,059)
Amount of SAMS transfers-in	-	-	-	-	-	-	-
Amount of SAMS transfers-out	-	-	-	-	-	-	48,500
Transfers-in	-	-	-	1,978,021	-	(2,089,691)	-
Transfers-out	-	-	-	-	-	2,089,691	(80,600)
Lease financing	-	-	-	8,268	-	-	33,593
Net other sources (uses) of financial resources	-	-	-	1,986,289	-	-	5,663,683
Net change in fund balances	(1,319)	(608,836)	(268)	165,538	(85)	-	(527,369)
Fund balances (deficits), July 1, 2022	(3,983)	1,334,052	1,223	87,697	1,211	-	140,705
Increase for change in inventories	-	-	-	-	-	-	458
FUND BALANCES (DEFICITS), JUNE 30, 2023	\$ (5,302)	\$ 725,216	\$ 955	\$ 253,235	\$ 1,126	\$ -	\$ (386,206)

State of Illinois
Department of Healthcare and Family Services
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2023 (Expressed in Thousands)

	Special Revenue				
	Provider Inquiry Trust 0341	Money Follows the Person Budget Transfer 0522	Tobacco Settlement Recovery 0733	Child Support Administrative 0757	Total
ASSETS					
Unexpended appropriations	\$ -	\$ -	\$ 23,590	\$ -	\$ 23,590
Cash equity with State Treasurer	271	5,233	-	19,208	24,712
Securities lending collateral equity with State Treasurer	-	944	-	-	944
Due from other government - federal	-	159	11,593	25,762	37,514
Other receivables, net	46	19	-	6	71
Due from other Department funds	-	-	-	-	-
Total assets	\$ 317	\$ 6,355	\$ 35,183	\$ 44,976	\$ 86,831
LIABILITIES					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 23,044	\$ 7,033	\$ 30,077
Due to other government - federal	-	-	-	175	175
Due to other government - local	-	-	556	6,014	6,570
Due to other Department funds	-	82	-	7	89
Due to other State funds	-	-	-	4,222	4,222
Due to other State fiduciary funds	-	-	-	1,281	1,281
Due to State of Illinois component units	-	-	-	-	-
Obligations under securities lending of State Treasurer	-	944	-	-	944
Total liabilities	-	1,026	23,600	18,732	43,358
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - Federal operating grants	-	-	4,990	16,139	21,129
Unavailable revenue - License and fees	36	-	-	-	36
Unavailable revenue - Other revenues	-	-	-	6	6
Total deferred inflows of resources	36	-	4,990	16,145	21,171
FUND BALANCES					
Committed for health and social services	281	5,329	6,593	10,099	22,302
Total fund balances	281	5,329	6,593	10,099	22,302
Total liabilities, deferred inflows of resources, and fund balances	\$ 317	\$ 6,355	\$ 35,183	\$ 44,976	\$ 86,831

State of Illinois
Department of Healthcare and Family Services

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

For the Year Ended June 30, 2023 (Expressed in Thousands)

	Special Revenue				
	Provider Inquiry Trust 0341	Money Follows the Person Budget Transfer 0522	Tobacco Settlement Recovery 0733	Child Support Administrative 0757	Total
REVENUES					
Operating grants - federal, net	\$ -	\$ 159	\$ 125,395	\$ 101,707	\$ 227,261
License and fees	74	-	-	-	74
Other charges for services, net	-	-	-	7,713	7,713
Interest and other investment income	-	168	-	-	168
Other revenues, net	-	-	-	2	2
Total revenues	74	327	125,395	109,422	235,218
EXPENDITURES					
Health and social services	-	159	242,950	154,429	397,538
Debt service principal	-	-	-	343	343
Debt service interest	-	-	-	102	102
Capital outlays	-	-	-	24,758	24,758
Total expenditures	-	159	242,950	179,632	422,741
Excess (deficiency) of revenues over (under) expenditures	74	168	(117,555)	(70,210)	(187,523)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	-	-	245,010	-	245,010
Lapsed appropriations	-	-	(2,069)	-	(2,069)
Receipts collected and transmitted to State Treasury	-	-	(118,793)	-	(118,793)
Transfers-in	-	-	-	40,600	40,600
Transfers out	-	-	-	-	-
Lease financing	-	-	-	2,786	2,786
Net other sources (uses) of financial resources	-	-	124,148	43,386	167,534
Net change in fund balances	74	168	6,593	(26,824)	(19,989)
Fund balances, July 1, 2022	207	5,161	-	36,923	42,291
FUND BALANCES, JUNE 30, 2023	\$ 281	\$ 5,329	\$ 6,593	\$ 10,099	\$ 22,302

