STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL
Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF HUMAN SERVICES

Financial Audit
For the Year Ended June 30, 2022

Release Date: August 15, 2023

FINDINGS THIS AUDIT: 8	New	Repeat	Total
Category 1:	**2**	**5**	**7**
Category 2:	**0**	**1**	**1**
Category 3:	**0**	**0**	**0**
TOTAL	**2**	**6**	**8**

FINDINGS LAST AUDIT: 10

AGING SCHEDULE OF REPEATED FINDINGS			
Repeated Since	**Category 1**	**Category 2**	**Category 3**
2019	**4**	**6**	
2018	**7, 8**		
2017	**2, 5**		

SYNOPSIS

- (**22-01**) The Department does not have sufficient internal control over accounting for grant transactions resulting in material misstatements to the draft financial statements.

- (**22-02**) The Department does not have an adequate understanding of the suitability of the design of internal control or the operating effectiveness of internal control in place over all data recorded in its financial statements for transactions initiated by other State agencies and recorded in the Department's financial statements.

- (**22-05**) The Departments (HFS and DHS) had weaknesses in the general information technology (IT) controls over the Integrated Eligibility System (IES).

Category 1:	Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2:	Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3:	Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

DEPARTMENT OF HUMAN SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2022

FINANCIAL INFORMATION - Governmental Funds (in thousands)	FY 2022	FY 2021
REVENUES		
Program revenue: charges for service	$ 46,299	$ 47,555
Program revenue: operating grants	9,408,202	8,046,842
General revenue: taxes, interest and other	165,202	7,380
Total revenue	9,619,703	8,101,777
EXPENDITURES		
Health and social services	14,443,369	12,790,501
Debt service - principal	3,140	917
Debt service - interest	228	888
Capital outlays	39,691	41,708
Total expenditures	14,486,428	12,834,014
OTHER SOURCES (USES)		
Appropriations from State resources	6,120,520	5,248,749
Transfers in	416,562	201,680
Transfers out	(329,160)	(129,352)
Receipts collected & transmitted to the State treasury	(392,448)	(353,293)
Lapsed appropriation	(875,831)	(345,930)
Other	(9,202)	(110,469)
Total other sources (uses)	4,930,441	4,511,385
Increase in fund balance	63,716	(220,852)
Fund balance, July 1 (as restated)	223,251	443,743
(Decrease) for changes in inventories	(1,182)	(360)
Fund balance, June 30	$ 285,785	$ 222,531

SELECTED ACCOUNT BALANCES - June 30, Governmental Funds (in thousands)	FY 2022	FY 2021
ASSETS		
Cash and cash equivalents & investments	$ 584,728	$ 399,928
Due from other governments - federal & local	191,241	227,118
Loans, taxes and other receivables, net	420	431
Due from other Department and State funds	110,801	47,288
Inventories	6,808	7,990
Other (Prepaid expenses, Recipient services and other receivables)	106,112	118,298
Unexpended appropriations	471,295	457,770
Total assets	$ 1,471,405	$ 1,258,823
LIABILITIES		
Accounts payable and other liabilities	$ 667,495	$ 604,231
Unearned revenue	99,798	20,340
Due to others - State, federal, local & Department	249,884	238,152
Total Liabilities	1,017,177	862,723
DEFERRED INFLOWS OF RESOURCES	168,443	172,849
FUND BALANCE	285,785	223,251
TOTAL LIABILITIES AND FUND BALANCE	$ 1,471,405	$ 1,258,823

SECRETARY
During Audit Period and Currently: Grace B. Hou

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE INTERNAL CONTROLS OVER ACCOUNTING FOR FEDERAL AWARDS

Insufficient controls over federal grant reporting

The Department of Human Services (Department) does not have sufficient internal control over accounting for grant transactions resulting in material misstatements to the draft financial statements.

For financial reporting purposes, the Department (Fiscal Services) tracks grant data for purposes of accruing grant receivables, unearned revenue, unavailable revenue and payable balances, all of which impact Federal Operating Grant Revenue, using Office of Comptroller required SCO forms including SCO-563 Grant /Contract Analysis, SCO-567, Interfund Transfers – Grantee Agency, and SCO-568 Interfund Transactions – Grantor Agency.

