



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, 2019

Release Date: April 28, 2020

FINDINGS THIS AUDIT: 12	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	2	9	11	2018	11, 12		
Category 2:	1	0	1	2017	1, 2, 4, 6, 7, 8		
Category 3:	0	0	0	2015	5		
TOTAL	3	9	12				
FINDINGS LAST AUDIT: 11							

This digest covers the Department of Human Services' Financial Audit as of and for the year ended June 30, 2019. The Department's Compliance Examination covering the two years ended June 30, 2019 will be issued at a later date.

SYNOPSIS

- (19-01) The Department does not have an adequate understanding of the internal controls in place over all data recorded in its financial statements and does not sufficiently review transactions initiated by other State agencies and recorded in the Department's financial statements.
- (19-05) The Departments (DHS and HFS) lacked controls over eligibility determinations, redeterminations and Mid-Point Reporting requirements for Federal programs where such determination/requirement is documented using the Integrated Eligibility System.
- (19-07) The Departments (DHS and HFS) did not maintain adequate internal control to ensure applications for benefits and redeterminations of eligibility for benefits were completed timely.
- (19-11) The Departments (DHS and HFS) failed to design and implement adequate internal controls over the operation of the State of Illinois' Illinois Medicaid Program Advanced Cloud Technology system (IMPACT).

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, 2019**

FINANCIAL INFORMATION - Governmental Funds (in thousands)	FY 2019	FY 2018
REVENUES		
Program revenue: charges for service.....	\$ 53,718	\$ 50,412
Program revenue: operating grants.....	4,649,837	4,736,216
General revenue: taxes, interest and other.....	12,113	10,948
Total revenue.....	<u>4,715,668</u>	<u>4,797,576</u>
EXPENDITURES		
Health and social services.....	8,659,346	8,418,896
Debt service - principal.....	525	1,274
Debt service - interest.....	823	300
Capital outlays	38,810	13,535
Total expenditures.....	<u>8,699,504</u>	<u>8,434,005</u>
OTHER SOURCES (USES)		
Appropriations from State resources.....	4,669,316	4,500,051
Transfers in.....	148,273	146,268
Transfers out.....	(112,348)	(136,458)
Receipts collected & transmitted to the State treasury.....	(200,330)	(298,373)
Lapsed appropriation.....	(338,989)	(441,216)
Other.....	(66,556)	4,052
Total other sources (uses).....	<u>4,099,366</u>	<u>3,774,324</u>
Increase in fund balance.....	115,530	137,895
Fund balance, July 1.....	268,271	129,958
(Decrease) for changes in inventories.....	(1,202)	418
Fund balance, June 30.....	\$ 382,599	\$ 268,271
SELECTED ACCOUNT BALANCES - June 30,		
Governmental Funds (in thousands)	FY 2019	FY 2018
ASSETS		
Cash and cash equivalents & investments.....	\$ 368,885	\$ 447,083
Due from other governments - federal & local.....	312,245	222,031
Loans, taxes and other receivables, net.....	134,559	135,891
Due from other Department and State funds.....	15,896	25,225
Inventories.....	6,742	7,944
Unexpended appropriations.....	584,069	481,700
Total assets.....	<u>\$ 1,422,396</u>	<u>\$ 1,319,874</u>
LIABILITIES		
Accounts payable and other liabilities.....	\$ 542,437	\$ 521,057
Unearned revenue.....	17,471	12,083
Due to other funds - State, federal, local & Department.....	364,052	382,226
Total Liabilities.....	<u>923,960</u>	<u>915,366</u>
DEFERRED INFLOWS OF RESOURCES	115,837	136,237
FUND BALANCE.....	382,599	268,271
TOTAL LIABILITIES AND FUND BALANCE.....	\$ 1,422,396	\$ 1,319,874
SECRETARY		
During Audit Period and Currently: James T. Dimas (through 3/15/19); Vacant (3/16/19 through 3/17/19); Grace B. Hou (effective 3/18/19)		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**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 internal controls in place over all data recorded in its financial statements and the Department does not sufficiently review 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 (Funds 0120, 0142, 0365, 0502, 0718) between amounts reported in the Department's Consolidated Accounting and Reporting System (CARS) and amounts reported in the Grant/Contract Analysis Forms (Form SCO-563s) provided to the Comptroller's Office (IOC) which support the receivable calculation for financial reporting. The amount per the Form SCO-563s (totaling about \$408 million for total reimbursable costs "TRC" for CFDA 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. The Department does not retain a reconciliation between what is reported on the Form SCO-563s (claimable expenditures) and within CARS (all expenditures) for each fund. Additionally, there is no documentation maintained by the Department to support the calculation and methodology used by HFS in preparing the federal receivable amount.

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 CARS. An employee in the Department's Fiscal Services Bureau reconciles the payments between CARS and the IOC before accepting them into CARS. However, the Department has not obtained and

documented a detailed understanding of how its transactions are processed within HFS, the controls in place over those transactions, monitoring performed by HFS, exceptions noted by HFS through its monitoring activities, and how exceptions and control deficiencies are addressed by HFS and communicated to the Department. We selected and tested multiple expenditures and liabilities initially processed by HFS. Currently, the Department receives summarized information from HFS and records the transactions into CARS and the GAAP packages without performing sufficient procedures to determine the accuracy of the information. (Finding 1, pages 78-79)

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: working with management of HFS to gain a better understanding of the internal control system established over Department transactions, enter into an interagency agreement with HFS that details the responsibilities of each agency and how this will be monitored, and reconcile CARS to expenditure amounts provided by HFS in connection with year-end reporting of Federal MAP receivables. We also recommended expenditure and accrual amounts provided by HFS in connection with year-end reporting of Federal MAP receivables should be reconciled to CARS or agreed to reports and source data compiled by HFS.

Department accepted recommendation

The Department accepted the recommendation and stated it will prepare documentation, at a high level, of HFS' internal controls over Department transactions and institute annual monitoring and will implement a process to verify data provided by HFS is reconciled to source data.

INADEQUATE CONTROLS OVER ELIGIBILITY DETERMINATIONS, REDETERMINATIONS AND MID-POINT REPORTING REQUIREMENTS

Inadequate internal controls over eligibility determinations

The Department of Healthcare and Family Services (HFS) and the Department of Human Services (DHS) (collectively, the "Departments") lacked controls over eligibility determinations, redeterminations and Mid-Point Reporting requirements for Federal programs where such determination/requirement is documented using the Integrated Eligibility System.

The Departments' Integrated Eligibility System (IES) is the automated system used by the Departments which intakes, processes (with the assistance of caseworkers), and approves recipient applications, redetermination, Midpoint Reports and,

maintenance items, in order to determine eligibility and make payments for the State's human service programs.

21.7% of cases tested did not have adequate documentation of proper certification

In order to conclude if the determination of eligibility was proper during the audit period, we selected a sample of 60 cases (29 new applications and 31 redeterminations) and tested whether the cases were properly certified (approved or denied) based on non-financial, financial and timeliness criteria. For SNAP cases we also tested whether the Mid-Point Report (MPR) was timely certified, where applicable. Our testing considered all the documentation contained within the case file, including the scanned documentation supporting caseworker overrides required prior to certification. In 13 of the 60 cases tested (21.7%) we noted 15 exceptions where either the case was not certified timely and/or the case file did not contain documentation supporting eligibility upon certification.

On-site auditor observations noted utilization deficiencies of IES

In order to understand the functions performed by the caseworkers more fully, we conducted on-site observations at three of the Department of Human Services' local offices. We noted the following types of issues the caseworkers encountered in their utilization of IES while working with recipients:

- IES timed out and sent the caseworker back to the login screen while entering recipients' information. Consequently, the caseworker had to reenter information.
- IES indicated a recipients' information contained errors; however, the caseworker's review of the information noted no errors.
- IES had technical errors while interfacing the other applications to conduct verification of the recipients' information.
- IES had errors in determining the benefits for recipients.
- IES had issues determining recipients' eligibility.
- IES was unable to produce correspondence to recipients.

Insufficient communication between IES operating units, financial reporting units, and auditors

Further, we noted insufficient communication between the Departments' internal operating units which administer IES and related systems and the Departments' financial reporting units, along with a lack of communication between the Departments and the auditors. We discovered that in September 2019, HFS' Bureau of Eligibility Integrity identified system defects which resulted in temporary eligibility status recipients, or presumptively eligible recipients, maintaining their eligibility status in error after the Departments had deemed them ineligible. However, this condition was not reported to HFS' financial reporting unit to determine the impact of this defect on the Departments' financial statements, and it was not made known to the auditors. In fact, it was not until February 2020, during testing for the Statewide Single Audit performed by other auditors, that exceptions in the other auditors' testing and further inquiries related thereto led to HFS' disclosure of the existence of these system defects. At our request, HFS performed an

IES deficiency not discovered by financial reporting units or auditors until February 2020

analysis of the impact of this defect on the Departments' financial statements and determined HFS paid benefits of \$4.7 million in error for recipients who had been determined ineligible and received \$217 thousand in federal financial participation (FFP) from those disbursements, pertaining to fiscal year 2019.

The lack of a formal process to communicate matters such as those identified above represents a significant weakness in internal control over the Departments' financial reporting. It is essential that financial-related consequences of system defects be communicated with appropriate fiscal personnel to determine the potential impact on the financial statements. Further, full and timely disclosure of potential or known problems to the auditors is essential to avoiding delays in the audits, including audits of the Departments' financial statements, the Statewide Single Audit, and the Statewide Comprehensive Annual Financial Report. (Finding 5, pages 87-91) **This finding has been repeated since 2015.**

We recommended management of the Departments provide adequate training and supervision of caseworkers, implement additional controls to ensure appropriate documentation of eligibility is obtained at the time of certification and retained in IES, complete certifications of applications and redeterminations timely, establish formal lines of communication between operating unit personnel and financial reporting personnel, and correct IES application errors.

DHS accepted the recommendation

DHS accepted the recommendation and stated it will continue to adjust and improve mandated IES training as needed. DHS also agreed to work with all staff, including Regional Administration and Policy experts in order to identify any potential additional controls that would assist in ensuring appropriate documentation of eligibility is obtained and retained in IES.

UNTIMELY PROCESSING OF APPLICATIONS FOR BENEFITS AND REDETERMINATIONS OF ELIGIBILITY FOR BENEFITS

Applications and redeterminations were not reviewed and approved or denied within mandated timeframes

The Department of Healthcare and Family Services (HFS) and the Department of Human Services (DHS) (collectively, the "Departments") did not maintain adequate internal control to ensure applications for benefits and redeterminations of eligibility for benefits were completed timely.

As part of our audit procedures, we tested the Departments' compliance with the federal time requirements for approving or denying applications, conducting redeterminations, and working any changes communicated by recipients for the SNAP, TANF, and Medical programs.

Backlog of 127,199 applications as of June 30, 2019

We were unable to determine timeliness of 1,279 backlogged applications

- For initial applications – The Departments had a backlog of 107,242 Medical applications, 19,957 SNAP applications, and 6,476 TANF applications, for which the determination of eligibility to receive benefits was not complete as of June 30, 2019. Additionally, there were 1,279 applications in which the applicant did not specify the program; therefore, we were unable to determine the timeliness of the application.