State of Illinois
Department of Healthcare and Family Services

**Combining Statement of Fiduciary Net Position -
Custodial Funds**

June 30, 2023 (Expressed in Thousands)

	Child Support Enforcement Trust 0957	Child Support Enforcement Trust - SDU 2957	Total
ASSETS			
Cash equity with State Treasurer	\$ 24,166	\$ -	\$ 24,166
Cash and cash equivalents	268	1,614	1,882
Other receivables, net	166,044	18	166,062
Due from other Department funds	1,937	-	1,937
Total assets	192,415	1,632	194,047
LIABILITIES			
Accounts payable and accrued liabilities	180,983	1,632	182,615
Total liabilities	180,983	1,632	182,615
NET POSITION			
Restricted net position	11,432	-	11,432
Total net position	\$ 11,432	\$ -	\$ 11,432

State of Illinois

Department of Healthcare and Family Services

Combining Statement of Changes in Fiduciary Net Position

Custodial Funds

For the Year Ended June 30, 2023 (Expressed in Thousands)

	Child Support Enforcement Trust 0957	Child Support Enforcement Trust - SDU 2957	Total
Additions			
Custodial fund deposits received	\$ 157,423	\$ 924,805	\$ 1,082,228
Total additions	<u>157,423</u>	<u>924,805</u>	<u>1,082,228</u>
Deductions			
Custodial funds disbursed	145,991	924,805	1,070,796
Total deductions	<u>145,991</u>	<u>924,805</u>	<u>1,070,796</u>
Net increase (decrease) in fiduciary net position	11,432	-	11,432
Net position, July 1, 2022	<u>-</u>	<u>-</u>	<u>-</u>
Net position, June 30, 2023	<u>\$ 11,432</u>	<u>\$ -</u>	<u>\$ 11,432</u>

**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

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, 2023, 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 August 19, 2024.

Report on Internal Control Over Financial Reporting

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the Department's internal control as a basis for designing 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 were not identified. However, as described in the accompanying Schedule of Findings as items 2023-001 through 2023-007, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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 2023-001 through 2023-006 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 item 2023-007 to be a significant deficiency.

Report on 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 financial statements. 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 that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as items 2023-003 and 2023-005.

Department's Responses to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Department's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The Department's responses were not subject to the other 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

Government Auditing Standards requires the auditor to perform limited procedures on the responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The State of Illinois, Department of Human Services' responses to items 2023-001 through 2023-005 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Restricted Use of this 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
August 19, 2024

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS*
For the Year Ended June 30, 2023

2023-001. **FINDING** (Inadequate general information technology controls over IES)

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

Management of the Departments has 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.

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 (Federal CMS), significant threats over DoIT’s general IT environment, which hosts IES, were identified.

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.

The Code of Federal Regulations (Code) (45 C.F.R. § 95.621(f)(1)), *ADP System Security Requirement*, requires the Departments to be responsible for the security of all automated data processing (ADP) system projects under development and operational systems involved in the administration of the U.S. Department of Health and Human Services programs. The Departments are required to determine the appropriate security requirements based on recognized industry standards or standards governing the security of federal ADP systems and information processing.

Federal CMS’ *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 is the responsibility of the states.

The internal control requirements of the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) within the 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 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.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS*
For the Year Ended June 30, 2023

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 Organizations of the Treadway Commission (COSO).

The Departments' management indicated multi-year IES technology refresh projects are still in progress. The Departments continue working through project delays and challenges to resolve security weaknesses and close out aged Plan of Action and Milestone findings.

The Departments' failure to maintain adequate internal controls over the security of the IES application led to three security breaches and increases the risk IES may be exposed to further malicious attacks, security breaches, and unauthorized access to recipients' personal information.

Change Control

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.

The National Institute of Standards and Technology (NIST), Special Publication 800-53, Fifth Revision, *Security and Privacy Controls for Information Systems and Organizations*, Configuration Management section, backout plans should be retained to support rollback of changes made to systems.

Additionally, DoIT's Change Management Policy requires that each change have a backout plan documented.

The Departments' management indicated the Departments have made improvements to the current change management process and are working with DoIT to provide additional infrastructure change required documentation.

Findings over the IES Environment and Change Control were first noted during the Departments' financial audits of the year ended June 30, 2017. In subsequent years, the Departments have been unsuccessful in fully implementing corrective action plans.

Failure to establish and document backout plans for changes to IES infrastructure diminishes the Departments' ability to recover the application if an error were to occur during the change process. (Finding Code No. 2023-001, 2022-001, 2021-001, 2021-002, 2020-003, 2020-004, 2019-004, 2018-007, 2017-009)

RECOMMENDATION

We recommend 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 recommend management of both Departments ensure backout plans are developed and documented for infrastructure changes.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS*
For the Year Ended June 30, 2023

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services accepts the recommendation. The IES application and data reside on the Department of Innovation and Technology (DoIT) infrastructure and as our service provider they are responsible for ensuring a secure environment, significant threats are identified and backout plans for changes are developed. The Departments 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. The Departments will also require DoIT provide documented backout plans with all IES infrastructure changes.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. The Departments will work 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. The Department will also work with the Department of Innovation and Technology on documented backout plans with all IES infrastructure changes.

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2023

2023-002. **FINDING** (Inadequate disaster recovery controls over the Integrated Eligibility System (IES))

The Department of Human Services and the Department of Healthcare and Family Services (collectively, the “Departments”) lacked adequate disaster recovery 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. Additionally, the Departments work with the Department of Innovation and Technology (DoIT) for information technology management and support over IES.

The Departments’ Disaster Recovery Plan for its IES application did not include the following:

- Detailed recovery scripts over the application and its data,
- Detailed environment diagrams,
- IES support staff and vendor contact information,
- Documentation on the backup and responsibilities for recovery of IES, and
- Documentation of the current environment.

Additionally, we noted the Departments did not conduct recovery testing of critical systems and components in fiscal year 2023.

This finding was first noted during the Departments’ financial audits of the year ended June 30, 2019. In subsequent years, the Departments have been unable to fully implement its corrective action plan.

The Code of Federal Regulations (Code) (45 C.F.R. § 95.621(f)(2)(ii)(F), *ADP System Security Requirements and Review Process*, requires the Departments’ automated data processing (ADP) security plan, policies and procedures to include contingency plans to meet critical processing needs in the event of short or long-term interruption of service.

The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology, Contingency Planning section requires entities to develop contingency plans for systems to achieve continuity of operations for organizational missions and business functions along with addressing system restoration and implementation of alternative missions or business processes when systems are compromised or breached.

The *Control Objectives for Information and Related Technologies* published by Information Systems Audit and Control Association (ISACA), Managed I&T-Related Risk Area, promotes controls for analyzing risks and maintaining a risk profile of risks and their potential impact and responses.

The Departments’ management indicated the delayed completion of the Information System Contingency Plan (ISCP) for the IES application was due to the time required for IES technical teams to formulate and vet a complete, detailed failover playbook that would meet the Department’s expectations for recovery time objectives.

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The lack of an adequate Disaster Recovery Plan and testing could result in the Departments' inability to recover IES data in the event of disaster, which would be detrimental to recipients of benefits, and the Departments' and State's operations. (Finding Code No. 2023-002, 2022-002, 2021-003, 2020-005, 2019-005)

RECOMMENDATION

We recommend the Departments work with DoIT to allocate sufficient resources to enable a full recovery of IES in the event of a disaster and implement adequate disaster recovery controls over IES. Additionally, in the interim, we recommend the Departments work with DoIT to develop a prioritization plan and emergency operating procedures to allow IES to operate under reduced capacity in the event of a disaster.

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

- Detailed recovery scripts over the application and its data,
- Detailed environment diagrams,
- IES support staff and vendor contact information,
- Documentation on the backup and responsibilities for recovery of IES, and
- Documentation of the current environment.

Finally, we recommend the Departments 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 accepts the recommendation. The IES application and data reside on the Department of Innovation and Technology (DoIT) infrastructure and as our service provider they are responsible for ensuring disaster recovery controls are in place and tested. The Department of Human Services has worked with IES application stakeholders to complete the Information System Contingency Plan in FY24. The plan documents the recovery control requirements noted. A comprehensive tabletop test exercise of the IES contingency plan and playbook was completed on December 1, 2023. The Departments will work with DoIT to test and update the IES contingency plan annually.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. The Department has worked with IES application stakeholders, including DoIT, to complete the Information System Contingency Plan in FY24. The plan documents the recovery control requirements of the finding. A comprehensive tabletop test exercise of the IES contingency plan and playbook was completed on December 1, 2023. The Department will work toward testing and updating the IES contingency plan annually.

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2023-003. **FINDING** (Inadequate controls over eligibility determinations and redeterminations)

The Department of Healthcare and Family Services and the Department of Human Services (collectively, the “Departments”) lacked controls over eligibility determinations and redeterminations for Federal programs where such determination is documented using 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 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 order to conclude if the determination of eligibility was proper, we selected a sample of 60 cases (30 new applications and 30 redeterminations) and tested whether the cases were properly certified (approved or denied) based on non-financial, financial and timeliness criteria. Our testing considered all the documentation contained within the case file, including the scanned documentation supporting caseworker overrides required prior to certification. In 12 of the 60 cases tested (20%), we noted exceptions. Specifically, we noted:

- One new application for SNAP benefits (3%) tested did not have the certification completed timely. Certification was 12 days late.
- One new application for medical benefits (3%) tested did not have the certification completed timely. Certification was 162 days late.
- One new application for medical benefits (3%) tested did not have citizenship verified.
- One redetermination for SNAP benefits (3%) did not have the required documentation maintained.
- Five redeterminations for SNAP benefits (17%) tested did not have the certification completed timely. Certifications were 35 to 101 days late.
- Two redeterminations for SNAP benefits (7%) used the net pay instead of the gross pay for the benefit calculation with no impact to the benefit provided.
- One redetermination for SNAP benefits (3%) had unearned income incorrectly calculated.

The Code of Federal Regulations (Code) (42 C.F.R. § 435.403), *Eligibility in the States, District of Columbia, the Northern Mariana Islands, and American Samoa*, requires recipients of Medicaid to provide documentary evidence of their citizenship, residency, SSNs, and income. Further, the Code (42 C.F.R. § 431.17), *Maintenance of Records*, requires the Departments to maintain records of each applicant and beneficiary, including records which support the determination of eligibility.

The Code (7 C.F.R. § 273.10), *Determining Household Eligibility and Benefit Levels*, requires 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. § 274.1 and §274.2), *Issuance System Approval Standards and Providing Benefits to Participants*, indicates DHS 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.

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The Departments' management indicated contributing factors for the exceptions noted include worker errors in manual processes, the high volume of work and the complexity of the programs involved.

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. 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. 2023-003)

RECOMMENDATION

We recommend management of both Departments work together to implement additional controls to ensure appropriate documentation of eligibility is obtained at the time of certification and retained in IES, and to complete certifications of applications and redeterminations timely.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services accepts the recommendation. The two cases related to medical were due to caseworker error. The Department has an ongoing monitoring program of caseworkers. The Bureau of Eligibility Integrity is working on a refresher training that is focused on errors caseworkers make.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. IDHS, in conjunction with HFS and our IES Vendor, is in the process of implementing additional controls to ensure appropriate documentation of eligibility is obtained at the time of certification and retained in IES, and that certifications are made timely.

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2023-004. **FINDING** (Inadequate general information technology controls over IMPACT)

The Department of Healthcare and Family Services (HFS) and the Department of Human Services (DHS) (collectively, the “Departments”) had inadequate general information technology controls over the State of Illinois’ Illinois Medicaid Program Advanced Cloud Technology (IMPACT) 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’ IMPACT system is a multi-agency effort to implement a web-based system to give providers a more convenient and consistent user experience and to ensure beneficiaries receive timely and high-quality Medicaid Services. IMPACT is an automated system used by the Departments to accommodate provider enrollment approvals and all Medicaid claim payments to such providers.

The Departments did not have adequate user access controls for the IMPACT system. During testing auditors noted:

- Four of 17 (24%) terminated users from HFS had not been deleted from the system. As of June 30, 2023, the deletion of users was 15 to 336 days late.
- One of 17 (6%) terminated users from HFS did not have access timely deleted. The user was deleted from the system 148 days after the user’s termination date.
- One of one (100%) terminated users from DHS had not been deleted from the system. As of June 30, 2023, the deletion of the user was 346 days late.
- One of seven (14%) active users from DHS no longer required the use of IMPACT and did not have access timely deleted. As of June 30, 2023, the deletion of the user was 45 days late.

Although an automated process prevents access after 60 days from the user’s last login to the program, the users noted in the exceptions were not deleted. The automated process is for non-use only, after 60 days. However, if the individuals were to continue to utilize their accounts they would remain active until deleted.

This finding was first noted during the Departments’ fiscal year 2018 financial audit, five years ago. As such, the Departments’ management has been unsuccessful in implementing a corrective action plan to remedy this deficiency.

The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, (Fifth Revision)) published by the National Institute of Standards and Technology (NIST), Access Control section, requires entities to develop and comply with control over the timely termination of access rights and the periodic review of access rights.

Furthermore, 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 of the State’s resources.

Finally, the Departments’ management teams are responsible for implementing timely corrective action on all of the findings identified during a financial audit.

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HFS management stated user access was not timely terminated due to limitations in communication between the departments. DHS management stated user access was not timely terminated due to changes in staffing levels that led to difficulties in executing the offboarding process.

Inadequate internal controls over user access could result in unauthorized use and/or inappropriate access to the IMPACT system, which could go undetected by the Departments for an extended period of time and could lead to confidential information being compromised. (Finding Code No. 2023-004, 2022-003, 2021-005, 2020-007, 2019-010, 2018-002)

RECOMMENDATION

We recommend the Departments strengthen their internal controls over the timely removal of access to the IMPACT system for terminated employees or employees no longer requiring access.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. The Division of Personnel has implemented an exit process for employees leaving the Department. Part of this process is to ensure system access is communicated and removed promptly.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. IDHS will review the onboarding and offboarding procedures. Administration will create a process to review User access. Monthly reminders will be sent to all managers reminding them of the requirements for terminating user access upon separation or transfer of employees.

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2023-005. **FINDING** (Insufficient review and documentation of provider enrollment determinations)

The Department of Healthcare and Family Services (HFS) and the Department of Human of Services (DHS) (collectively, the “Departments”) failed to sufficiently review and document provider enrollment requirements during the required monthly screenings for enrolled providers.

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 Illinois Medicaid Program Advanced Cloud Technology (IMPACT) system is a multi-agency effort to implement a web-based system to give providers a more convenient and consistent user experience and to ensure beneficiaries receive timely and high-quality Medicaid Services. IMPACT is an automated system used by the Departments to accommodate provider enrollment approvals and all Medicaid claim payments to such providers.

During fiscal year 2023, the IMPACT system had 304,070 active providers. Monthly batch screenings are utilized by the Departments to support providers continued to meet the enrollment criteria. In order to determine the Departments monitored the monthly batch screenings, we selected a sample of 60 providers for testing. Our testing results noted HFS was unable to provide support for one or more monthly batch screenings performed for 22 (37%) providers tested.

Finally, this finding was first noted during the Departments’ fiscal year 2018 financial audit, five years ago. While the Departments did successfully execute an interagency agreement as recommended in prior engagements, the Departments’ management has been unsuccessful in implementing a corrective action plan to remedy the provider enrollment deficiency.

The Code of Federal Regulations (Code) (42 C.F.R. § 455.436 (c)(1)) requires the Departments to consult appropriate databases to confirm identity upon enrollment and reenrollment. In addition, the Code (42 C.F.R § 455.450 (a)(3)) requires the Departments to conduct database checks on a pre-and post-enrollment basis to ensure providers continue to meet the enrollment criteria for their provider type, in accordance with § 455.436.

The Code (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 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).

Additionally, 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.

Finally, the Departments’ management teams are responsible for implementing timely corrective action on all of the findings identified during a financial audit.

The Departments’ management indicated issues with provider monthly batch screenings was due to a system error which was corrected in June 2023.

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Inadequate controls over the operation of IMPACT, such as insufficient review and monitoring of monthly batch screenings, could result in expenditures to providers who are were no longer eligible and represents noncompliance with the Code. (Finding Code No. 2023-005, 2022-004, 2021-006, 2020-008, 2019-010, 2018-002)

RECOMMENDATION

We recommend the Departments strengthen internal controls to ensure providers continue to meet criteria in accordance with the Code.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. A system error caused issues with the provider month batch screenings and was corrected as part of the IL-1.6 System Release in June 2023. Screenings have been occurring on a regular basis since then.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. IDHS will work with HFS and the service provider to ensure controls over IMPACT are adequate.

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2023-006. **FINDING** (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.

During our audit of the Department's financial statements, we brought errors to the Department's 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, however, the Department subsequently corrected all of the errors noted.

<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 Department's attention. The Department subsequently corrected these errors.

1. 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.
2. 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.

Furthermore, auditors noted the Department's financial statements were compiled from various sources, including those within the Department and other third parties. 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. Additional analysis continued to be performed to identify financial statement revisions. 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

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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.

<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)

The State Comptroller Act (15 ILCS 405/19.5) requires the Department to report, on or before October 31 each year, all financial information as directed by the Comptroller in order to compile and publish an annual comprehensive financial report in accordance with GAAP.

The Government Finance Officer Association's *Internal Control Deficiencies in Audits* advocates that governments should establish and document a system of financial reporting that is sufficient to provide reasonable assurance that management is able to prepare financial statements in conformity with GAAP. A good system of internal control requires management to review all significant accounts and balances recorded and disclosed in the financial statements for completeness and accuracy.

Concepts Statement No. 1 of the Governmental Accounting Standards Board, *Objectives of Financial Reporting* (GASBCS 1, paragraph 66), states, "If financial reports are to be useful, they must be issued soon enough after the reported events to affect decisions."

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 that, among other things, 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.

Department management stated the issues were caused by a combination of delays in communication of relevant information from program areas and partner agencies and delays in updates to IT systems and processes for capturing and calculating financial reporting information.

Weaknesses in the design and operation of the Department's internal controls over financial reporting adversely affected the Department's ability to timely prepare financial statements, and in the future, could hinder the overall accuracy of the transactions reported in the State's Annual Comprehensive Financial Report. The failure to effectively implement methodologies to estimate the information not readily available at the time the financial statements should be prepared or to timely identify the

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above modifications delayed the completion of the Department's financial audit and the Statewide financial audit. Further, the delay in identifying accounting errors and accurate estimates significantly increases the risk that operational or strategic decisions are made without the benefit of relevant information, or decisions may be delayed because relevant information is not otherwise available. (Finding Code No. 2023-006, 2022-007)

RECOMMENDATION

We recommend 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 RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. The Department will work with program area staff and with external partners to review current processes and investigate potential improved methodologies for determining estimates. The Department will strengthen its processes for review and approval of financial reporting documents.

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2023-007. **FINDING** (Failure to properly identify capital assets in accordance with reporting standards)

The Department of Healthcare and Family Services (Department) failed to properly identify leases and subscription-based information technology arrangements (SBITA) in accordance with the Governmental Accounting Standards Board (GASB) Statements.

During our review of capital assets, we noted the Department did not identify one agreement as a lease to be reported under GASB Statement No. 87. Additionally, the Department did not identify one agreement as a SBITA to be reported under GASB Statement No. 96. Furthermore, the Department identified two agreements as SBITAs, which did not meet the criteria to be reported under GASB Statement No. 96. These errors did not have a material effect on the financial statements. As a result, the Department did not make any financial statement adjustments for these issues.

Governmental Accounting Standards Board Statement No. 87, *Leases*, paragraph 4 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.

Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*, paragraph 6, defines a SBITA as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

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 that, among other things, 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.

Department management indicated this error was due to oversight.

Failure to properly record all applicable activity could lead to a material misstatement in the financial statements and is in noncompliance with the GASB Statements. (Finding Code No. 2023-007)

RECOMMENDATION

We recommend the Department strengthen its internal controls to ensure its all capital assets are identified and recorded in accordance with the applicable GASB Statements.

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DEPARTMENT RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. The Department accepts the recommendations to strengthen its internal controls associated with reporting under Governmental Accounting Standards Board Statement No. 87 and Governmental Accounting Standard Board Statement No. 96. The Department is currently in the process of drafting and implementing new procedures for both GASB 87 and GASB 96 review and implementation. The implementation of these new process changes will enhance the thoroughness of the initial assessment of Department contracts and provide for additional reviews throughout the process in order to provide more accuracy. Additional reviews will also be conducted by the Department prior to submission of the SCO-560 and the SCO-560S forms that will strengthen the internal controls.

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A. **FINDING** (Failure to review service providers’ internal controls)

During the previous engagement, we noted the Department did not obtain or conduct independent internal control reviews of its service providers.

During the current engagement, we noted the Department improved their internal controls and successfully obtained and reviewed significant third-party service providers affecting the financial statements. However, due to continuing noncompliance with regulations and standards, this finding will be repeated in the Department Compliance Examination report. (Finding Code No. 2022-005)

B. **FINDING** (Inadequate general information technology controls)

During the previous engagement, we noted the Department had inadequate general information technology controls. Specifically, we noted the Department had users not requiring access, not all access approval was documented, and terminated users were not timely disabled.

During the current engagement, we noted the Department took corrective action strengthening their controls to ensure access to its applications and data is appropriate, other than access to the Illinois Medicaid Program Advanced Cloud Technology (IMPACT) system which is reported in Finding Code No. 2023-004. (Finding Code No. 2022-006)

C. **FINDING** (Insufficient controls over administration of Medicaid claims)

During the previous engagement, we noted the Department did not have adequate internal controls to ensure all eligible expenditures initiated by other State agencies were included in its Medicaid federal financial participation (FFP) reimbursement claims.

During the current engagement, we noted the Department took corrective action by implementing internal controls to ensure all eligible expenditures initiated by other State agencies were included in its Medicaid FFP reimbursement claims. (Finding Code No. 2022-008)

D. **FINDING** (Detailed agreement between the Department of Human Services, the Department of Healthcare and Family Services and the Department of Innovation and Technology (DoIT) over IES not finalized)

During the previous engagement, the Department of Healthcare and Family Services (HFS) and the Department of Human Services (DHS) (collectively, the “Departments”) did not finalize an interagency agreement (IA) with the Department of Innovation and Technology (DoIT) during fiscal year 2022 to define each of the three agency’s roles and responsibilities with respect to the Integrated Eligibility System (IES).

During the current engagement, the Departments and DoIT entered into an IA defining the roles and responsibilities of each agency with respect to IES. (Finding Code No. 2022-009, 2021-004, 2020-006, 2019-006)