In preparing the SCO Forms, the Department made errors in reporting expenditure amounts, including expenditure adjustments, and cash receipts, including lapse period receipts, for its federal award programs, resulting in errors in the financial statements for grant transactions. Additionally, based on audit procedures performed, the SCO Forms required multiple revisions through February 24, 2023. Some of the most significant errors are as follows:

$41.9 million in HCBS grants not recorded in GRF

- Included in the errors was an adjustment for $41.9 million in the General Revenue Fund (0001). In March 2023, the Department communicated to auditors that there were qualifying expenditures incurred for a new grant award (10% enhanced match federal award for certain expenditures for home and community-based services (HCBS)), that had not been recorded as expenditures, receivables or revenues in the SCO Forms or in the original draft financial statements. Included in a letter provided by CMS (Centers for Medicare & Medicaid Services) dated May 13, 2021 and addressed to State Medicaid Directors (which includes HFS), was an award for additional funding which was based on an increased Federal rate applied to HCBS for a specified period of time. This award is required to be used for providing enhanced HCBS and is considered to be an expenditure-driven grant. Based on the award requirements communicated, the Department incurred $41.9 million in qualifying expenditures for enhanced HCBS during fiscal year 2022. As of March 31, 2023, this earned amount had not been provided to the Department by HFS. HFS considers the amount received from the Federal government through their right of offset with other Medicaid related over-draws.

$26.6 million in SSBG overstated in GRF

Further, during the audit it was noted that General Revenue Fund expenditures for the Social Services Block Grant (SSBG) ALN 93.667 were overstated in fiscal year 2020 by $29.6 million, resulting in a balance remaining in Due from Other Governments – Federal and Unavailable Revenue. The balances for Due from Other Governments – Federal, and Unavailable Revenue were written off in fiscal year 2022. The resulting adjustment in governmental activities was reported as a reduction to fiscal year 2022 Federal Operating Grant Revenue. As a result of the entry recorded, Federal Operating Grant Revenue in the General Fund was understated and opening net position was overstated in Governmental Activities.

$23.6 million recorded as Federal Revenue instead of Unearned Revenue in Fund 0142

- In the Community Developmental Disabilities Services Medicaid Trust Fund (0142), the Department recognized all cash deposited into the fund by HFS as revenue. However, receipts exceeded qualifying expenditures incurred which resulted in an overstatement of Federal Operating Grant Revenue, and an understatement of Unearned Revenue of $23.6 million.

$20 million recorded in Fund 0642 instead of 0324

- A transfer of COVID-19 related grant funding between two funds - State C.U.R.E. Fund (0324) and DHS State Projects Fund (0642) was not accounted for correctly resulting in a $20 million understatement of cash in the DHS State Projects Fund (0642), which was not detected and corrected during the Department's bank reconciliation process. Interfund balances between the two funds were understated by the same amount due to the lack of qualifying expenditures in Fund 0642.

$249.5 million in Childcare Program grant revenue were misstated in various transaction lines

- Expenditures and receipts between three Childcare Program assistance listing numbers (ALNs) for the Employment and Training Fund (0347) were misstated which led to overstatements of Unearned Revenue ($257.8 million), Due from Other Governments – Federal ($189.3 million) and Unavailable Revenue ($181.0 million). Federal Operating Grant Revenue was understated $249.5 million.

Failure to disclose timely disclose significant issues to the auditors

Further, two of the errors noted in the finding were brought to the attention of auditors' months after the end of the fiscal year, and after four previous financial statement drafts had been provided. Specifically, as noted in item 1 of this finding, auditors were provided information in March 2023 about additional HCBS receivables which management should have been aware of since the start of the fiscal year when it was communicated by Federal CMS. Additionally, with regards to one of the uncorrected misstatements, the under reporting of

DD program expenditures for Medicaid funded and waiver programs was not communicated to auditors until June 2023, despite management becoming aware of the issue in November 2022. (Finding 1, pages 78-83)

We recommended the Department strengthen its internal control over preparing the SCO Forms by including a reconciliation of Federal grant receipts and expenditures by ALN included in each SCO Form to the general ledger for each fund (the ERP System). Deposits of federal draws should be recorded in the fund(s) that incurred the associated expenditures. Once prepared, balances reported in the SCO forms should be compared to the draft financial statements, by fund, to conclude if amounts are reasonable. Additionally, large balances in Due from Other Governments – Federal, Unearned Revenue and Unavailable Revenue should be investigated as they are unusual for reimbursement type grant awards in which the Department can generally draw funds monthly upon the incurrence of qualifying expenditures.

Additionally, we recommended Department management promptly disclose known events, conditions, and transactions of the Department which could impact either an ongoing audit or previously released audit performed by the Office of the Auditor General, even if the full ramifications of the matter are not yet known.

Department accepted the recommendation

The Department accepted the recommendation and stated it will include a reconciliation of federal grant receipts and expenditures to the general ledger in the ERP for all ALN's included on each SCO563. Balances reported on the SCO563's will also be compared to the corresponding funds in the draft financial statements. Any large balances on the SCO563 related to Due from the Federal Government, Unearned Revenue and Unavailable Revenue will also be researched and the underlying reasons noted. The Department will promptly disclose any known events, conditions or transactions that could affect current or previously issued audits performed by the Office of the Auditor General, in the event, that such concerns are identified.

MEDICAL ASSISTANCE PROGRAM FINANCIAL INFORMATION

Department does not perform a sufficient review of transactions initiated by other State agencies

The Department of Human Services (Department) does not have an adequate understanding of the suitability of the design of internal control or the operating effectiveness of internal control in place over all data recorded in its financial statements for transactions initiated by other State agencies and recorded in the Department's financial statements.

During our testing of the financial statements, we noted the following:

Department could not provide documentation supporting expenditure reconciliations for its Federal MAP funds

- The Department could not provide documentation of the preparation or the Department's review of expenditure reconciliations for Federal Medical Assistance Program (MAP) funds or the State Children's Health Insurance Program (CHIP) (Funds 0120, 0142, 0211, 0365, 0502, 0509, 0718) between amounts reported in the Department's general ledger system (ERP) and amounts reported in the Grant/Contract Analysis Forms (Form SCO-563s) provided to the Office of Comptroller (IOC) which support the receivable and revenue calculation for financial reporting. The amount per the Form SCO-563s (totaling approximately $364 million for total reimbursable costs "TRC" for Assistance Listing Numbers (ALN) 93.767 and 93.778), is a computed amount (a formula), essentially the amount needed to achieve the reported receivable balance provided by the Department of Healthcare and Family Services (HFS), a separate State agency, or a maximum amount for funds which have a statutory deposit limit. The Department does not retain a reconciliation between what is reported on the Form SCO-563s (claimable expenditures) and within ERP (all expenditures) for each fund which identifies which expenditures were used for claiming the federal award. Additionally, there is no documentation maintained by the Department to support the calculation and methodology used by HFS in preparing the net federal receivable amount (approximately $739 thousand for the two ALNs).

Department does not monitor payments submitted or liabilities calculated by HFS on behalf of the Department

- During testing of expenditures and liabilities, we determined that the Department is not monitoring or reviewing the payments submitted by HFS, or the liabilities calculated by HFS, on behalf of the Department and reported in the Department's financial statements. When HFS submits a request for payment to the IOC, a summary file is also sent to the Department which goes through an interface and is recorded into ERP. An employee in the Department's Office of Fiscal Services reconciles the payments between ERP and the IOC before accepting them into ERP. Although, the Department has documented their understanding of how transactions for DHS programs are processed within HFS, the Department was not able to provide auditors with documentation of their monitoring performed over the amounts reported in the Department's financial statements.

Department places reliance on HFS systems that have not be recently independently verified

- Additionally, the Department is placing reliance on the internal control over the applicable HFS system without recent independent verification of the system. Currently, the Department receives summarized information from HFS and records the transactions into ERP and the SCO-563 forms without performing sufficient procedures to determine the accuracy of the information. (Finding 2, pages 84-86)

We recommended the Department assume more responsibility for the transactions and balances reported in its financial statements that are initiated/estimated by other State agencies, including the following: entering into an interagency agreement (IA) with HFS that details the responsibilities of each agency with regards to initiating, processing and recording transactions, and how the sufficiency of internal control over Department transactions will be monitored (i.e. annual internal audit, SOC 1 Type 2 audit, or other), and, once an IA is executed, on a regular basis, the Department should determine if the control system and related monitoring agreed to through the IA, is sufficient to prevent and detect significant financial statement errors. The sufficiency of internal control should be monitored each time there is a major change to MAP/CHIP programs or IT systems used for those programs. We also recommended expenditure and accrual amounts provided by HFS in connection with year-end reporting of Federal MAP receivables should be reconciled to ERP or agreed to reports and source data compiled by HFS.

Department accepted the recommendation

The Department accepted the recommendation and stated it will pursue an interagency agreement with HFS, monitor audits and reviews performed on HFS data and internal controls, and research ways to reconcile Federal MAP receivable data provided by HFS to DHS data contained in the ERP.

INADEQUATE GENERAL INFORMATION TECHNOLOGY (IT) CONTROLS OVER IES

Weaknesses over IES general IT controls

The Department of Healthcare and Family Services and the Department of Human Services (collectively, the "Departments") had weaknesses in the general information technology (IT) controls over the Integrated Eligibility Systems (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, 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 the lack of a detailed interagency agreement are noted in Finding 2022-006, and issues over disaster recovery controls are noted in Finding 2022-004.

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

Significant threats over DoIT's general IT environment were identified

During the Departments' internal security review, completed as part of its Plan of Actions and Milestones (2022) 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.

Two security breaches were identified subsequent to June 30, 2022

Further, during our fieldwork it was noted the Departments experienced two security breaches related to the IES system; the first breach occurred in August 2022, and the second breach was discovered in March 2023. Information about both breaches is disclosed in the notes to the financial statements as subsequent events.

Change Control
IES Application Changes - Policies and Procedures
The Departments indicated there were no updates to the change control policies and procedures during fiscal year 2022. Our review of the April 20, 2020 IES Change Management Plan (Plan) noted the Plan did not:

IES Change Management Plan lack important definitions

- Define the requirements for the prioritization or classification of changes,
- Define the numerical grading for determining impact,
- Define the detailed documentation requirements for test scripts and results, impact analysis, design documentation, or other required documentation, and
- Define when changes were required to include a specific requirement, who was to review the various steps and when and by whom approvals were required.

Additionally, 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.

User Access
<u>IES User Access Policies and Procedures</u>
The Departments indicated there were no updates to IES user access policies and procedures during fiscal year 2022. During our testing of the Departments' access provisioning policies, we

No system record of when access to IES is removed

noted the policies did not define the time-period in which the Departments were required to disable a terminated individual's system access. Also, there was no systemic record of the date when the access was removed, or a management-defined definition of timeliness. Therefore, we were unable to determine whether user access was removed timely when a user was transferred or terminated. (Finding 5, pages 91-94)

We recommended management of both Departments work together to strengthen controls over the IES environment by addressing all significant threats identified in the Plan of Actions and Milestones (2022) report to the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, strengthen controls in the IES Change Management Plan by including the items noted above, and enhance internal control over IES user access by adopting a formal written policy or procedure which includes a definition of "timely" for disabling an individual's access to the IES system, and a process for tracking whether access was revoked timely based on the definition.

DHS accepted the recommendation

DHS accepted the recommendation and stated it will work with DoIT to resolve outstanding Plan of Action and Milestones (POAM) as expeditiously as possible and to develop a system change backout process for infrastructure changes. DHS also stated it has updated its IES Change Management policy and procedures to ensure it meets auditor recommendations. In FY23, DHS stated it published additional details on its OneNet regarding the review and timeline for termination of IES access by the Regional Systems Monitors. Also, DHS and HFS are currently working with DoIT and the service provider to implement a solution in the IES application, which will provide for tracking of user access provisioning and termination.

OTHER FINDINGS

The remaining findings pertain to other accounts receivable misstatements, inadequate disaster recovery controls over the IES, lack of finalized IES detailed agreement between DHS, HFS and DoIT, insufficient review and documentation of IMPACT provider enrollment determinations and failure to timely execute interagency agreement, and inadequate general information technology controls over IMPACT. We will review the Department's progress towards the implementation of our recommendations in our next financial audit.

AUDITOR'S OPINION

The auditors stated the financial statements of the Department of Human Services as of and for the year ended June 30, 2022 are fairly stated in all material respects.

This financial audit was performed by RSM US LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

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

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:jv