STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES

FINANCIAL AUDIT

For the Year Ended June 30, 2022

Performed as Special Assistant Auditors for the Auditor General, State of Illinois

SIKICH.COM

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2022

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STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL AUDIT
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AGENCY OFFICIALS

Director	Theresa Eagleson
Assistant Director	Jenny Aguirre
Chief Operating Officer/ Chief of Staff	Ben Winick
General Counsel	Steffanie Garrett
Inspector General	Brian Dunn

DEPUTY DIRECTORS

Community Outreach	Kimberly McCullough-Starks
Administrative Operations (11/16/21 – Present)	Tanya Ford
Administrative Operations (through 11/15/21)	Vacant
Human Resources	Terri Shawgo
New Initiatives	Vacant

DIVISION ADMINSTRATORS

Child Support Services	Brian Tribble
Finance	Michael Casey
Medical Eligibility (Interim) (1/16/22 - Present)	Tracy Keen
Medical Eligibility (through 1/15/22)	Jane Longo
Medical Programs	Kelly Cunningham
Personnel & Administrative Services (Interim)	Ruth Ann Day

AGENCY OFFICES

The Department's primary administrative offices are located at:

201 South Grand Avenue East Springfield, Illinois 62763	401 South Clinton Chicago, Illinois 62607

STATE OF ILLINOIS
DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2022

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Healthcare and Family Services (Department) was performed by Sikich LLP.

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

SUMMARY OF FINDINGS

Number of	Current Report	Prior Report
Findings	9	8
Repeated Findings	7*	8
Prior Recommendations Implemented or Not Repeated	3*	3

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

SCHEDULE OF FINDINGS

Item No.	Page	Last/First Reported	Description	Finding Type
			Current Findings	
2022-001	56	2021/2017*	Inadequate general information technology controls over IES	Material Weakness
2022-002	60	2021/2019	Inadequate disaster recovery controls over the Integrated Eligibility System (IES)	Material Weakness
2022-003	62	2021/2018	Inadequate general information technology controls over IMPACT	Material Weakness
2022-004	65	2021/2018	Insufficient review and documentation of provider enrollment determinations and failure to timely execute interagency agreement	Material Weakness and Noncompliance
2022-005	68	2021/2015	Failure to review service providers' internal controls	Material Weakness
2022-006	71	New	Inadequate general information technology controls	Material Weakness

Item No.	Page	Last/First Reported	Description	Finding Type
			Current Findings	
2022-007	73	New	Financial statement preparation weaknesses	Material Weakness
2022-008	76	New	Insufficient controls over administration of Medicaid claims	Material Weakness
2022-009	80	2021/2019	Detailed agreement between the Department of Human Services, the Department of Healthcare and Family Services and the Department of Innovation and Technology (DoIT) over IES not finalized	Significant Deficiency
			Prior Findings Not Repeated	
A	82	2021/2017	Insufficient internal controls over changes to the Integrated Eligibility System (IES) and recipient data	
B	82	2021/2020	Inadequate access review procedures for the Integrated Eligibility System (IES)	
C	82	2021/2020	Inadequate internal controls over census data	

EXIT CONFERENCE

The Department waived an exit conference relating to Findings 2022-001 through 2022-006 and 2022-009 in correspondence from Jamie Nardulli, Chief Internal Auditor, on June 13, 2023. The responses to Findings 2022-001 through 2022-006 and 2022-009 were provided by Theresa Eagleson, Director, on June 21, 2023.

The findings and recommendations appearing in this report as Finding No. 2022-007 and 2022-008 were discussed with Department personnel at an exit conference on July 27, 2023.

Attending were:

Department of Healthcare and Family Services
Theresa Eagleson, Director
Jamie Nardulli, Chief Internal Auditor
Ben Winick, Chief Operating Officer/Chief of Staff
Mike Casey, Chief Financial Officer
Tom Gentry, Bureau Chief, Bureau of Fiscal Operations
Gary Casper, Deputy Administrator, Division of Finance
Amanda Ball, Manager, Expenditure Accounting
Melinda Hawbaker, Manager, General Accounting and Technical Support

Office of the Auditor General
Janis Van Durme, Health & Human Services Audit Manager

Sikich LLP
Tom Leach, Partner
Meredith Angel, Director
Andrea Whitacre, Senior

The responses to Findings 2022-007 and 2022-008 were provided by Jamie Nardulli, Chief Internal Auditor, on July 28, 2023.

The Department of Human Services' responses to Findings 2022-001 through 2022-004, and 2022-009 were provided by Christopher E. Finley, Internal Auditor/Audit Liaison, in correspondence dated June 21, 2023.

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INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Audit of the Financial Statements

Opinions

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Healthcare and Family Services (Department), as of and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Department, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter

As discussed in Note 2 to the financial statements, the basic financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2022, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements and above, the Department is not legally separate from the State of Illinois, and it relies heavily on the State's ability to appropriate resources for the continuation of the Department's health and social services programs. For the year ended June 30, 2022, approximately 35% of the Department's expenditures were funded with appropriations from the State of Illinois rather than from grants, fees and other revenues of the Department.

As discussed in Note 2 and Note 17 to the financial statements, in fiscal year 2022, the Department adopted Governmental Accounting Standard Board Statement No. 87, *Leases*. The adoption of this statement resulted in the inclusion of right-to-use leased equipment and a lease liability.

Our opinions are not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

Management has omitted management's discussion and analysis and budgetary comparison information for any of its funds, pension, and other postemployment benefit (OPEB) related information for its Department-wide basic financial statements that accounting principles generally accepted in the United States of

America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements of the Department in an appropriate operational, economic, or historical context. Our opinions on the financial statements are not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Department's financial statements. The combining schedules of the general fund, nonmajor governmental funds, and custodial funds (accompanying supplementary information) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2023, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Restricted Use of this Auditor's Report

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and the Department's management and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

Decatur, Illinois
July 31, 2023

Statement of Net Position and Governmental Funds Balance Sheet

June 30, 2022 (Expressed in Thousands)

	General Fund	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Net Position
ASSETS					
Unexpended appropriations	$ (643,035)	$ -	$ (643,035)	$ -	$ (643,035)
Cash equity with State Treasurer	1,714,501	38,535	1,753,036	-	1,753,036
Cash and cash equivalents	3,179	-	3,179	-	3,179
Securities lending collateral equity with State Treasurer	188,199	811	189,010	-	189,010
Taxes receivable, net	83,509	-	83,509	-	83,509
Due from other government - federal	1,473,459	16,489	1,489,948	-	1,489,948
Due from other government - local	379,978	-	379,978	-	379,978
Other receivables, net	1,665,826	6,494	1,672,320	-	1,672,320
Due from other Department funds	4	-	4	(4)	-
Due from other State funds	6,295	-	6,295	-	6,295
Due from State of Illinois component units	11,962	-	11,962	-	11,962
Notes receivable	117,354	-	117,354	-	117,354
Prepaid expenses	-	-	-	465	465
Capital assets not being depreciated	-	-	-	109,671	109,671
Capital assets being depreciated, net	-	-	-	1,892	1,892
Total assets	5,001,231	62,329	5,063,560	112,024	5,175,584
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources - SERS pensions	-	-	-	171,679	171,679
Deferred outflows of resources - OPEB	-	-	-	93,274	93,274
Total deferred outflows of resources	-	-	-	264,953	264,953
Total assets and deferred outflows of resources	$ 5,001,231	$ 62,329	$ 5,063,560	376,977	5,440,537
LIABILITIES					
Accounts payable and accrued liabilities	$ 681,195	$ 6,888	$ 688,083	-	688,083
Due to other government - federal	1,947,662	176	1,947,838	-	1,947,838
Due to other government - local	264,104	5,001	269,105	-	269,105
Due to other Department funds	-	4	4	(4)	-
Due to other State funds	66,925	5,767	72,692	-	72,692
Due to other State fiduciary funds	548	1,351	1,899	-	1,899
Due to State of Illinois component units	83,533	-	83,533	-	83,533
Unearned revenue	98,949	-	98,949	-	98,949
Obligations under securities lending of State Treasurer	188,199	811	189,010	-	189,010
Long-term obligations:					
Due within one year	-	-	-	15,943	15,943
Due subsequent to one year	-	-	-	1,656,676	1,656,676
Total liabilities	3,331,115	19,998	3,351,113	1,672,615	5,023,728
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources - Unavailable revenue	1,529,411	40	1,529,451	(1,529,451)	-
Deferred inflows of resources - SERS pensions	-	-	-	135,052	135,052
Deferred inflows of resources - OPEB	-	-	-	259,496	259,496
Total deferred inflows of resources	1,529,411	40	1,529,451	(1,134,903)	394,548
Total liabilities and deferred inflows of resources	4,860,526	20,038	4,880,564	537,712	5,418,276
FUND BALANCES (DEFICITS)/NET POSITION					
Fund balances (deficits)					
Committed for health and social services	1,510,075	42,291	1,552,366	(1,552,366)	-
Unassigned	(1,369,370)	-	(1,369,370)	1,369,370	-
Net investment in capital assets	-	-	-	111,200	111,200
Unrestricted net position	-	-	-	(88,939)	(88,939)
Total fund balances (deficits)/net position	140,705	42,291	182,996	$ (160,735)	$ 22,261
Total liabilities, deferred inflows of resources, and fund balances (deficit)	$ 5,001,231	$ 62,329	$ 5,063,560		

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

State of Illinois
Department of Healthcare and Family Services
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
June 30, 2022
(Expressed in Thousands)

Total fund balances - governmental funds	$	182,996
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		111,563
Prepaid expenses for governmental activities are current uses of financial resources for funds.		465
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		1,529,451
Deferred outflows of resources related to pension liability are not reported in the governmental funds since they do not provide current financial resources.		171,679
Deferred inflows of resources related to pension liability are not reported in the governmental funds since they do not use current financial resources.		(135,052)
Deferred outflows of resources related to OPEB liability are not reported in the governmental funds since they do not provide current financial resources.		93,274
Deferred inflows of resources related to OPEB liability are not reported in the governmental funds since they do not use current financial resources.		(259,496)
Some liabilities reported in the Statement of Net Position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds. These activities consist of:		
Capital lease obligations		(363)
Compensated absences		(11,760)
Net pension liability - SERS		(1,021,925)
Total OPEB liability		(638,571)
Net position (deficit) of governmental activities	$	22,261

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

Statement of Activities and Governmental Revenues, Expenditures, and Changes in Fund Balances

For the Year Ended June 30, 2022 (Expressed in Thousands)

	General Fund	Other Nonmajor Funds	Total Governmental Funds	Adjustments	Statement of Activities
Expenditures/expenses:					
Health and social services	$ 26,075,074	$ 386,527	$ 26,461,601	$ (80,703)	$ 26,380,898
Debt service principal	433	223	656	(656)	-
Debt service interest	14	7	21	-	21
Capital outlays	20,465	14,454	34,919	(34,919)	-
Total expenditures/expenses	26,095,986	401,211	26,497,197	(116,278)	26,380,919
Program revenues:					
Charges for services:					
Licenses and fees	415	166	581	34	615
Other, net	61,459	30,384	91,843	2,152	93,995
Total charges for services	61,874	30,550	92,424	2,186	94,610
Operating grant revenue:					
Federal, net	17,021,643	225,817	17,247,460	573,271	17,820,731
Other	1,005,252	-	1,005,252	(40,380)	964,872
Total operating grant revenue	18,026,895	225,817	18,252,712	532,891	18,785,603
Total program revenues	18,088,769	256,367	18,345,136	535,077	18,880,213
Net program expenses					(7,500,706)
General revenues:					
Interest and investment income	(9,545)	21	(9,524)	-	(9,524)
Medical provider assessment tax	3,093,737	-	3,093,737	20,028	3,113,765
Other taxes, net	327,848	-	327,848	15	327,863
Other	40,085	-	40,085	(12,211)	27,874
Total general revenues	3,452,125	21	3,452,146	7,832	3,459,978
Other sources (uses):					
Appropriations from State resources	8,249,025	245,010	8,494,035	-	8,494,035
Lapsed appropriations	724,544	30,300	754,844	-	754,844
Receipts collected and transmitted to State Treasury	(4,498,329)	(120,061)	(4,618,390)	-	(4,618,390)
Capital transfers to other State agencies	-	-	-	30,756	30,756
Amount of SAMS transfers-out	45,000	-	45,000	-	45,000
Transfers-in	-	35,600	35,600	(35,600)	-
Transfers-out	(75,600)	-	(75,600)	35,600	(40,000)
Total other sources (uses)	4,444,640	190,849	4,635,489	30,756	4,666,245
Change in fund balances/net position	(110,452)	46,026	(64,426)	689,943	625,517
Fund balances (deficits)/net position, July 1, 2021, as restated	251,157	(3,735)	247,422	(850,678)	(603,256)
Fund balances (deficits)/net position, June 30, 2022	$ 140,705	$ 42,291	$ 182,996	$ (160,735)	$ 22,261

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

State of Illinois
Department of Healthcare and Family Services
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2022
(Expressed in Thousands)

Net change in fund balances - governmental funds	$	(64,426)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation and losses on disposals in the current period.		33,909
Transfers of capital assets to other State agencies are not recorded in governmental funds. This amount represents the net transfers of capital assets at no cost from other State funds in the Statement of Activities.		30,756
Prepaid expenses in the Statement of Activities are not reported as expenses in governmental funds. This amount represents the decrease in prepaid expenses over the prior year.		(10)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the increase in unavailable revenue over the prior year.		542,909
Deferred outflows of resources related to pension liability in the Statement of Activities that do not provide current financial resources are not reported in the governmental funds. This amount represents the increase in deferred outflows over the prior year.		43,104
Deferred inflows of resources related to pension liability in the Statement of Activities that do not use current financial resources are not reported in the governmental funds. This amount represents the increase in deferred inflows over the prior year.		(45,119)
Deferred outflows of resources related to OPEB liability in the Statement of Activities that do not provide current financial resources are not reported in the governmental funds. This amount represents the increase in deferred outflows over the prior year.		29,980
Deferred inflows of resources related to OPEB liability in the Statement of Activities that do not use current financial resources are not reported in the governmental funds. This amount represents the increase in deferred inflows over the prior year.		(111,362)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		656
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These include:		
Increase in compensated absences obligation		(9)
Decrease in net pension liability - SERS		43,513
Decrease in total OPEB liability		121,616
Change in net position of governmental activities	$	625,517

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

Statement of Fiduciary Net Position

June 30, 2022 (Expressed in Thousands)

	Custodial Funds
ASSETS	
Cash equity with State Treasurer	$ 13,690
Cash and cash equivalents	4,439
Other receivables, net	165,333
Total assets	183,462
LIABILITIES	
Accounts payable and accrued liabilities	183,462
Total liabilities	183,462
NET POSITION	
Unrestricted net position	-
Total net position	$ -

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

State of Illinois

Department of Healthcare and Family Services

Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2022
(Expressed in Thousands)

	Custodial Funds
Additions	
Custodial fund deposits received	$ 1,087,278
Total additions	1,087,278
Deductions	
Custodial funds disbursed	1,087,278
Total deductions	1,087,278
Net increase (decrease) in fiduciary net position	-
Net position, July 1, 2021	-
Net position, June 30, 2022	$ -

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

(1) Organization

The Department of Healthcare and Family Services (Department) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review by the General Assembly. The Department generally operates under a budget approved by the General Assembly in which resources are appropriated for the use of the Department. Activities of the Department are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the Office of Comptroller) as defined by the General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, with the exception of the Child Support Enforcement Trust Fund – SDU.

The Department is organized to provide for the improvement of the lives of Illinois' families through healthcare coverage and child support enforcement.

(2) Summary of Significant Accounting Policies

The financial statements of the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or

2) Fiscal dependence on the primary government and the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the required criteria, the Department has no component units and is not a component unit of any other entity. However, because the Department is not legally separate from the State of Illinois, the financial statements of the Department are included in the financial statements of the State of Illinois. The State of Illinois' Annual Comprehensive Financial Report (ACFR) may be obtained by accessing the Office of Comptroller's website - https://illinoiscomptroller.gov/financial-data/find-a-report/comprehensive-reporting/annual-comprehensive-financial-report/.

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Healthcare and Family Services, are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, major fund, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2022, and the changes in financial position for the year then ended in conformity with GAAP.

The financial activities of the Department, which consist only of governmental and fiduciary activities, are reported under the health and social services function in the State of Illinois' Annual Comprehensive Financial Report. For reporting purposes, the Department has combined the fund and government-wide financial statements using a columnar format that reconciles individual line items of the fund financial data to government-wide data in a separate column. A brief description of the Department's government-wide and fund financial statements is as follows:

Government-wide Statements. The government-wide statement of net position and statement of activities report the overall financial activity of the Department, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the Department. The financial activities of the Department consist of governmental activities that are generally financed through taxes and intergovernmental revenues.

The statement of net position presents the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Department's governmental activities with the difference being reported as net position. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components – the amount due within one year and the amount due in more than one year.

The statement of activities presents a comparison between direct expenses and program revenues for the functions of the Department's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the Department's funds, including fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis on fund financial statements is the major governmental fund, which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Department administers the following major governmental fund (or portions thereof in the case of shared funds – see note 2 (d)):

> **General** – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund. The services that are administered by the Department and accounted for in the General Fund include, among others, promoting access to quality healthcare and child support. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements.

Additionally, the Department reports the following fund types:

Governmental Fund Types:

> **Special Revenue** – These funds account for transactions related to resources obtained from specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The Department does not have any major special revenue funds to disclose.

Fiduciary Fund Types:

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

(c) Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues and additions are recorded when earned and expenses and deductions are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include nursing home assessments, hospital assessments, and intergovernmental grants. On an accrual basis, revenues from the nursing home assessments are recognized in the fiscal year in which the underlying exchange transaction occurs. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on formal debt issues, claims and judgments, and compensated absences are recorded only when the payment is due. Capital asset acquisitions, including entering into contracts giving the Department the right to use leased assets, are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under leases are reported as other financing sources.

Significant revenue sources that are susceptible to accrual include the nursing home assessment, hospital assessments, federal matching revenues, drug rebates, intergovernmental transfer agreement revenues, and child support. Other miscellaneous revenue sources are considered measurable and available only when cash is received.

(d) Shared Fund Presentation

The financial statement presentation for the General Fund accounts, General Revenue, State Coronavirus Urgent Remediation Emergency, Care Provider for Persons with Developmental Disabilities, and the Trauma Center, as well as the nonmajor governmental fund, the Tobacco Settlement Recovery Fund, represent only the portion of the shared fund that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Annual Comprehensive Financial Report.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Department's portion of shared funds:

Unexpended Appropriations

This "asset" account represents lapse period warrants issued by the Office of Comptroller after June 30 annually, in accordance with the Statewide Accounting Management System (SAMS) records, plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year and voucher, interfund payments, and mandatory SAMS transfer transactions held by the Office of Comptroller at June 30.

Appropriations from State Resources

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

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records. Lapsed appropriations for certain Medicaid expenditures are the legally adopted appropriations less net warrants issued for the up to 16 month period from July to October of the following year. The Department also considers the effect of the change in the amount of warrants held by the Office of Comptroller in the current and prior years on both unexpended appropriations described above and amounts reported as lapsed appropriations; as a result, the amount reported as lapsed appropriations for fiscal year 2022 reduced the Department's net position/fund balance by $1.078 billion.

Receipts Collected and Transmitted to State Treasury

This "other financing use" account represents all cash receipts received during the fiscal year from SAMS records.

Amount of SAMS Transfers-In

This "other financing use" account represents cash transfers made by the Office of Comptroller in accordance with statutory provisions to the corresponding fund during the fiscal year per SAMS records in which the Department did not make a deposit into the State Treasury.

Amount of SAMS Transfers-Out

This "other financing source" account represents cash transfers made by the Office of Comptroller in accordance with statutory provision from the corresponding fund during the fiscal year per SAMS records in which a legally adopted appropriation was not charged.

(e) Eliminations

Eliminations have been made in the government-wide statement of net position to minimize the "grossing-up" effect on assets and liabilities within the governmental activities column of the Department. As a result, amounts reported in the governmental funds balance sheet as interdepartmental interfund receivables and payables have been eliminated in the government-wide statement of net position. Amounts reported in the governmental funds balance sheet as receivable from or payable to fiduciary funds have been included in the government-wide statement of net position as receivable from and payable to external parties, rather than as internal balances.

(f) Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at the time of purchase. Cash and cash equivalents include cash on hand and cash in banks for locally held funds.

(g) Investments

Most investments are reported at fair value. The Illinois Funds, a 2a7-like pool, is reported at amortized cost.

(h) Interfund Transactions and Transactions with State of Illinois Component Units

The Department has the following types of interfund transactions between Department funds and funds of other State agencies:

Services provided and used – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the governmental funds balance sheet and the government-wide statement of net position.

Reimbursements – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers – flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

The Department also has activity with various component units of the State of Illinois for medical programs, intergovernmental transfer agreements and payments for services.

(i) Capital Assets

Capital assets, which includes property, plant, and equipment, and intangible assets, are reported at cost or estimated historical cost based on appraisals. Contributed assets are reported at acquisition value at the time received. Capital assets are depreciated and amortized using the straight-line method. Intangible assets (purchased computer software and internally generated computer software) are assets that do not have a physical existence, are nonfinancial in nature, are not in a monetary form, and have a useful life of over one year.

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Equipment	$ 5,000	3-10
Purchased Computer Software	$ 25,000	3-5
Internally Generated Computer Software	$1,000,000	5-20

(j) Leases

The Department is a lessee for non-cancellable leases of equipment. The Department recognizes a lease liability and an intangible right to use lease asset in the government-wide financial statements. The Department recognizes lease liabilities with an initial individual contract value of $25,000 or more. At the commencement of the lease, the Department initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease is amortized on a straight-line basis over the shorter of the asset useful life or the lease term.

(k) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Department has recorded deferred outflows and inflows of resources in the government-wide financial statements in connection with the net pension liability reported and explained in Note 10 and the total post-employment benefits liability reported and explained in Note 11. Unavailable revenues in governmental funds include receivables not "available" to finance the current period.

(l) Compensated Absences

The liability for compensated absences reported in the government-wide statement of net position consists of unpaid, accumulated vacation and sick leave balances for Department employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related cost (e.g., Social Security and Medicare taxes).

Legislation that became effective January 1, 1998, capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

(m) Pensions

In accordance with the Department's adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense have been recognized in the government-wide financial statements.

The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of service and the plan's fiduciary net position. The total pension expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total pension liability, plan administrative expenses, current year benefit changes, and other changes in plan fiduciary net position less employee contributions and projected earnings on plan investments. Additionally, the total pension expense includes the annual recognition of outflows and inflows of resources due to pension assets and liabilities.

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, pension expense and expenditures associated with the Department's contribution requirements, information about the fiduciary net position of the plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported within the separately issued plan financial statements. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value.

(n) Postemployment Benefits Other Than Pensions (OPEB)

The State provides health, dental, vision, and life insurance benefits for certain retirees and their dependents through the State Employees Group Insurance Program (SEGIP). The total OPEB liability, deferred outflows of resources, deferred inflows of resources, expense, and expenditures associated with the program have been determined through an actuarial valuation using certain actuarial assumptions as applicable to the current measurement period (see Note 11).

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

(o) Fund Balances

In the fund financial statements, governmental funds report fund balances in the following categories:

Nonspendable – This consists of amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact.

Restricted – This consists of amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

Committed – This consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Department's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Department removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Department's highest level of decision-making authority rests with the General Assembly and the Governor. The State enacts "Public Acts" to commit their fund balances.

Assigned – This consists of net amounts that are constrained by the Department's intent to be used for specific purposes, but that are neither restricted nor committed.

Unassigned – This consists of residual fund balance that has not been restricted, committed, or assigned within the General Fund and deficit fund balances of other governmental funds.

In the General Fund, it is the Department's policy to consider restricted resources to have been spent first when an expenditure is incurred for which both restricted and unrestricted (i.e. committed, assigned or unassigned) fund balances are available, followed by committed and then assigned fund balances. Unassigned amounts are used only after the other resources have been used.

In other governmental funds (special revenue), it is the Department's policy to consider restricted resources to have been spent last. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Department first utilizes any assigned amounts, followed by committed and then restricted amounts.

(p) Net Position

In the government-wide statement of net position, net position is displayed in three components as follows:

Net investment in capital assets – This consists of capital assets, net of accumulated depreciation less the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets".

(q) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(r) Adoption of New Accounting Pronouncements

Effective for the year ending June 30, 2022, the Department adopted the following GASB statements:

Statement No. 87, *Leases*, which is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources and or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The impact of implementing this statement has been disclosed in Note 17 for the financial impact on the Department's net position.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which is intended to (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) simplify accounting for interest cost incurred before the end of a construction period. The implementation of this statement had no financial impact on the Department's net position or results of operations.

The portion of Statement No. 92, *Omnibus 2020*, which is intended to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements related to (1) intra-entity transfers of assets, (2) reporting assets accumulated for defined benefit postemployment benefits provided through plans that are not administered through trusts that meet specified criteria, (3) applicability of certain requirements of Statement No. 84 to postemployment benefit arrangements, (4) exception to acquisition value in a government acquisition and (5) nonrecurring fair value measurements. The implementation of this statement had no financial impact on the Department's net position or results of operations.

The portion of Statement No. 93, *Replacement of Interbank Offered Rates*, that remove the London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate for a derivative instrument hedging the interest rate risk of taxable debt and the portion of Statement No. 93 that clarifies lease modifications do not include revisions to a lease solely to replace the LIBOR with another rate for the purpose of applying paragraphs 71 through 76 of Statement No. 87, *Leases*. The implementation of this statement had no financial impact on the Department's net position or results of operations.

The portion of Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*, which is intended to enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The implementation of this statement had no financial impact on the Department's net position or results of operations.

The portion of GASB Statement No. 99, *Omnibus 2022*, related to extending the use of LIBOR, accounting for Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions Statement No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 were effective upon issuance in April 2022. The implementation of this statement had no financial impact on the Department's net position or results of operations.

(s) Future Adoption of GASB Statements

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

Statement No. 91, *Conduit Debt Obligations*, which is intended to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. Upon the Department's adoption of Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, the effective date of Statement No. 91 was delayed until the fiscal year ending June 30, 2023.

Statement No. 94, *Public-Private and Public-Public Partnerships and Available Payment Arrangements*, which is intended to improve financial reporting by addressing issues related to public-private and public-public partnerships (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs).

Statement No. 96*, Subscription-Based Information Technology Arrangements*, which is intended to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments).

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

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

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

Statement No. 100, *Accounting Changes and Error Corrections*, which is intended to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

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

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

The Department has not yet determined the impact of adopting these statements on its financial statements.

(3) Deposits and Investments

(a) Deposits

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these deposits and investments are available within the State of Illinois' Annual Comprehensive Financial Report.

Cash on deposit for locally held funds of fiduciary activities had carrying amounts and bank balances of $4.439 million and $10.973 million, respectively, at June 30, 2022. Balances in excess of FDIC depository insurance were covered by collateral held by the Department's agent in the Department's name.

(b) Investments

Section 2 of the Public Funds Investment Act limits the State's investments outside the State Treasury to securities of the U.S. government or its agencies, short-term obligations of domestic corporations exceeding $500 million in assets that are rated in the three highest categories by at least two nationally recognized statistical ratings organizations not to exceed ten percent of the domestic corporations outstanding obligations, money market mutual funds invested in the U.S. government and/or its agencies, and repurchase agreements securities of the U.S. government or its agencies or money market mutual funds invested in the U.S. government or its agencies. Investments of public funds in a Public Treasurers' Investment Pool created under Section 17 of the State Treasurer Act are also permitted.

As a governmental sponsored investment pool, The Illinois Funds is not eligible to register with the Securities and Exchange Commission ("SEC") and thus is not a registrant with the SEC; however, The Illinois Funds has adopted operating procedures consistent with those required of an SEC 2a-7 Fund (2a-7-like Fund). The Illinois Funds has a policy that it will, and does, operate in a manner consistent with SEC Rule 2a-7, which governs the operation of SEC regulated money market funds. While the Illinois Funds operates in accordance with SEC Rule 2a-7, for valuation purposes it complies with GASB Statement No. 79.

As of June 30, 2022, the Department had $3.179 million invested with the Illinois Funds. The Illinois Funds is an investment pool managed by the State of Illinois, Office of the Treasurer, which allows governments within the State to pool their funds for investment purposes. The Illinois Funds is a GASB Statement No. 79 qualified external investment pool that measures, for financial reporting purposes, all its investments at amortized cost. The fair value of the pool position is the same as the value of pool shares. There are no limitations or restrictions on withdrawals from the pool.

Interest Rate Risk: The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

(c) Reconciliation to Statement of Net Position and Statement of Fiduciary Net Position

The Statement of Net Position and the Statement of Fiduciary Net Position cash and cash equivalents account contain certain short-term investments (included as investments above) to reflect their liquidity. A reconciliation (amounts expressed in thousands) follows:

	Deposits	Investments
Governmental Activities		
Amount per note	$ -	$ 3,179
Cash equivalents	3,179	(3,179)
Amounts per Statement of Net Position	$ 3,179	$ -
Fiduciary Funds		
Cash on deposit	$ 1,450	$ -
Cash due to Fund 0957	2,989	-
Amounts per Statement of Fiduciary Net Position	$ 4,439	$ -

(4) Accounts Receivable

(a) Taxes Receivable

Taxes receivable (amounts expressed in thousands) at June 30, 2022 are as follows:

	General Fund
Taxes receivable	$ 85,985
Less: allowance for uncollectible taxes	(2,476)
Taxes receivable, net	$ 83,509

(b) Other Receivables

Other receivables (amounts expressed in thousands) at June 30, 2022 are as follows:

	General Fund	Nonmajor Governmental Funds	Fiduciary Funds
Other receivables	$ 1,851,464	$ 267,467	$ 2,927,545
Less: allowance for uncollectible accounts	(185,638)	(260,973)	(2,762,212)
Other receivables, net	$ 1,665,826	$ 6,494	$ 165,333

The fiscal year 2022 financial statements reported Other Receivables, net within Fund 793 (General Fund) due from hospitals. These amounts, further disclosed in Note 18(c) Subsequent Events, are expected to be reimbursed by the U.S. Federal Emergency Management Agency (FEMA) during fiscal year 2023.

(5) Notes Receivable

Notes Receivable at June 30, 2022, consisted of amounts owed to the Department for advances issued to long-term care providers and hospitals with a 0% interest rate charged. The balances consisted of the following (amounts expressed in thousands):

	General Fund
Notes receivable due within one year	$ 104,163
Notes receivable due after one year	13,191
Total	$ 117,354

(6) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2022 represent amounts due from Department funds and other State funds.

Fund	Due from: Other Department Funds	Due from: Other State Funds	Description/Purpose
General	$ 4	$ 6,295	Due from other Department funds for PAERF reimbursements and from other State funds for subgrants received and for unapplied credits.

The following balances (amounts expressed in thousands) at June 30, 2022 represent amounts due to Department funds, other State funds, and other State fiduciary funds.

Fund	Due to: Other Department Funds	Due to: Other State Funds	Due to: Other State Fiduciary Funds	Description/Purpose
General	$ -	$ 66,925	$ 548	Due to other State funds for services, Court of claims awards and grant payments and to other State fiduciary funds for retirement benefits.
Nonmajor governmental funds	4	5,767	1,351	Due to other Department funds for PAERF reimbursements, to other State funds for services and Court of claims awards, and to other State fiduciary funds for retirement benefits.
	$ 4	$ 72,692	$ 1,899	

(b) Transfers to/from Other Funds

Interfund transfers-in (amounts expressed in thousands) for the year ended June 30, 2022 were as follows:

Fund	Other Department Funds	Description/Purpose
Nonmajor governmental funds	$ 35,600	Transfer from other Department funds per State appropriation.

Interfund transfers-out (amounts expressed in thousands) for the year ended June 30, 2022 were as follows:

Fund	Other Department Funds	Other State Funds	Description/Purpose
General	$ 35,600	$ 40,000	Transfers to other Department funds and other State funds per State appropriation.
	$ 35,600	$ 40,000	

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

The following balances (amounts expressed in thousands) at June 30, 2022 represent amounts due from State of Illinois Component Units to the General Fund for intergovernmental agreement reimbursements.

Component Unit	Due From General Fund
Southern Illinois University	$ 540
University of Illinois	11,422
	$ 11,962

The following balances (amounts expressed in thousands) at June 30, 2022 represent amounts due to State of Illinois Component Units for medical reimbursements.

Component Unit	Due To General Fund
Illinois State University	$ 9
Northern Illinois University	10
Southern Illinois University	6,036
University of Illinois	77,478
	$ 83,533

(7) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2022 is as follows:

	Balance July 1, 2021 as restated	Additions	Deletions	Net Transfers	Balance June 30, 2022
Governmental Activities:					
Capital assets not being depreciated/amortized:					
Internally generated intangible assets in development	$ 45,091	$ 33,824	$ -	$ 30,756	$ 109,671
Total capital assets not being depreciated/amortized:	45,091	33,824	-	30,756	109,671
Capital assets being depreciated:					
Equipment	4,764	29	26	-	4,767
Right-to-use leased equipment	1,019				1,019
Non-internally generated software	4,498	8,472	-	-	12,970
Less accumulated depreciation:					
Equipment	(4,003)	(339)	(26)	-	(4,316)
Right-to-use leased equipment		(644)			(644)
Non-internally generated software	(4,471)	(7,433)	-	-	(11,904)
Total capital assets being depreciated, net	1,807	85	-	-	1,892
Governmental activity capital assets, net	$ 46,898	$ 33,909	$ -	$ 30,756	$ 111,563

Depreciation/amortization expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2022 was charged as follows:

Health and social services	$ 8,416

(8) Long-Term Obligations

Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2022 were as follows:

	Balance July 1, 2021, as restated	Additions	Deletions	Balance June 30, 2022	Amounts Due Within One Year
Governmental Activities:					
Compensated absences	$ 11,751	$ 10,346	$ 10,337	$ 11,760	$ 1,345
Lease obligations	1,019	-	656	363	363
Net OPEB liability	760,187	-	121,616	638,571	14,235
Net pension liability	1,065,438	-	43,513	1,021,925	-
Total Governmental Activities	$ 1,838,395	$ 10,346	$ 176,122	$ 1,672,619	$ 15,943

Compensated absences will be liquidated by the applicable governmental funds that account for the salaries and wages of the related employees. Net pension liabilities and net OPEB liabilities will be liquidated through the General Revenue Fund, and the special revenue funds that report wages.

(9) Leases

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

At June 30, 2022, the right-to-use asset under leases are as follows (amount expressed in thousands):

Equipment	$	1,019
Less: Accumulated amortization		(644)
	$	375

Future minimum commitments for non-cancelable leases as of June 30, 2022, are as follows:

Year Ending June 30,	Principal		Interest	
2023	$	363	$	4
Total minimum lease payments	$	363	$	4

(10) Defined Benefit Pension Plan

Plan description. Substantially all the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a single-employer defined benefit pension trust fund in the State of Illinois reporting entity. SERS is governed by article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). The plan consists of two tiers of contribution requirements and benefit levels based on when an employee was hired. Members who first become an employee and participate under any of the State's retirement plans on or after January 1, 2011 are members of Tier 2, while Tier 1 consists of employees hired before January 1, 2011 or those who have service credit prior to January 1, 2011. The provisions below apply to both Tier 1 and 2 members, except where noted. The SERS issues a separate ACFR available at www.srs.illinois.gov or that may be obtained by writing to the SERS, 2101 South Veterans Parkway, PO Box 19255, Springfield, Illinois, 62794-9255.

Benefit provisions. SERS provides retirement benefits based on the member's final average compensation and the number of years of service credit that have been established. The retirement benefit formula available to general State employees that are covered under the Federal Social Security Act is 1.67% for each year of service and for noncovered employees it is 2.2% for each year of service. The maximum retirement annuity payable is 75% of final average compensation for regular employees and 80% for alternative formula employees. The minimum monthly retirement annuity payable is $15 for each year of covered service and $25 for each year of noncovered service.

Members in SERS under the Tier 1 and Tier 2 receive the following levels of benefits based on the respective age and years of service credits.

<table>
<tr><th>Regular Formula Tier 1</th><th>Regular Formula Tier 2</th></tr>
<tr><td>A member must have a minimum of eight years of service credit and may retire at:

• Age 60, with 8 years of service credit.
• Any age, when the member’s age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with 8 years of credited service.
• Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).

The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.

Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.

If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</td><td>A member must have a minimum of 10 years of credited service and may retire at:

• Age 67, with 10 years of credited service.
• Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67).

The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of $106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.

If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2021 rate is $116,740.

If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</td></tr>
</table>

Additionally, the Plan provides an alternative retirement formula for State employees in high-risk jobs, such as State policemen, fire fighters, and security employees. Employees qualifying for benefits under the alternative formula may retire at an earlier age depending on membership in Tier 1 or Tier 2. The retirement formula is 2.5% for each year of covered service and 3.0% for each year of non-covered service. The maximum retirement annuity payable is 80% of final average compensation as calculated under the alternative formula.

SERS also provides occupational and nonoccupational (including temporary) disability benefits. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least 18 months of credited service with the System. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of State employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers’ Compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System. Certain nonoccupational death benefits vest after 18 months of credited service. Occupational death benefits are provided from the date of employment.

Contributions. Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed $106,800 with limitations for future years increased by the lesser of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2022, this amount was $119,892.

The State is required to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the ILCS, and all administrative expenses of the System to the extent specified in the ILCS. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

For fiscal year 2022, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For fiscal year 2022, the employer contribution rate was 56.169%. The Department's contribution amount for fiscal year 2021 was $43.976 million. In addition, the Department recorded $38.896 million of revenue and expenditures in the General Revenue account of the General Fund to account for payments to SERS for Department employees that were paid from statewide General Revenue Fund appropriations.

Pension liability, deferred outflows of resources, deferred inflows of resources, and expense related to pensions. At June 30, 2022, the Department reported a liability of $1,021.925 million for its proportionate share of the State's net pension liability for SERS on the statement of net position. The net pension liability was measured as of June 30, 2021 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's portion of the net pension liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2021. As of the current year measurement date of June 30, 2021, the Department's proportion was 3.0873%, which was an increase of .0317% from its proportion measured as of the prior year measurement date of June 30, 2020.

For the year ended June 30, 2022, the Department recognized pension expense of $41.798 million. At June 30, 2022, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2021, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	16,034	891
Changes of assumptions	39,780	1,162
Net difference between projected and actual investment earnings on pension plan investments	-	78,768
Changes in proportion	32,994	54,230
Department contributions subsequent to the measurement date	82,872	
Total	**$ 171,679**	**$ 135,052**

$82.872 million reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

Year ended June 30,	
2023	$ (17,344)
2024	(6,746)
2025	(7,184)
2026	(14,971)
Total	**$ (46,245)**

Actuarial methods and assumptions. The total pension liability was determined by an actuarial valuation and measurement date as of June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.25%

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

Projected salary increases: 2.75% - 7.17%, salary increase rates based on age related productivity and merit rates plus inflation.

Post-retirement benefit increases of 3.00%, compounded, for Tier 1 and the lesser of 3.00% or one-half of the annual increase in the Consumer Price Index for Tier 2.

Retirement Age: Experience-based table of rates specific to the type of eligibility condition. Table was last updated for the June 30, 2019 valuation pursuant to an experience study of the period July 1, 2015 – June 2018.

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

The actuarial assumptions used to calculate the total pension liability as of the current year measurement date are consistent with the actuarial assumptions used to calculate the total pension liability as of the prior year measurement date.

The long-term expected real rate of return on pension plan investments is determined using the best estimates of geometric real rates of return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan’s target asset allocation, calculated as of the measurement date of June 30, 2021, the best estimates of geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	23.0%	4.8%
Developed Foreign Equity	13.0%	5.3%
Emerging Market Equity	8.0%	6.5%
Private Equity	7.0%	6.8%
Intermediate Investment Grade Bonds	14.0%	0.4%
Long-term Government Bonds	4.0%	0.6%
TIPS	4.0%	0.3%
High Yield and Bank Loans	5.0%	2.5%
Opportunistic Debt	8.0%	4.3%
Emerging Market Debt	2.0%	2.2%
Real Estate	10.0%	5.6%
Infrastructure	2.0%	6.5%
Total	**100%**	

Discount rate. A discount rate of 6.20% was used to measure the total pension liability as of the measurement date of June 30, 2021 as compared to a discount rate of 6.35% used to measure the total pension liability as of the prior year measurement date of June 30, 2020. The June 30, 2021 single blended discount rate was based on the expected rate of return on pension plan investments of 6.75% and a municipal bond rate of 1.92%, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the statutory contributions and the member rate. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2076. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2076, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the net pension liability to changes in the discount rate. The net pension liability for the plan was calculated using the stated discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate as shown below (amounts expressed in thousands):

	1% Decrease 5.20%	Discount Rate 6.20%	1% Increase 7.20%
Department's Proportionate Share of the Net Pension Liability	1,261,005	$ 1,021,925	825,710

Payables to the pension plan. At June 30, 2022, the Department reported a payable of $1.900 million to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2022.

(11) Postemployment Benefits

Plan description. The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the Illinois State Employees Group Insurance Program (SEGIP) to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the Department's full-time employees are members of SEGIP. Members receiving monthly benefits from the General Assembly Retirement System (GARS), Judges' Retirement System (JRS), State Employees' Retirement System of Illinois (SERS), Teachers' Retirement System

(TRS), and State Universities Retirement System of Illinois (SURS) are eligible for these other post-employment benefits (OPEB). The eligibility provisions for each of the retirement systems are defined within Note 10 Defined Benefit Pension Plan. Certain TRS members eligible for coverage under SEGIP include: certified teachers employed by certain State agencies, executives employed by the Board of Education, regional superintendents, regional assistant superintendents, TRS employees, and members with certain reciprocal service.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (GARS, JRS, SERS, TRS and SURS). The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

Benefits provided. The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes $5,000.

Funding policy and annual other postemployment benefit cost. OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions, and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For fiscal year 2022, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $11,363.04 ($6,290.40 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $13,619.28 ($5,623.44 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

Total OPEB liability, deferred outflows of resources, deferred inflows of resources, and expense related to OPEB. The total OPEB liability, as reported at June 30, 2022, was measured as of June 30, 2021, with an actuarial valuation as of June 30, 2020. At June 30, 2022, the Department recorded a liability of $638.571 million for its proportionate share of the State's total OPEB liability. The Department's portion of the OPEB liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2021. As of the current year measurement date of June 30, 2021, the Department's proportion was 1.8291%, which was an increase of 0.0348% from its proportion measured as of the prior year measurement date of June 30, 2020.

The Department recognized a reduction in OPEB expenses for the year ended June 30, 2022, of $25.622 million. In addition, the Department recorded $7.012 million of revenue and expenditures in the General Revenue account of the General Fund to account for contributions to SEGIP for Department employees that were paid from statewide

General Revenue Fund appropriations. At June 30, 2022, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2021, from the following sources (amounts expressed in thousands):

Deferred outflows of resources		
Differences between expected and actual experience	$	4,664
Changes of assumptions		14,444
Changes in proportion and differences between employer contributions and proportionate share of contributions		59,930
Department contributions subsequent to the measurement date		14,235
Total deferred outflows of resources	$	93,274
Deferred inflows of resources		
Differences between expected and actual experience	$	4,443
Changes of assumptions		175,744
Changes in proportion and differences between employer contributions and proportionate share of contributions		79,309
Total deferred inflows of resources	$	259,496

The amounts reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

Year ended June 30,		
2023	$	(55,050)
2024		(41,724)
2025		(48,312)
2026		(30,232)
2027		(5,139)
Total	$	(180,457)

Actuarial methods and assumptions. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2020, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2020.

Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry Age Normal
Actuarial assumptions:	
Inflation Rate	2.25%
Projected Salary Increases*	2.50% - 12.25%
Healthcare Cost Trend Rate:	
Medical & Rx (Pre-Medicare & Post-Medicare)	8.00% grading down 0.25% per year over 15 years to 4.25% in year 2038. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Dental and Vision	3.75% grading up 0.25% in the first year to 4.00% through 2038.
Retirees' share of benefit-related costs	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2021 and 2022 are based on actual premiums. Premiums after 2022 were projected based on the same healthcare cost trend rates applied to per capita claim costs.

Note: the above actuarial assumptions were used to calculate the OPEB liability as of the current year measurement date and are consistent with the actuarial assumptions used to calculate the OPEB liability as of the prior year measurement date except for the following:

Healthcare Cost Trend Rate:	
Medical and Rx (Pre-Medicare & Post-Medicare)	8.25% grading down 0.25% per year over 16 years to an ultimate trend of 4.25% in the year 2037. There is no additional trend rate adjustment due to the repeal of the Excise Tax.
Dental and Vision	4.00% grading up 0.25% in the first year to 4.25% through 2037.

* Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

Additionally, the demographic assumptions used in this OPEB valuation are identical to those used in the June 30, 2020 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study^	Mortality^^
GARS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 99% for males and females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
JRS	July 2015 - June 2018	Pub-2010 Above-Median Income General Healthy Retiree Mortality tables, sex distinct, scaling factors of 102% for males and 98% for females and generational mortality improvements using MP-2018 two-dimensional mortality improvement scales
SERS	July 2015 - June 2018	Pub-2010 General and Public Safety Healthy Retiree mortality tables, sex distinct, with rates projected to 2018 generational mortality improvement factors were updated to projection scale MP-2018
TRS	July 2014 - June 2017	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2017
SURS	July 2014 - June 2017	RP-2014 White Collar, gender distinct, projected using MP-2014 two dimensional mortality improvement scale, set forward one year for male and female annuitants

^ The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined.

^^ Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

Discount rate. Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 2.45% at June 30, 2020, and 1.92% at June 30, 2021, was used to measure the total OPEB liability.

Sensitivity of total OPEB liability to changes in the single discount rate. The following presents the plan's total OPEB liability, calculated using a Single Discount Rate of 1.92%, as well as what the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (2.92%) or lower (0.92%) than the current rate (amounts expressed in thousands):

	1% Decrease (0.92%)	Current Single Discount Rate Assumption (1.92%)	1% Increase (2.92%)
Total OPEB liability	754,148	638,571	547,126

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate. The key trend rates are 8.00% in 2023 decreasing to an ultimate trend rate of 4.25% in 2038. A one percentage point decrease in healthcare trend rates is 7.00% in plan year end 2023 decreasing to an ultimate trend rate of 3.25% in plan year end 2038. A one percentage point increase in healthcare trend rates is 9.00% in plan year end 2023 decreasing to an ultimate trend rate of 5.25% in plan year 2038.

	1% Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
Total OPEB liability	532,868	638,571	778,443

(12) Fund Deficits

The following funds had deficit balances at June 30, 2022 (amounts expressed in thousands):

	Governmental Activities
General Revenue Fund (001)	$ (1,579,471)
U of I Hospital Services Fund (136)	(25,498)
County Provider Trust Fund (329)	(2,190)
Special Education Medicaid Matching (355)	(33,722)
Medical Interagency Program Fund (720)	(3,983)

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

(13) Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation; and natural disasters. The State retains the risk of loss (i.e., self-insured) for these risks.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claims liabilities are based upon the estimated ultimate cost of settling the claims including specific, incremental claim adjustment expenses, salvage, and subrogation and considering the effects of inflation and recent claim settlement trends including frequency and amount of payouts and other economic and social factors.

The Department's risk management activities for self-insurance, unemployment insurance and workers' compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Department, and accordingly, have not been reported in the Department's financial statements for the year ended June 30, 2022.

(14) Commitments and Contingencies

(a) Litigation

A lawsuit existed at June 30, 2022. The plaintiff managed care organization filed an action in the Court of Claims to dispute the Department's Prompt Payment Act interest calculation methodology. The plaintiff contends that the Department should calculate interest based on total capitation rather than at the individual claim level plus pay all interest calculated under $5. The plaintiff is seeking $7.5 million in additional interest payments. No liability was reported in the financial statements.

A lawsuit existed at June 30, 2022. The plaintiff hospital is alleging that the Department is in violation of federal law due to purported payment delays from Medicaid Managed Care Organizations (MCO's) to the hospital. The plaintiff's requested relief includes an injunction requiring the Department to make payments owed by MCO's and termination of the Medicaid MCO contracts. The district court granted the Department's motion to dismiss, and the plaintiff appealed. The appellate court reversed the dismissal, and subsequently denied a petition for rehearing, without making any findings on the merits of the plaintiff's claims and allowed the case to proceed. The Department filed a petition for certiorari with the United States Supreme Court seeking review of the appellate court's decision. The Supreme Court has not yet acted on the petition, which remains pending. The federal district court has stayed litigation in the case and referred the matter to a magistrate judge for a settlement conference. An estimate of the possible loss cannot be made.

(b) Disproportionate Share Hospital Payments

In October 2004, the U.S. Department of Health and Human Services, Office of Inspector General (OIG) issued its reports, "Review of Illinois Medicaid Disproportionate Share Hospital Payments to the University of Illinois at Chicago Hospital" and "Review of Illinois Medicaid Disproportionate Share Hospital Payments to Mount Sinai Hospital of Chicago." The reports recommended that the State refund $140.282 million and $4.516 million respectively, in federal financial participation (FFP) to the federal government because of alleged overpayment to the hospitals of $280.6 million and $9.032 million above the hospital-specific limitation on Disproportionate Share Hospital (DSH) payments to the hospitals during State fiscal years 1997-2000. The state completed repayment in June 2019 to reduce potential interest costs. However, the State continues to strongly disagree with the OIG's findings. The U.S. Department of Health and Human Services Centers for Medicare and Medicaid Services (Federal CMS) concurred with the audit findings but stated "we interpret this recommendation as a prospective resolution and not a requirement to recoup any Federal payments associated with these findings." After approximately 12 years of no official action, in July 2016, the State received a formal disallowance from Federal CMS for these two audits. It is the State's position that it has followed Federal CMS published guidelines, and its methodology for calculating the hospital-specific limitation has been consistently approved by Federal CMS. The Department subsequently sought reconsideration, which was denied, and appealed the disallowances to the U.S. Department of Health and Human Services' Departmental Appeals Board (DAB). On April 2, 2018, the DAB sustained both disallowances and the Department sought reconsideration of the decision on June 1, 2018. Subsequent to June 30, 2018, the DAB denied the Department's motions for reconsideration and the Department exercised its right to further appeal the disallowances in the United States District Court for the Northern District of Illinois. On September 25, 2020, the Court ruled in the Department's favor. The U.S. Department of Health and Human Services appealed the ruling. The case was referred for mediation, and the parties reached an agreement to settle the matter. The settlement provided that the federal government would return $98.871 million to the Department on the condition that the district court entered an order vacating its September 25, 2020, opinion and order. On March 30, 2023, the court vacated its prior order. On April 14, 2023, the Department received the amount agreed to in the settlement. No receivable was reported within the financial statements as there was not an agreed motion in place by June 30, 2022. On May 9, 2023, the court dismissed the case in accordance with the terms of the settlement agreement after the Department received the settlement funds.

(c) Noncompliance with Federal Regulations

During fiscal year 2018, the Department and the Department of Human Services implemented additional functionality within the automated eligibility system. Resulting from that transition, the State experienced several significant issues, including problems with (1) the transfer of data files, (2) documentation of eligibility decisions, and (3) noncompliance with federal regulations requiring the timely determination and redetermination of eligibility for programs. Due to these problems, the U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services (Federal CMS) required the Department to finalize and submit a corrective action plan for approval.

The Department submitted two proposed CAPs, and both were approved by Federal CMS. Federal CMS has indicated to the Department that given that the approved CAPs have been implemented and the Department adheres to the timeframes and milestones contained therein, no disallowances or withholding of FFP funds is anticipated. Accordingly, no liability was reported in the financial statements. Federal CMS CAP supervision activities are suspended during the COVID-19 Public Health Emergency.

Federal CMS also conducted its Payment Error Rate Measurement (PERM) program to determine improper payment rates for Illinois and 16 other states for the reporting year 2019 (RY19) for the Medicaid and the Children's Health Insurance Program (CHIP). On November 26, 2019, the Department was notified of its results of the RY19 PERM. With respect to eligibility errors identified in the PERM, Federal CMS stated that no recoveries or disallowances would be required. However, Federal CMS also noted that had the Department not met the good faith effort requirement established by section 1903(u) of the Social Security Act (i.e., complying with the Medicaid Eligibility Quality Control and corrective action plan requirements outlined in 82 Federal Register 31158), the total extrapolated dollars would have been available for disallowance for the Medicaid and CHIP programs. The report reflected an improper payment rate estimate of 35.37% for Medicaid and 34.15% for CHIP. The report further noted that improper payments did not necessarily represent expenses that should not have occurred. An improper payment could have been determined due to missing information or compliance issues. If that information had been available or the compliance requirement was met, the claim may have been a payable. With respect to other errors identified in the report, the Department has been informed of federal recoveries of $132,969. As a result of the PERM findings, the Department submitted a CAP to Federal CMS on February 24, 2020. PERM activities were suspended by Federal CMS between March 2020 and July 2020 due to the COVID-19 Public Health Emergency, after which Federal CMS began their review of the Department's CAP. Federal CMS returned the CAP to the Department on February 26, 2021. The Department submitted a response to Federal CMS questions on March 26, 2021. The Department received acceptance of the PERM RY19 CAP on August 10, 2021. On November 15, 2022, subsequent to the June 30, 2022, fiscal year end, the Department received notification from Federal CMS of its RY22 PERM results. The improper rate estimate for Medicaid was reduced from 35.37% to 10.44% and from 34.15% to 28.58% for CHIP. With respect to other errors (medical records and data processing) identified in the report, the Department has been informed of federal recoveries of $89,137. The Department is in the process of finalizing its RY22 PERM corrective action plans. No liability was reported within the financial statements.

(d) Requested Return of Federal Financial Participation

In December 2018, the Department received a total of four Demand Letters from Federal CMS for the return of FFP related to certain optical service/supply, inpatient psychiatric, and Disproportionate Share Hospital (DSH) payments. The total dollar value of the FFP identified in those letters was approximately $121.5 million ($121.054 million in Disallowance Letters and $488 thousand without a Disallowance Letter). The Demand Letters were related to services that go back as far as the year 2000 in some instances. The Demand Letters did not represent formal disallowances of the identified FFP. The Department notified Federal CMS in writing that it did not plan to return the FFP and strongly disagreed with the assertions made within the Demand Letters. On September 27, 2019, Federal CMS issued three Disallowance Letters related to the inpatient psychiatric and DSH payments.

The Department appealed the three disallowances to the U.S. Department of Health and Human Services Departmental Appeals Board (DAB). The $121.054 million was offset by the federal government via adjustment to the federal grant award and subsequently adjusted on the federal claim for December 31, 2019, pending the outcome of the appeal. Per agreement of the parties, the three appeals were consolidated and stayed pending the results of two other similar disallowance cases involving other states currently under consideration by the DAB. On June 23, 2021, the Department received a disallowance letter related to optical supplies and services. The $488 thousand was returned to the federal government with the December 31, 2021, federal claim. The Department appealed the optical services disallowance to the DAB and the appeal is pending determination at the DAB.

(e) Federal Grants

The Department receives other federal grants that are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2022, other than identified above, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Department believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

(f) Data Breaches

Missing US Mail Breach: On January 27, 2022, the Department received an empty envelope through the United States Postal Service (USPS) sent from the Office of the Illinois Attorney General (AG). The envelope had contained child support case files with personally identifiable information (PII) for 14 individuals. The Department and the AG worked extensively with the USPS to locate the files, but to date, the missing files have not been recovered. The Department notified the affected individuals on March 25, 2022 and the General Assembly and the AG on March 30, 2022. The Department provided one year's worth of credit monitoring to the impacted individuals at a total cost of $2,687. At this point in time, no investigation has been opened or penalties threatened or assessed.

(15) Securities Lending Transactions

The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2022, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during fiscal year 2022 on the amount of loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during fiscal year 2022 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2022, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2022 were $4,061,655,934 and 3,998,567,638.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2022 arising from securities lending agreements to the various funds of the State. The total allocated to the Department at June 30, 2022 was $189.010 million.

(16) Coronavirus Pandemic Federal Assistance Distributions

The coronavirus pandemic, declared a state of emergency in 2020, continued to impact the Department. During fiscal year 2022, the General Assembly appropriated $338.4 million to the Department for distribution to Medicaid providers and other pandemic related expenditures for funding made available through the Coronavirus Relief Fund (CRF) (Assistance Listing 21.019) and the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) (Assistance Listing 21.027). The Department expended $330 million of the appropriated funds, net of provider returns, to cover costs related to the COVID-19 Public Health Emergency. