

**STATE OF ILLINOIS  
ILLINOIS HEALTH INFORMATION EXCHANGE AUTHORITY  
COMPLIANCE EXAMINATION**

For the Five Months Ended June 30, 2014

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 COMPLIANCE EXAMINATION  
 For the Five Months Ended June 30, 2014

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**AUTHORITY OFFICIALS**

Acting Executive Director	Mr. Diego Estrella (1/20/15 – present)
Executive Director	Vacant (1/13/15 – 1/19/15) Mr. Raul Recarey (2/7/14 – 1/12/15)
General Counsel	Mr. Mason Budelier (2/9/15 - present) Ms. Kerri McBride (2/7/14 – 2/13/15)
Chief Financial Officer	Vacant (10/10/14 – present) Mr. Thomas Nowak (2/7/14 – 10/9/14)
Chief Information Officer	Mr. Ivan Handler (2/7/14 - present)
Director of Implementation Services	Mr. Diego Estrella (2/7/14 – 1/19/15)

Authority administrative office is located at:

JRTC 100 W. Randolph, Suite 4-750  
Chicago, Illinois 60601

MANAGEMENT ASSERTION LETTER

Honorable William G. Holland  
Auditor General  
State of Illinois  
Iles Park Plaza  
740 East Ash Street  
Springfield, IL 62703-3154

May 20, 2015

Dear Mr. Holland:

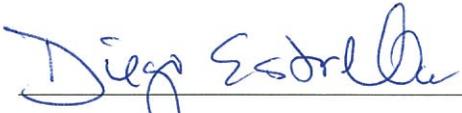
We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Illinois Health Information Exchange Authority (Authority). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Agency's compliance with the following assertions during the five-month period ended June 30, 2014. Based on this evaluation, we assert that during the five months ended June 30, 2014, the Authority has materially complied with the assertions below.

- A. The Authority has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Authority has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. Except as identified in the schedule of findings, the Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and, except as identified in the schedule of findings, the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

E. Money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered, and, except as identified in the schedule of findings, the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours truly,

Illinois Health Information Exchange Authority

  
\_\_\_\_\_  
Diego Estrella, Acting Executive Director

  
\_\_\_\_\_  
Mason Budelier, General Counsel

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**COMPLIANCE REPORT**

**SUMMARY**

We were engaged to conduct a Compliance Attestation Examination in accordance with Government Auditing Standards and in accordance with the Illinois State Auditing Act. However, due to incomplete and inadequate records we were unable to and did not perform an Attestation Engagement in accordance with Government Auditing Standards.

**ACCOUNTANT’S REPORT**

The Independent Accountant’s Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes contains scope limitations, disclaimers, or other significant non-standard language.

**SUMMARY OF FINDINGS**

<u>Number of Findings</u>	<u>Current Report</u>
Repeated findings	21
Prior recommendations implemented	N/A*
or not repeated	N/A*

\*This is the first State Compliance Examination of the Illinois Health Information Exchange Authority.

**SCHEDULE OF FINDINGS**

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (STATE COMPLIANCE)			
2014-001	10	Inaccurate financial information	Material Weakness Material Noncompliance
2014-002	12	Inadequate segregation of duties	Material Weakness Material Noncompliance
2014-003	14	Inaccurate fee assessments	Material Weakness Material Noncompliance

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<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
2014-004	15	Inaccurate accounts receivable records and reporting	Material Weakness Material Noncompliance
2014-005	17	Inaccurate monthly reconciliations	Material Weakness Material Noncompliance
2014-006	19	Lack of controls over equipment	Material Weakness Material Noncompliance
2014-007	21	Lack of controls over contract payments	Material Weakness Material Noncompliance
2014-008	23	Lack of controls over contracts	Material Weakness Material Noncompliance
2014-009	25	Improper payroll payments	Material Weakness Material Noncompliance
2014-010	26	Failure to maintain controls over terminated participants	Material Weakness Material Noncompliance
2014-011	28	Failure to adopt rules related to fees and charges the Authority is authorized to collect and deposit	Material Weakness Material Noncompliance
2014-012	30	Failure to develop procedures related to uncollectible receivables	Material Weakness Material Noncompliance
2014-013	31	Failure to develop personnel policies	Material Weakness Material Noncompliance
2014-014	32	Lack of effective project management over the Illinois Health Information Exchange Project	Material Weakness Material Noncompliance
2014-015	34	Failure to file required information with the Office of the Comptroller	Material Weakness Material Noncompliance
2014-016	35	Inadequate control over travel	Material Weakness Material Noncompliance

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<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
2014-017	37	Inadequate controls over receipt processing	Material Weakness Material Noncompliance
2014-018	39	Inadequate controls over voucher processing	Material Weakness Material Noncompliance
2014-019	41	Failure to file signature cards	Material Weakness Material Noncompliance
2014-020	42	Noncompliance with the Illinois Health Information Exchange and Technology Act	Material Weakness Material Noncompliance
2014-021	43	Lack of due diligence to ensure computer security	Material Weakness Material Noncompliance

**EXIT CONFERENCE**

The findings and recommendations appearing in this report were discussed with Authority personnel at an exit conference on May 13, 2015. Attending were:

Illinois Health Information Exchange Authority

Diego Estrella, Acting Executive Director  
 Mason Budelier, General Counsel  
 Krysta Heaney, Policy, Privacy and Compliance Manager  
 Frank Kisner, Director of Client Relationships

Office of the Auditor General

Kathy Lovejoy, Audit Manager  
 Megan Green, Audit Supervisor  
 Paige Morgano, Staff Auditor

Responses to the recommendations were provided by the Privacy and Compliance Officer in a letter dated May 20, 2015.

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OFFICE OF THE AUDITOR GENERAL  
WILLIAM G. HOLLAND

INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE,  
ON INTERNAL CONTROL OVER COMPLIANCE, AND ON  
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland  
Auditor General  
State of Illinois

and

Board of Directors  
Illinois Health Information Exchange Authority

**Compliance**

We were required to examine the State of Illinois Health Information Exchange Authority's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the five months ended June 30, 2014. The management of the State of Illinois Health Information Exchange Authority is responsible for compliance with the following requirements:

- A. The State of Illinois Health Information Exchange Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The State of Illinois Health Information Exchange Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The State of Illinois Health Information Exchange Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

- D. State revenues and receipts collected by the State of Illinois Health Information Exchange Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the State of Illinois Health Information Exchange Authority on behalf of the State or held in trust by the State of Illinois Health Information Exchange Authority have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

The State of Illinois Health Information Exchange Authority did not have complete and accurate records; therefore, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the State of Illinois Health Information Exchange Authority's compliance with requirements listed in the first paragraph of this report. The results of our limited procedures disclosed instances of noncompliance, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in items 2014-001 through 2014-021 in the accompanying schedule of findings.

### **Internal Control**

The management of the State of Illinois Health Information Exchange Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. We do not express an opinion on the effectiveness of the State of Illinois Health Information Exchange Authority's internal control over compliance.

Our consideration of internal control over compliance was a basis for designing our examination procedures and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses. A *deficiency* in an entity's internal control over compliance 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 noncompliance with the requirements listed in the first paragraph of this report on a timely basis.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2014-001 through 2014-021 to be material weaknesses.