Backlog of 171,700 redeterminations as of June 30, 2019

We were unable to determine timeliness of 70,758 backlogged redeterminations

- For redeterminations - The Departments had incurred a backlog of at least 170,720 medical redeterminations, and 980 SNAP and TANF redeterminations as of June 30, 2019. In addition to the known redetermination backlog, because of a defect within IES, the date information was received was not documented and we were unable to determine the timeliness of the redeterminations for 68,612 Medical recipients and 2,146 SNAP and TANF recipients.

Backlog of 51,903 change documents as of June 30, 2019

- For change documentation (a/k/a maintenance) - The Departments had a backlog of 51,903 cases for which information had been received by the Departments but not reviewed as of June 30, 2019. Because the information had not been reviewed, the Departments did not know which program(s) might be impacted. As such, we were unable to determine the timeliness of processing the information. (Finding 7, page 95-97) **This finding has been repeated since 2017.**

We recommended the Departments work together to implement controls to comply with the requirement that applications are reviewed and approved or denied within 45 or 30 days, as applicable, and the Departments should establish appropriate controls to both monitor the progress of eligibility redeterminations and ensure those redeterminations occur timely along with any change documentation received.

DHS accepted the recommendation

DHS accepted the recommendation and stated the Department agrees to work with HFS to implement controls to comply with the requirement that applications are reviewed and approved or denied timely. DHS also stated the Department will continue the practice of assigning and training additional personnel so that initial applications are worked and redeterminations and maintenance of eligibility are performed within the timeframes required. DHS also stated the Department recently implemented Statewide Processing Centers (SPCs) in order to handle work from larger offices with heavy caseloads, and effectively redistribute tasks to areas of the field that have the capacity to handle additional assignments which has resulted in more timely performance of task completion within IES; a substantial increase in SNAP

application timeliness; a reduction in the backlog of medical applications; lower wait times for customers who enter the FCRC; and improved customer service in the timely and accurate distribution of benefits.

INSUFFICIENT REVIEW AND DOCUMENTATION OF PROVIDER ENROLLMENT DETERMINATIONS AND FAILURE TO EXECUTE INTERAGENCY AGREEMENTS

Failure to establish and implement controls over IMPACT

The Department of Healthcare and Family Services (HFS), and the Department of Human Services (DHS) (collectively, the “Departments”) failed to design and implement adequate internal controls over the operation of the State of Illinois’ Illinois Medicaid Program Advanced Cloud Technology system (IMPACT). Specifically, we noted the Departments did not sufficiently review and document approval for provider enrollments and had not entered into interagency agreements (IA) defining each agency’s roles and responsibilities.

Insufficient review of enrollment determinations

HFS’ and DHS’ Roles

As set by the State of Illinois’ State Plan under Title XIX of the Social Security Act (State Plan) (Section 1.1), the State’s designated agency responsible for administering and supervising the administration of the Medicaid Program is HFS. However, Section 1.1 of the State Plan allows for HFS to delegate specific functions to other State agencies to assist with the administration of the Medicaid Program, pursuant to a written IA defining each agency’s roles and responsibilities. As such, DHS administers several human service programs under the Medicaid Program, including developmental disabilities support services, rehabilitation services, and substance abuse (prevention and recovery) services.

Departments did not have IAs defining roles and responsibilities

Auditor Testing and Results

Interagency Agreements

We noted the Departments did not have interagency agreements defining the specific roles and responsibilities.

Departments did not perform quality/supervisory reviews

Quality/Supervisory Reviews Not Conducted

We noted the Departments do not have a process for supervisors to perform, at least on a sample basis, quality reviews of the activities performed by staff to obtain independent evidence that staff members are acting within the scope of their authority and that transactions and events comport with management’s expectations.

Detail Sample Testing

Based on the population provided by HFS, during Fiscal Year 2019, 26,529 provider applications were approved. In order to determine if the providers’ applications were approved in

accordance with federal and State laws/rules/regulations, a sample of 40 approved applications were selected for testing. Our testing of the 40 provider files noted:

Inadequate controls over backdating provider eligibility dates for 32 of 38 (84%) provider files tested

- 38 approved provider applications included requests for the applicable Department to backdate their enrollment beginning dates. Of those 38 approved applications, 28 (74%) provider files did not contain documentation of the Department's reason for allowing an exception and thereby backdating the provider's enrollment. As a result, we could not determine if the backdating of enrollment, and the subsequent payments was proper. Also, 4 of the 38 (11%) provider files were backdated in excess of HFS' policy, ranging from 19 to 413 days past the 180 day limit.
- 8 (20%) provider files did not contain documentation the applicable Department reviewed the provider's required professional license or board certification to confirm the licenses/certifications were valid at the time the application was approved.
- 3 (8%) provider files did not have documentation the applicable Department confirmed the provider's national board certification end date. In fact the certifications were recorded with open ended expiration dates within IMPACT.
- 1 (3%) provider file noted a felony charge during the screening process. However, there was no documentation the application was sent to the Office of Inspector General (OIG) for detailed review and approval.

DHS did not utilize IMPACT as book of record

DHS did not follow-up on provider eligibility discrepancies after initial eligibility determination

DHS Testing

During our testing, we determined DHS did not utilize IMPACT as the book of record or rely on it to verify their providers met certain Medicaid requirements prior to approving them to provide services. In fact, DHS was performing procedures to determine if the providers met certain Medicaid eligibility requirements outside of IMPACT. Upon completion of those procedures, DHS entered the information into IMPACT and approved the provider in order to grant the approval for payment. However, DHS did not regularly follow-up on discrepancies identified upon IMPACT completing verification of information, background checks, and professional licensing. Additionally, on a monthly basis IMPACT checks provider profiles against several databases to determine if the provider licenses are valid and current, and identifies suspected criminal activity. However, we determined DHS was not regularly following up on noted issues.

Although DHS performed various procedures in determining if providers met the Medicaid eligibility requirements, we

noted there was no consistent process for reviewing issues identified and reporting to HFS to ensure only eligible providers were paid with federal and/or State funds. (Finding 11, page 106-110)

We recommend management of the Departments improve controls to ensure each Departments' staff and supervisors are properly obtaining, reviewing, and retaining documentation in IMPACT to support Medicaid provider enrollment, and execute detailed interagency agreements defining the roles and responsibilities of each agency regarding the Medicaid program. Furthermore, we recommended DHS utilize IMPACT as their book of record for provider enrollment. DHS should also develop controls to review any noted issues and notify HFS of any issues affecting eligibility.

DHS accepted the recommendation

DHS accepted the recommendation and stated the Department will provide written documentation in IMPACT of the documentation and databases that were used to manually verify eligibility. The Department also stated HFS, as the lead Medicaid Agency, is coordinating with each state agency to define the roles and responsibilities regarding the Medicaid program and DHS will continue to cooperate and comply with the guidance provided by HFS during the interim while the Interagency Agreement is being developed. In addition, DHS stated the Department will continue to collaborate with HFS to execute an interagency agreement that sufficiently addresses the necessary procedures to enforce monitoring and accountability provisions over IMPACT as required by the Code of Federal Regulations so the providers offering services is carried out in an efficient and compliant manner. Furthermore, DHS agrees that IMPACT is the book of record for determining Medicaid eligibility and the Department will cooperate with HFS to develop adequate controls to ensure applications are reviewed and a process is established for notifying HFS of any issues affecting eligibility. Lastly, DHS noted the process of notifying HFS of issues affecting eligibility and the roles and responsibilities for determining a provider's eligibility will be addressed in the Interagency Agreement.

OTHER FINDINGS

The remaining findings pertain to the lack of adequate controls over the review of internal controls over service providers, weaknesses in preparation of year-end Department financial statements, failure to deposit federal funds according to statute, lack of security controls over the IES, insufficient internal controls over changes to the IES and recipient data, inadequate disaster recovery over the IES, the lack of a detailed agreement with the Department of Innovation & Technology, 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, 2019 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

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