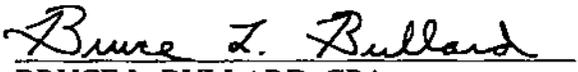
As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter.

The State of Illinois Health Information Exchange Authority's responses to the findings identified in our examination are described in the accompanying schedule of findings. We did not examine the State of Illinois Health Information Exchange Authority's responses and, accordingly, we express no opinion on the responses.

**Supplementary Information for State Compliance Purposes**

As stated in the second paragraph we were unable to express an opinion on compliance with the requirements listed in the first paragraph of this report. The accompanying supplementary information as listed in the table of contents as Supplementary Information for State Compliance Purposes is presented for additional analysis. We were unable to apply certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the 2014 Supplementary Information for State Compliance Purposes, due to the State of Illinois Health Information Exchange Authority's incomplete and inaccurate records. We do not express an opinion on the supplemental information.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Directors of the Illinois Health Information Exchange Authority, Illinois Health Information Exchange Authority's management, and is not intended to be and should not be used by anyone other than these specified parties.

  
BRUCE L. BULLARD, CPA  
Director of Financial and Compliance Audits

Springfield, Illinois

May 20, 2015

STATE OF ILLINOIS  
ILLINOIS HEALTH INFORMATION EXCHANGE AUTHORITY  
**SCHEDULE OF FINDINGS**

For the Five Months Ended June 30, 2014

2014-001. **FINDING** (Inaccurate financial information)

The Illinois Health Information Exchange Authority (Authority) did not maintain accurate and complete financial information.

During the examination period, the Authority maintained their expenditure records within a third party accounting software. During the auditors testing, it was noted the expenditures recorded in the accounting software did not reconcile to the expenditure information of the Office of the Comptroller. A difference of \$2,482 was noted.

In addition, the auditors noted the Authority maintained two separate “books of record” related to receipts collected; an excel spreadsheet and the third party accounting software. Our review of the two noted significant differences:

- The excel spreadsheet had 19 receipts totaling \$2,542,740, which were not properly recorded in the accounting software. The receipts were coded with the incorrect receipt number. As a result, the auditors encountered difficulties in reconciling the excel spreadsheet to the third party accounting software.
- The excel spreadsheet had 6 receipts totaling \$1,136 which were not recorded in the accounting software.

In an attempt to balance the Authority’s records with the Office of the Comptroller’s records, the Authority deleted entries from the accounting software.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system, or systems of internal fiscal and administrative controls to provide assurance that revenues, expenditures, and transfer 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.

Authority personnel stated the differences noted above were due to an employee being unfamiliar with SAMS and third party accounting software.

As a result of incomplete and inaccurate financial information, the financial information could not be verified and the Authority was noncompliant with the Fiscal Control and Internal Auditing Act. Additionally, due to incomplete and inaccurate financial information, the Authority’s accounting records did not

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For the Five Months Ended June 30, 2014

reconcile to the Comptroller's records, which is noted in Finding 2014-005. (Finding Code No. 2014-001)

**RECOMMENDATION**

We recommend the Authority establish one set of financial information and implement controls to ensure the information is accurate and complete.

**AUTHORITY RESPONSE**

The Authority agrees with the Auditor's recommendation. The Authority agrees that it maintained two separate "books of record" related to receipts collected, an excel spreadsheet and a third party accounting software.

The Authority will implement record keeping procedures for all accounts, in order to maintain effective internal control over the record keeping of receipts and expenditures. The Authority will modify its Fiscal Policies Manual to reflect these controls and submit the modifications for vote and approval by the Authority Board.

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2014-002. **FINDING** (Inadequate segregation of duties)

The Illinois Health Information Exchange Authority (Authority) had an inadequate segregation of duties.

During testing, the auditors noted the Chief Fiscal Officer had the exclusive authority for:

- Preparing receipts, depositing receipts and maintaining the receipts ledger,
- Preparing billing statements for subscribers,
- Receiving, preparing and approving vouchers,
- Entering transactions in the Authority's accounting system, and
- Performing monthly reconciliations.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies establish and maintain a system, or systems, of 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 over the State's resources.

Authority personnel stated the inadequate segregation of duties was due to limited resources and competing priorities.

A lack of adequate segregation of duties increases the likelihood that a loss from fraud, theft, or undetected errors and discrepancies could occur and would not be found in the normal course of employees carrying out their assigned duties. In addition, a lack of adequate segregation of duties could result in inaccurate financial reporting. (Finding Code No. 2014-002)

**RECOMMENDATION**

We recommend the Authority allocate sufficient personnel in order to maintain effective internal control over the authorization, custody and record keeping over receipts and expenditures.

**AUTHORITY RESPONSE**

The Authority agrees with the Auditor's recommendation. The Authority will implement additional segregation of duties and allocate sufficient personnel in order to maintain effective internal control over the authorization, custody and

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record keeping of receipts and expenditures. The Authority will modify its Fiscal Policies Manual to reflect these controls and submit the modifications for vote and approval by the Authority Board.

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For the Five Months Ended June 30, 2014

2014-003. **FINDING** (Inaccurate fee assessments)

The Illinois Health Information Exchange Authority (Authority) did not accurately assess subscriber fees for the Illinois Health Information Exchange.

During testing, the auditors noted the Authority did not properly assess fees to subscribers of the Illinois Health Information Exchange. The Authority was to assess each subscriber an annual fee as outlined in the Illinois Health Information Exchange Direct Messaging Service Agreement (Agreement).

Based on sample testing of ten subscriber Agreements and invoices, the auditors noted differences in eight of the subscriber's invoices. The differences ranged from overbilling by \$508 to under-billing by \$2,625.

The Illinois Health Information Exchange and Technology Act (20 ILCS 3860/20(9)) states "The Authority may determine, charge, and collect any fees, charges, costs and expenses from any healthcare provider or entity in connection with its duties under this Act."

Authority personnel stated the differences noted above were due to an employee not exercising appropriate oversight in documenting the change in fee structure.

Failure to assess adequate fees to cover the cost of the duties of the Authority could result in fiscal instability and is noncompliance with subscriber agreements. (Finding Code No. 2014-003)

**RECOMMENDATION**

We recommend the Authority implement controls to ensure subscribers are accurately assessed fees in accordance with the Subscriber Agreement. Additionally, we recommend the Authority return the overbilled amounts and prepare amended billings for the under-billed amounts.

**AUTHORITY RESPONSE**

The Authority accepts the Auditor's finding. The Authority has implemented controls to ensure fee schedule modifications are appropriately documented in the Subscriber Agreement. The Authority will identify and amend FY16 effective Subscriber Agreements to reflect the appropriate fee schedules and commensurate billings.

STATE OF ILLINOIS  
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For the Five Months Ended June 30, 2014

2014-004. **FINDING** (Inaccurate accounts receivable records and reporting)

The Illinois Health Information Exchange Authority (Authority) did not accurately record and report the Authority's accounts receivable at June 30, 2014.

During sample testing, the auditors noted the accounts receivable recorded for seven of ten (70%) subscribers to the Illinois Health Information Exchange were inaccurate, resulting in an overstatement of accounts receivable of \$10,531 at June 30, 2014.

In addition, the third and fourth Quarterly Accounts Receivable Reports submitted to the Illinois Office of the Comptroller were not supported by the Authority's accounts receivable records.

As of June 30, 2014, the Authority reported accounts receivables of \$38,082.

Due to the Authority's inaccurate accounts receivable records, the Analysis of Accounts Receivable was not able to be presented in the Supplementary Information for State Compliance Purposes Section of this Report.

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 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.

The Statewide Accounting Management System (SAMS) Manual (Procedure 26.30.10) requires State agencies to file quarterly summaries of the status of the agencies receivables and related collection activity.

Authority personnel stated the issues above are attributed to an employee's unfamiliarity with SAMS requirements and the Authority's third party accounting software.

Failure to maintain accurate accounts receivable records and accurately report accounts receivable balances could lead to the failure to properly collect amounts owed to the State and inaccuracies in Statewide financial statement reporting. (Finding Code No. 2014-004)

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**RECOMMENDATION**

We recommend the Authority implement controls to ensure accounts receivable are accurately recorded and reported to the Office of the Comptroller.

**AUTHORITY RESPONSE**

The Authority agrees with the Auditor's recommendation. The Authority will implement additional controls to ensure accounts receivable are accurately recorded and reported to the Illinois Office of the Comptroller. The Authority will modify its Fiscal Policies Manual to reflect these controls and submit the modifications for vote and approval by the Authority Board.

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For the Five Months Ended June 30, 2014

2014-005.    **FINDING**    (Inaccurate monthly reconciliations)

The Illinois Health Information Exchange Authority (Authority) did not complete accurate monthly reconciliations between the Authority’s accounting records and the Illinois Office of the Comptroller’s (Comptroller) records.

During testing, the auditors noted:

- The Authority completed a monthly reconciliation of cash, receipts and expenditures recorded in the accounting software to the Comptroller’s records; however, the Authority could not provide supporting information to the auditors related to reconciling items:
  - “unrecorded interest income” totaling \$4,213;
  - “ILHIE Direct”, totaling \$44,065; and
  - “recorded interest income”, totaling \$6,386.
- The June 30, 2014 reconciliation of expenditures indicated a reconciling item for payroll at June 30, 2014 for \$79,331; however, the Authority’s payroll was paid on June 20 for \$72,045, resulting in a difference of \$7,286.
- The Comptroller’s records for July and August 2014 indicated additional reconciling items totaling \$9,674 and \$70, respectively, which were not recorded in the Authority’s records.

In addition, the February through May reconciliations did not indicate who completed them or when they were completed. The June 2014 reconciliation indicated it had been completed August 22, 2014.

The Statewide Accounting Management System (SAMS) Manual (Procedures 11.40.20 and 25.40.20) requires agencies to perform monthly reconciliations and to promptly notify the Comptroller of any necessary corrective action.

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 transfer 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.

Authority personnel stated an employee was unfamiliar with proper reconciliation procedures, which led to the issues noted above.

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Failure to accurately reconcile the Authority's records to the Office of the Comptroller's records could result in incomplete and inaccurate financial information. Further, it increases the risk that a theft or loss could occur which would not be detected in a timely manner. (Finding Code No. 2014-005)

**RECOMMENDATION**

We recommend the Authority complete accurate reconciliations and report any corrective action to the Office of the Comptroller. In addition, the Authority should maintain documentation supporting reconciling items.

**AUTHORITY RESPONSE**

The Authority agrees with the Auditor's recommendation and has implemented controls to complete accurate reconciliations and maintain documentation supporting reconciling items.

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2014-006. **FINDING** (Lack of controls over equipment)

The Illinois Health Information Exchange Authority (Authority) had not implemented controls over equipment.

During testing, the auditors noted the following:

- The Authority did not maintain complete and accurate property control records. The Authority's records listed 88 items; however, the records did not contain acquisition information and location. Additionally, 12 items did not indicate the property control tag number.
- The Authority did not conduct an annual physical inventory of State equipment in their possession and submit required documentation to the Department of Central Management Services Property Control Division.
- The Authority did not file the quarterly Agency Report of State Property (C-15) with the Office of the Comptroller for the third and fourth quarter of FY14.
- During their testing, the auditors conducted a complete inventory with Authority staff. The inventory noted 171 items.
  - 134 of 171 (78%) property items contained property control tags from other State agencies.
  - 37 of 171 (22%) items either did not have a property asset tag or did not have a legible property asset tag.
  - 14 computer equipment items which were located on the Authority's listing could not be located during the auditor's inventory.

Due to the Authority's incomplete and inaccurate property control records, the Schedule of Changes in State Property was not able to be presented in the Supplementary Information for State Compliance Purposes Section of this Report.

The Statewide Accounting Management System (SAMS) Manual (Procedure 29.10.10) requires State agencies to maintain detailed property records that include the 1) cost, 2) function and activity, 3) reference to acquisition source document, 4) acquisition date and date placed in service, 5) name and address of vendor, 6) short description of the asset, 7) organization unit charged with custody, 8) location, 9) fund and account from which the item was purchased, 10) method of acquisition, 11) estimated useful life, 12) estimated salvage value, 13) date, method, and authorization of disposition, 14) tag number, 15) accumulated

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depreciation, 16) depreciation method, 17) depreciation convention, and 18) insured value. In addition, the SAMS Manual (Procedure 29.20.10) requires State agencies to file the quarterly Agency Report of State Property (C-15) with the Office of the Comptroller on a quarterly basis no later than the last day of the month following the last day of the quarter.

The Illinois Administrative Code (Code) (44 Ill. Admin. Code 5010.460) states all agencies are required to make an annual physical inventory of State equipment in their possession. Additionally, all inventory checks must include 100% of all State equipment subject to being reported to the Department of Central Management Services as required by Section 5010.220(a). Both the location code and the identification number of each item of equipment must be verified. Upon completion of the inventory, the agency head is to complete and sign the "Certification of Inventory" and "Discrepancy Report" and forward to the Department of Central Management Services.

Authority personnel stated they were unfamiliar with the property control requirements.

Failure to exercise adequate control over equipment increases the potential for fraud and probable loss or theft of State property, is noncompliance with the Code and SAMS, and results in inaccurate property and fixed asset reporting. (Finding Code No. 2014-006)

**RECOMMENDATION**

We recommend the Authority maintain complete and accurate property control records. In addition, the Authority should conduct an annual inventory and submit the required reports to the Department of Central Management Services and the Office of the Comptroller.

**AUTHORITY RESPONSE**

The Authority agrees with the Auditor's recommendation. The Authority will maintain complete and accurate property control records, including conducting inventory and submitting required reports to the Illinois Department of Central Management Services and the Office of the Comptroller. The Authority will modify its Fiscal Policies Manual to reflect these controls and submit the modifications for vote and approval by the Authority Board.

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For the Five Months Ended June 30, 2014

2014-007. **FINDING** (Lack of controls over contract payments)

The Illinois Health Information Exchange Authority (Authority) lacked controls over payments to the third party vendor for the development of the Illinois Health Information Exchange.

During testing, the auditors noted:

- All invoices submitted by the vendor were dated August 5, 2014, with services dating from January 1, 2014.
- Two invoices, totaling \$201,376 included services from January 1, 2014 through February 6, 2014, totaling \$66,532, which was prior to the creation of the Authority.
- Three invoices, totaling \$731,648 stated they were for Change Orders that were dated August 1, 2014 and August 13, 2014.
- One invoice, totaling \$377,872, was for the percentage of completion for the same service. However, the contract payment schedule was based on the completion of deliverables.
- The services described in three of the invoices, totaling \$731,648 could not be tied to the original or contract renewal services.
- One invoice was not approved by the Authority.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that resources are utilized efficiently, effectively, and in compliance with applicable laws, and obligations and costs are in compliance with applicable laws.

Authority personnel stated the issues noted above were the result of lack of appropriate oversight.

Failure to maintain controls over contract payments could result in inaccurate payments. (Finding Code No. 2014-007)

**RECOMMENDATION**

We recommend the Authority implement controls to ensure payments are made for services the Authority is responsible for and in accordance with the contract.

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**AUTHORITY RESPONSE**

The Authority agrees with the Auditor's recommendation. The Authority will implement controls and insist upon contractual language to ensure payments are made for services contracted for. The Authority will modify its Fiscal Policies Manual to reflect these controls and submit the modifications for vote and approval by the Authority Board.

The Authority does note that each of the invoices listed above corresponds to documented work actually performed by the third party vendor in furtherance of the Authority's mission. However, the Authority agrees that contract payment needs to fully align with the Authority's overall project management framework and future third party vendor contracts. The Authority will implement this change in FY16, in order to fully comply with the auditor's recommendation.

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2014-008. **FINDING** (Lack of controls over contracts)

The Illinois Health Information Exchange Authority (Authority) failed to ensure proper controls had been established in the administration of the Illinois Health Information Exchange contract.

During testing, the auditors noted:

- The Authority took responsibility for the administration of the contract for the development of the Exchange on February 7, 2014; however, they did not file the contract with the Office of the Comptroller (Comptroller) until August 13, 2014, same day as the Authority submitted invoices for payment. In addition, the Authority did not file a Late Filing Affidavit.
- The Authority filed the contract with the Comptroller on August 13, 2014 for \$1.3 million, which was an increase of \$507,002 from the contract renewal maximum. In March 2014, the Authority entered into an agreement for the increase which was due to additional services not identified in the original contract. However, the Authority did not file a contract amendment with the Comptroller.

The Statewide Accounting Management System (SAMS) Manual (Procedure 15.10.40) requires State agencies to file with the Comptroller a copy of a contract, purchase order, grant, lease, cancellation or modification thereto within 30 days of execution. Where a contract liability or cancellation or modification to any such contract liability has not been filed within 30 days of execution, State Agencies must file an affidavit with the Comptroller. The affidavit must be signed by the chief executive officer of an agency or his designee, setting forth an explanation of why such contract liability was not filed within 30 days of execution.

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that resources are utilized efficiently, effectively, and in compliance with applicable laws, and obligations and costs are in compliance with applicable laws.

Authority personnel stated the issues above were caused by unfamiliarity with SAMS procedures.

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Failure to maintain controls over contracts has resulted in contract overages and delays. In addition, failure to file the contract amendments and late filing affidavits is noncompliance with SAMS. (Finding Code No. 2014-008)

**RECOMMENDATION**

We recommend the Authority implement controls to ensure contracts are timely filed with the Comptroller, including Late Filing Affidavits. In addition, we recommend the Authority file all contract amendments with the Comptroller.

**AUTHORITY RESPONSE**

The Authority agrees with the Auditor's recommendation. The Authority will implement controls to ensure contracts and contract amendments are timely filed with the Comptroller, including Late Filing Affidavits. The Authority will modify its Fiscal Policies Manual to reflect these controls and submit the modifications for vote and approval by the Authority Board.

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2014-009. **FINDING** (Improper payroll payments)

The Illinois Health Information Exchange Authority (Authority) made improper payroll payments.

The Authority had entered into an interagency agreement with the Department of Healthcare and Family Services for the transfer of an individual to serve as the Communications Manager/Liaison to the Department of Healthcare and Family Services for the Authority. The interagency agreement stated the Department of Healthcare and Family Services would be responsible for paying the individual's salary, State-paid contributions for retirement, Social Security, and group insurance contributions. However, the auditors noted the Communications Manager/Liaison payroll was paid by the Authority, totaling \$48,190.

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 resources are used efficiently and effectively and obligations and costs are in compliance with applicable laws.

Authority personnel attributed the matter to a differing interpretation of the interagency agreement.

Failure to follow the interagency agreement can result in inaccurate allocation of expenditures between agencies. (Finding Code No. 2014-009)

**RECOMMENDATION**

We recommend the Authority work with the Department of Healthcare and Family Services to ensure the Communications Manager/Liaison is paid in accordance with the interagency agreement.

**AUTHORITY RESPONSE**

The Authority accepts the Auditor's finding. The Authority will work with the Illinois Department of Healthcare and Family Services to document the Parties' interpretation and resolution of the assignment of responsibilities pursuant to the Interagency Agreement.

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2014-010. **FINDING** (Failure to maintain controls over terminated participants)

The Illinois Health Information Exchange Authority (Authority) did not maintain controls over participants and subscribers of the Illinois Health Information Exchange (ILHIE) which had been terminated.

According to the Illinois Health Information Exchange and Technology Act (20 ILCS 3860/20 (3)) “The Authority shall have the power to suspend, limit, or terminate the right to participate in the ILHIE for non-compliance or failure to act, with respect to applicable standards and laws, in the best interest of patients, users of the ILHIE, or the public. The Authority may seek all remedies allowed by law to address any violations of the terms of participation in the ILHIE.” In addition, the Authority-developed Subscriber Agreements state “if Subscriber chooses to terminate prior to the end of the term, there will be no refund for the current year and the Subscriber will be assessed an early termination fee of 50% of the fees due for the remainder of the term.”

As part of their testing, the auditors requested a listing of terminated accounts from the Authority. The Authority stated they were unable to provide an accurate listing of accounts terminated during the examination period. Accounts terminated during the examination period were “deleted” within their accounting software, which resulted in permanent deletion of any historical account record and information.

The State Records Act (5 ILCS 160/9) requires the head of each agency to establish and maintain an active, continuing program for the economical and efficient management of the records of the agency.

Authority personnel stated that the employee was unfamiliar with the third party accounting software.

Failure to maintain adequate controls over terminated participants resulted in non-payment of penalties and noncompliance with the Illinois Health Information Exchange and Technology Act. (Finding Code No. 2014-010)

**RECOMMENDATION**

We recommend the Authority implement controls to maintain records of subscribers and participants that had been terminated. In addition, we recommend the Authority properly assess fees as outlined in the Subscriber Agreements.

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**AUTHORITY RESPONSE**

The Authority agrees with the Auditor's recommendation. The Authority has implemented controls to ensure information recorded in its third party vendor software is accurate and complete. The Authority restates it has implemented controls to ensure fee schedule modifications are appropriately documented in the Subscriber Agreement as set forth in its Response to Finding 2014-003.

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2014-011.     **FINDING**     (Failure to adopt rules related to fees and charges the Authority is authorized to collect and deposit)

The Illinois Health Information Exchange Authority (Authority) had not adopted rules related to fees and charges it is authorized to collect and deposit.

According to the Authority they had not developed procedures related to the billing of fees and charges.

According to the Illinois Health Information Exchange and Technology Act (Act) (20 ILCS 3860/20(9)), the “Authority may determine, charge, and collect any fees, charges, costs, and expenses from any healthcare provider or entity in connection with its duties under this Act.” In addition, the fees and charges are to be deposited into the Health Information Exchange Fund.

The Act (20 ILCS 3860/35) also states the provisions of the Illinois Administrative Procedure Act are expressly adopted and shall apply to all administrative rules and procedures of the Authority. Furthermore, prudent business practices require the Authority to establish procedures for its operations.

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 resources are utilized efficiently, effectively, and in compliance with applicable law; and that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

Authority personnel stated rules related to the billing of fees and charges were not developed due to oversight.

Failure to adopt formal rules related to fees and charges is noncompliance with State statute and could result in failure to collect appropriate funding for the Authority’s operation. (Finding Code No. 2014-011)

**RECOMMENDATION**

We recommend the Authority develop and adopt rules related to fees and charges it has the authority to collect to fund its operations.

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**AUTHORITY RESPONSE**

The Authority agrees with the Auditor's recommendation. The Authority will develop procedures related to the billing of fees and charges. The Authority will modify its Fiscal Policies Manual to reflect these controls and submit the modifications for vote and approval by the Authority Board.

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2014-012. **FINDING:** (Failure to develop procedures related to uncollectible receivables)

The Illinois Health Information Exchange Authority (Authority) failed to develop procedures related to uncollectible accounts receivable.

During testing, the auditors noted the Authority had not developed procedures to ensure uncollectible receivables were referred to the Comptroller's Offset System.

The Statewide Accounting Management System Manual (SAMS) (Procedure 26.40.20) requires State agencies to use the Comptroller's Offset System when it is determined to be in the best economic interest of the State. In addition, 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 resources are utilized efficiently, effectively, and in compliance with applicable law; and that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

Authority personnel stated procedures were not developed due to unfamiliarity with the SAMS procedures.

Failure to refer uncollectible receivables is noncompliance with the SAMS Manual. Additionally, this could result in the State unknowingly paying vendors who owe the State overdue funds. (Finding Code No. 2014-012)

**RECOMMENDATION**

We recommend the Authority develop formal procedures in order to ensure uncollectible receivables are referred to the Comptroller's Offset System.

**AUTHORITY RESPONSE**

The Authority agrees with the Auditor's recommendation. The Authority will develop procedures related to ensure uncollectible receivables are referred to the Illinois Comptroller's Offset System. The Authority will modify its Fiscal Policies Manual to reflect these controls and submit the modifications for vote and approval by the Authority Board.

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2014-013. **FINDING** (Failure to develop personnel policies)

The Illinois Health Information Exchange Authority (Authority) failed to develop policies and procedures related to personnel matters. At June 30, 2014, the Authority had 14 employees.

During testing, the auditors noted that the Authority was utilizing the Office of the Governor's Personnel Handbook and had not developed its own personnel policies and procedures. The Office of the Governor's Personnel Handbook was specific to the employees of the Office of the Governor; it did not address the Authority or contain any personnel policies and procedures which related to the Authority's statutory purpose.

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 resources are utilized efficiently, effectively, and in compliance with applicable laws.

Authority personnel stated they did not develop personnel policies due to limited resources and competing priorities.

Failure to adopt appropriate policies could result in the lack of proper monitoring and reporting of personnel requirements. (Finding Code No. 2014-013)

**RECOMMENDATION**

We recommend the Authority draft and adopt formal policies and procedures related to the monitoring and reporting of personnel requirements.

**AUTHORITY RESPONSE**

The Authority agrees with the Auditor's recommendation. The Authority has drafted policies and procedures related to the monitoring and reporting of personnel requirements. The Authority will approve the Illinois Health Information Exchange Authority Personnel Handbook effective July 1, 2015.

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2014-014.     **FINDING**     (Lack of effective project management over the Illinois Health Information Exchange Project)

The Illinois Health Information Exchange Authority (Authority) did not have an adequate project management framework and had not ensured the development process over the Illinois Health Information Exchange (Exchange) was properly controlled and documented.

The Governor issued Executive Order #1 (2010), creating the Office of Health Information Technology (OHIT) for the purpose of overseeing the State's development and implementation of health information technology initiatives, including the creation of a state-level health information exchange. On February 7, 2014, the full operation and responsibility of the Exchange was assigned to the Authority.

The Authority had little of the documentation associated with project development activities prior to its creation. The Authority had no documentation to demonstrate the reconciling of current services with the original and active contract.

We also identified these additional weaknesses:

- Documentation supporting invoiced deliverables under the Authority's responsibility was not sufficient. For example, some documents provided were labeled draft and others were outdated.
- Documentation indicating the Authority's review and approval of the deliverables was lacking.
- Specific services required in the contract had not been fully implemented by June 30, 2014.

In addition, we noted weaknesses with payments for services. See Finding 2014-007.

Generally accepted information technology guidance endorses the implementation of a process to ensure computer system development activities meet management's objectives. A defined process promotes the effective and efficient use of resources resulting in computer systems that meet expectations.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system, or systems, of internal fiscal and

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administrative controls to ensure the State's resources are used efficiently and effectively.

Authority personnel stated the issues noted above were due to staff turnover.

The lack of an effective and controlled project management/system development process may lead to excessive expenditures, over-reliance on staff or contractors, and a system that does not meet the needs of the State. In addition, an inadequate development process increases the risk that the system will not have the required accuracy, integrity, availability, and security. (Finding Code No. 2014-014)

**RECOMMENDATION**

We recommend the Authority:

- Develop and implement a project management framework and systems development methodology to ensure projects are adequately monitored and documented.
- Ensure all required contract deliverables are timely received, reviewed, and accepted prior to payment and system implementation.
- Ensure all required documentation is developed, reviewed, and approved prior to system implementation.

**AUTHORITY RESPONSE**

The Authority agrees with the Auditor's recommendations. The Authority notes that it has full documentation regarding its current projects, contracts, and deliverables. However, the Authority agrees that this documentation needs to fully align with the Authority's overall project management framework and future third party vendor contracts. The Authority will implement this change in FY16, in order to fully comply with the auditor's recommendation.

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2014-015.     **FINDING**     (Failure to file required information with the Office of the Comptroller)

The Illinois Health Information Exchange Authority (Authority) did not report the aggregate dollar amount of bills held at the Authority on June 30, 2014 to the Office of the Comptroller.

During testing, the auditors noted the Authority did not report the amount of bills held at June 30, 2014. According to the Authority, they held \$1,039,047 in bills at June 30, 2014.

The State Finance Act (30 ILCS 105/9.08) requires each State agency to report the aggregate dollar amount of any bills held at the State agency to the Illinois Office of the Comptroller by October 1 of each year.

Authority personnel stated the amount of bills held at June 30, 2014 was not reported to the Office of the Comptroller because an employee was unfamiliar with State reporting requirements.

Failure to submit required reports is noncompliance with State statute and results in the Office of the Comptroller not having the necessary data available to post on its public website. (Finding Code No. 2014-015)

**RECOMMENDATION**

We recommend the Authority report the dollar amount of bills held to the Office of the Comptroller by October 1.

**AUTHORITY RESPONSE**

The Authority agrees with the Auditor's recommendation. The Authority acknowledges the required reporting is mandated by statute and will diligently work towards the necessary deadlines in the future.

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2014-016. **FINDING:** (Inadequate control over travel)

The Illinois Health Information Exchange Authority (Authority) did not exercise adequate control over travel.

During testing of 12 travel vouchers, the auditors noted the following:

- 5 (42%) travel vouchers, totaling \$3,378, were not correctly completed. The auditors noted the date, time, city of departure, traveler's residence, and total sections were not correctly completed.

The Statewide Accounting Management System (SAMS) Manual (Procedure 17.20.10) provides instructions for the completion of travel vouchers. In addition, prudent business practices require that travel vouchers be carefully reviewed to ensure proper completion.

- Two (17%) travel vouchers, totaling \$269, were submitted between 31 and 34 days late.

Good business practices require travel vouchers be submitted within a reasonable period after travel. Auditors contend 30 days to be a reasonable period of time. Further, according to IRS Publication 525, employee travel expense reimbursements should be considered taxable wages if the travel expenses are not submitted within a reasonable period of time, usually within 60 days of the expenses being incurred.

- Two of 14 (14%) employees did not complete and file the required certification affirming the employee is duly licensed and insured.

The Illinois Vehicle Code (625 ILCS 5/10-101(b)) requires every employee of the State, who operates for purposes of State business a vehicle not owned, leased, or controlled by the State shall procure insurance in the limit of the amounts of liability not less than the amounts required in Section 7-203 of this Act.

- One (8%) travel voucher, totaling \$1,008, contained a reimbursement for transportation in excess of \$10 that was not adequately supported by receipts.

The Governor's Travel Guide Section 2800.240 requires travel vouchers to be supported by receipts in all instances for railroad and plane transportation, lodging, taxis, and all other items, individually, in excess of \$10 except for meals.

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- One (8%) travel voucher, totaling \$2,807, contained claims for lodging which were not in accordance with travel allowances. The total hotel charges were \$1,568, while the allowable rates totaled \$630, resulting in a difference of \$938. In addition, there was no documentation to support the traveler contacted the minimum number of preferred hotels.

The allowable rates are set by the Illinois Travel Regulation Council (Section 2800, Appendix A). The Travel Guide for State Employees Section (3000.410) requires the lowest available lodging rate be obtained when traveling on official State business. However, State agencies may process requests for excessive lodging charges without approval from the Governor's Travel Control provided the request is in compliance with the travel rules. A request is considered in compliance if the minimum number of hotels were contacted.

Authority personnel stated the issues noted above were due to insufficient training on travel voucher and supporting documentation requirements and competing priorities.

Failure to exercise adequate control over travel expenditures increases the likelihood of improper expenditures. Failure to submit travel vouchers in a timely manner could distort travel expenditures from month to month. Additionally, according to IRS Publication 535, employee travel reimbursements will be considered taxable wages if the travel expenses are not submitted within a reasonable period of time. (Finding Code No. 2014-016)

**RECOMMENDATION**

We recommend the Authority implement control to ensure travel expenditures comply with the SAMS Manual and the Governor's Travel Guide.

**AUTHORITY RESPONSE**

The Authority agrees with the Auditor's recommendation. The Authority recognizes its responsibility to comply with the SAMS Manual and Governor's Travel Guide. The Authority will implement controls and training for employees traveling on State business. The Authority will modify its Fiscal Policies Manual to reflect these controls and submit the modifications for vote and approval by the Authority Board.

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2014-017. **FINDING** (Inadequate controls over receipt processing)

The Illinois Health Information Exchange Authority (Authority) did not maintain adequate controls over receipt processing.

During sample testing of seven receipts totaling \$2,942,622 the auditors noted the Authority did not assign a unique Transmittal Number or document the Transmittal Date on the Receipt Deposit Transmittal Form sent to the Office of the Comptroller for all seven receipts.

In addition, the Authority did not correctly record the revenue source code on two receipts. The Authority coded \$2,936,380 as subscriber fees, when the source was federal funds.

The Statewide Accounting Management System (SAMS) Manual (Procedure 25.20.10) requires agencies to complete the Receipt Deposit Transmittal Form, including assigning a unique sequential transmittal number and the date forwarded to the Office of the Comptroller. Additionally, the Manual (Procedure 25.50.10) requires agencies to properly record receipts to revenue sources as outlined in the agency's chart of accounts.

Authority personnel attributed the issues noted above due to unfamiliarity with the third party software and the SAMS procedure.

Failure to properly complete the Receipt Deposit Transmittal Form and record the proper revenue source code is noncompliance with the SAMS Manual and could result in inaccurate Statewide financial information. (Finding Code No. 2014-017)

**RECOMMENDATION**

We recommend the Authority ensure the Receipt Deposit Transmittal Form is properly completed and the revenue sources are properly coded.

**AUTHORITY RESPONSE**

The Authority agrees with the Auditor's recommendation. The Authority has corrected its Receipt Deposit Transmittal Form process, implementing the proper procedures since October 23, 2014. The Authority will continue to strengthen its internal control, and report any corrective action as necessary to the Illinois Office of the Comptroller, to ensure revenue sources are properly coded. The Authority

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will modify its Fiscal Policies Manual to reflect these controls and submit the modifications for vote and approval by the Authority Board.

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2014-018.     **FINDING**     (Inadequate controls over voucher processing)

The Illinois Health Information Exchange Authority (Authority) did not exercise adequate controls over voucher processing.

During testing, the auditors noted:

- One of 38 (3%) vouchers tested, totaling \$4,758, was not mathematically correct. The voucher consisted of multiple invoices which were not correctly added, resulting in a \$180 underpayment to the vendor.

The State Comptroller Act (15 ILCS 405/9(g)) states that State agencies have the principle responsibility for the pre-audit of their encumbrances, expenditures, and other transactions as otherwise required by law. In addition, prudent business practices require careful review of vendor invoices and vouchers to ensure mathematical accuracy.

- One of 38 (3%) vouchers tested, totaling \$1,008, was not charged to the correct Statewide Accounting Management System (SAMS) detail object code.

The Statewide Accounting Management System (SAMS) Manual (Procedure 17.20.20) requires each State agency to enter the correct SAMS detail object code for which the expenditure should be expensed.

- Two of 38 (5%) vouchers tested, totaling \$94, contained SAMS detail object codes that did not trace to the Authority's expenditure records.

The SAMS Manual (Procedure 11.10.50) states the purpose of the SAMS detail object code is to report expenditure information at a more refined level within a common object. In addition, prudent business practices require the Authority to properly record voucher information into its expenditure records to allow for proper review and reconciliation to the Office of the Comptroller's data.

Authority personnel stated the issues noted above were due to human error and an employee being unfamiliar with SAMS requirements.

Inadequate controls over voucher processing may result in inaccurate voucher processing and noncompliance with Authority procedures and State regulations. (Finding Code No. 2014-018)

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**RECOMMENDATION**

We recommend the Authority implement controls to ensure the accuracy of the vouchers prior to payment and make an additional payment to the vendor that was underpaid.

**AUTHORITY RESPONSE**

The Authority accepts the Auditor's findings. The Authority will strengthen its internal controls to better align with the SAMS Procedures. Additionally, the Authority will issue payment to the vendor that was underpaid.

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2014-019.     **FINDING**     (Failure to file signature cards)

The Illinois Health Information Exchange Authority (Authority) failed to file signature cards for contracts with the Office of the Comptroller.

During testing, the auditors noted the Authority did not file a signature card (Form SCO-470) with the Office of the Comptroller prior to filing a contract.

The Statewide Accounting Management System (SAMS) Manual (Procedure 15.20.95) requires each agency head to file a Signature Card with the Office of the Comptroller prior to filing a contract or affidavit.

Authority personnel stated a signature card was not filed due to unfamiliarity with SAMS requirements.

Failure to have signature cards on file with the Office of the Comptroller prior to filing a contract or affidavit results in non-compliance with the SAMS Manual and reduces the Comptroller's ability to determine the validity of contract approvals. (Finding Code No. 2014-019)

**RECOMMENDATION**

We recommend the Authority file the signature cards with the Office of the Comptroller.

**AUTHORITY RESPONSE**

The Authority agrees with the Auditor's recommendation. The Authority has since filed the signature card for contracts with Illinois Office of the Comptroller and is in full compliance with this SAMS Manual requirement.

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2014-020.     **FINDING**     (Noncompliance with the Illinois Health Information Exchange and Technology Act)

The Illinois Health Information Exchange Authority (Authority) did not have the mandated eight directors.

As of June 30, 2014, the Board was comprised of the Executive Director and seven directors. In addition, the Executive Director and the eight directors are to have the consent of the Senate; however, the auditors noted one director had not been confirmed.

The Illinois Health Information Exchange and Technology Act (20 ILCS 3860/15 (b)) states “the Executive Director and 8 directors shall be appointed to 3-year staggered terms by the Governor with the advice and consent of the Senate.”

Authority personnel stated that efforts to fill the vacancy were unsuccessful.

The vacancy on the Board and non-consent of the director is noncompliance with the Illinois Health Information Exchange and Technology Act. (Finding Code No. 2014-020)

**RECOMMENDATION**

We recommend the Authority work with the Governor’s Office in filling the vacancy and obtaining confirmation of the director.

**AUTHORITY RESPONSE**

The Authority agrees with the Auditor’s recommendation. The Authority has no authority to appoint directors to the Board and must continue its duties, services, and operations despite the existence of empty Board seats. Nevertheless, the Authority will continue to work with the Office of the Governor in filling the vacancy and obtaining Senate confirmation of the Director(s).

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2014-021. **FINDING** (Lack of due diligence to ensure computer security)

The Illinois Health Information Exchange Authority (Authority) had not performed due diligence to ensure the Department of Healthcare and Family Services and the Department of Central Management Services had implemented adequate controls for securing its midrange computer resources.

The Authority had established critical computer systems in order to meet its mission and mandate. The Authority processed and maintained critical and confidential information, along with health information. The Authority is responsible for the design, implementation, and maintenance of internal controls related to information systems and operations to assure its systems and data are adequately safeguarded.

The Authority relied on the Department of Healthcare and Family Services and the Department of Central Management Services, Bureau of Communications and Computer Services to provide the information technology environment, equipment and support.

The Authority had not reviewed any reports over the environment detailing the controls in place and assessing any weaknesses identified. In addition, the Authority had not entered into an agreement outlining the roles and responsibilities of each party.

Generally accepted information systems technology guidance endorses the development of computer security policies that adequately address the current technological environment and well-designed and well-managed controls to protect computer systems and data.

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 funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over the State's resources.

Authority personnel stated the issues noted above were due to a lack of understanding of the oversight necessary to ensure adequate security controls were in place for the technology environment in use by the agency.

Without the implementation of adequate controls and procedures, there is a greater risk unauthorized access to the Authority's resources may be gained and

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data destroyed. Prudent business practices dictate the Authority identify all assets and strengthen its security to protect its assets and resources against unauthorized access and misuse. (Finding Code No. 2014-021)

**RECOMMENDATION**

The Authority has the responsibility to ensure security frameworks and controls in place over its applications and data are appropriate and provide acceptable levels of security, integrity, and availability. Thus, the Authority should be proactive in reviewing and assessing the controls over its applications and data.

Additionally, the Authority should work with the Department of Healthcare and Family Services and the Department of Central Management Services in the development of an agreement which outlines the roles and responsibilities of each party.

**AUTHORITY RESPONSE**

The Authority accepts the Auditor's findings. The Authority recognizes its responsibility to ensure security frameworks and controls are appropriate and provide acceptable levels of security, integrity, and availability. The Authority will review and assess the controls over its applications and data. Additionally, the Authority will work with the Department of Healthcare and Family Services and the Department of Central Management Services to document each party's role and responsibilities as it relates to the computer environment in use by the Authority.

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COMPLIANCE EXAMINATION  
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**SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES**

**SUMMARY**

Supplementary Information for State Compliance Purposes presented in this section of the Report includes the following:

- Fiscal Schedules and Analysis (Not Examined):
  - Schedule of Expenditures (Not Examined)
  - Schedule of Cash Receipts (Not Examined)
  - Analysis of Significant Lapse Period Spending (Not Examined)
  
- Analysis of Operations (Not Examined):
  - Agency Functions and Planning Program (Not Examined)
  - Average Number of Employees (Not Examined)
  - Service Efforts and Accomplishments (Not Examined)

The accountant's report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states the accountants were unable to apply certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General. The accountants do not express an opinion on the Supplementary Information.

STATE OF ILLINOIS  
ILLINOIS HEALTH INFORMATION EXCHANGE AUTHORITY  
**SCHEDULE OF EXPENDITURES**  
Fiscal Year 2014  
**(NOT EXAMINED)**

Seven Months Ended August 31, 2014

	Expenditures Through <u>6/30/14</u>	Lapse Period Expenditures <u>07/01-8/31/14</u>	Total <u>Expenditures</u>
<u>NON-APPROPRIATED FUND</u>			
<u>HEALTH INFORMATION EXCHANGE FUND - 606</u>			
General Business	<u>\$ 732,850</u>	<u>\$ 1,120,826</u>	<u>\$ 1,853,676</u>
<u>GRAND TOTAL</u>	<u>\$ 732,850</u>	<u>\$ 1,120,826</u>	<u>\$ 1,853,676</u>

Note: All expenditures and lapsed balances were obtained from records of the Office of the Comptroller. The Authority did not maintain complete and accurate expenditure records. Therefore, a reconciliation of the Authority's information to the Office of the Comptroller's records could not be made. See Finding 2014-001 and Finding 2014-005.

STATE OF ILLINOIS  
ILLINOIS HEALTH INFORMATION EXCHANGE AUTHORITY  
**SCHEDULE OF CASH RECEIPTS**  
**(NOT EXAMINED)**

For the Years Ended June 30, 2014

	<b>2014*</b>
<b><u>Health Information Exchange - 0606</u></b>	
ILHIE Direct Fees	\$ 2,951,594
Total Health Information Exchange Fund	\$ 2,951,594
<b>Total Receipts</b>	<b>\$ 2,951,594</b>

\*The Illinois Health Information Authority became a State agency on February 7, 2014.

NOTE: The above information was derived from the Office of the Comptroller's records.

See Findings 2014-001, 2014-005, and 2014-017.

STATE OF ILLINOIS  
ILLINOIS HEALTH INFORMATION EXCHANGE AUTHORITY  
**ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING**  
For the Five Months Ended June 30, 2014

**(NOT EXAMINED)**

The following is an explanation for significant lapse period spending. Lapse period spending was considered significant if 20% or greater of total expenditures for the fiscal year occurred during the lapse period.

FISCAL YEAR 2014

Health Information Exchange Fund (606)

General Business

The Authority received operation and management services for the Illinois Health Information Exchange and the related invoices were not received and processed until the lapse period.

STATE OF ILLINOIS  
ILLINOIS HEALTH INFORMATION EXCHANGE AUTHORITY  
**AGENCY FUNCTIONS AND PLANNING PROGRAM**

For the Five Months Ended June 30, 2014

**(NOT EXAMINED)**

Authority Functions

The Illinois Health Information Exchange Authority (Authority) was established pursuant to the Illinois Health Information Exchange and Technology Act (20 ILCS 3860). The Authority was established to oversee and operate the Illinois Health Information Exchange (ILHIE) and to promote and facilitate the widespread adoption of electronic medical records and participation in health information exchange among health care providers within Illinois and other states. The ILHIE is a Statewide, secure electronic transport network for sharing clinical and administrative data among health care providers in Illinois to facilitate care coordination.

The Authority was established on July 27, 2010 pursuant to P.A. 96-1331. On February 7, 2014, the Authority officially began operations as a standalone agency.

The Illinois Health Information Exchange and Technology Act (20 ILCS 3860/15) specifies that the Authority shall consist of and be governed by the Executive Director and eight Directors who are appointed to three-year staggered terms by the Governor with the advice and consent of the Senate. In addition, the Directors of the Department of Healthcare and Family Services, Department of Insurance, Department of Public Health, the Secretary of the Department of Human Services or their designees, and a designee from the Governor's Office serve as ex-officio members of the Authority.

Board of Directors

Chair	Mr. Dave Holland (2/7/11 – Present)
Vice Chair	Dr. William Kobler (2/7/11 – Present)
Director	Dr. Nicholas Panomitros (2/7/11 – Present)
Director	Dr. Bruce Wellman (2/7/11 – Present)
Director	Vacant (1/13/15 – Present) Dr. Nancy Newby (2/7/11 – 1/12/15)
Director	Vacant (1/13/15 – Present) Mr. Roger Holloway (2/14/14 – 1/12/15) Vacant (1/1/14 – 2/13/14) Mr. Mark Neaman (2/7/11 – 12/31/13)

STATE OF ILLINOIS  
ILLINOIS HEALTH INFORMATION EXCHANGE AUTHORITY  
**AGENCY FUNCTIONS AND PLANNING PROGRAM**  
For the Five Months Ended June 30, 2014

**(NOT EXAMINED)**

Director	Vacant (1/1/15 – Present) Dr. Bechara Choucair (2/7/11 – 12/31/14)
Director	Vacant (11/8/13 – Present) Dr. Cheryl Rucker-Whitaker (2/7/11 – 11/7/13)

Board Officers as of June 30, 2014

Treasurer	Thomas Nowak, Illinois Health Exchange Authority Chief Fiscal Officer
Secretary	Kerri McBride, Illinois Health Exchange Authority Legal Counsel

Ex-Officio Members as of June 30, 2014

Illinois Department of Healthcare and Family Services	Julie Hamos, Director
Illinois Department of Public Health	David Carvalho
Illinois Department of Insurance	Michelle T. Oshman
Illinois Department of Human Services	Susan Locke
Office of the Governor	Laura Zaremba

The Authority has only one location at 100 W. Randolph St. Suite 4-750 Chicago, IL.

Strategic Planning & Monitoring

The Authority is committed to its mission and has established a strategic plan to help achieve its objectives. The Authority's specific goals, objectives, and performance measures are developed and discussed at each Board meeting. The Board meets monthly to discuss the objectives of the Board and the strategic plan for the future especially relating to the Exchange.

STATE OF ILLINOIS  
 ILLINOIS HEALTH INFORMATION EXCHANGE AUTHORITY  
**AVERAGE NUMBER OF EMPLOYEES**  
 For the Five Months Ended June 30, 2014

**(NOT EXAMINED)**

The following table, prepared from Authority records, presents the average number of employees, by title, for the Fiscal Year ended June 30,

<u>Division</u>	<u>2014</u>
Executive Director	1
General Counsel	1
Chief Information Officer	1
Chief Technology Officer	1
Chief Financial Officer	1
Director of Implementation Services	1
Director of Client Relations	1
Policy, Privacy and Compliance Manager	1
Engagement Manager	3
Private Secretary	1
Communications Manager	1
Director of Program Management	1

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STATE OF ILLINOIS  
ILLINOIS HEALTH INFORMATION EXCHANGE AUTHORITY  
**SERVICE EFFORTS AND ACCOMPLISHMENTS**

For the Five Months Ended June 30, 2014

**(NOT EXAMINED)**

Health Information Exchange Statistics

The Authority is responsible for the Illinois Health Information Exchange, which is a statewide, secure electronic transport network for sharing clinical and administrative data among health care providers in Illinois to facilitate care coordination. As of June 20, 2014, the Authority had achieved the following key performance indicators:

- The percentage of ILHIE Direct Service accounts provisioned to year end goal: 33%
- The percentage of completed Integrated Direct implementation to year end goal: 146%
- The percentage of completed ILHIE Connect implementation to year end goal: 0%
- The percentage of Illinois Acute Care Hospitals with established Virtual Private Network connectivity to ILHIE for required syndromic surveillance reporting: 60%

Authority's Business Model and Future Plans

The Authority is governed by a Board of Directors. The Authority does not receive appropriations from the General Assembly. The Authority is designed to promote electronic health record (EHR) system adoption and support the State's health and human service agencies – most notably the Medicaid program and public health reporting mandates – by providing health information technology services and infrastructure that aims to: (1) improve healthcare quality and outcomes; and (2) control healthcare costs. The Authority's strategic direction is, therefore, dependent upon the new Governor's healthcare technology, coordination, and delivery policies. The Authority is currently collaborating with the Office of the Governor and the Department of Healthcare and Family Services (HFS), in order to solidify the role the Authority will play in those policies.

As part of this collaboration, the Authority and HFS are working together for the submission of a federal FY16 funding proposal from the health information technology funding programs of the federal government's Centers for Medicare and Medicaid Services (CMS). These programs are specifically designed to continue the federal government's investment in state Health Information Exchanges, such as the Illinois Health Information Exchange. Because the funding proposal is still in development, the Authority cannot comment, at this time, on the amount of a possible award.

The Authority has also collaborated with two regional Health Information Organizations on a separate federal funding opportunity to develop specific aspects of healthcare connectivity in Illinois. The Authority and its collaborators submitted an application for this opportunity on April 6, 2015, and the funding award will be announced on or around June 12, 2015. The Authority cannot comment, at this time, on the amount of a possible award.

STATE OF ILLINOIS  
ILLINOIS HEALTH INFORMATION EXCHANGE AUTHORITY  
**SERVICE EFFORTS AND ACCOMPLISHMENTS**  
For the Five Months Ended June 30, 2014

**(NOT EXAMINED)**

The Authority expects to present an outline of its strategic direction and operating budget at the June 2015 Board meeting. In addition, the Board is in the process of developing an operating budget for the State for FY16.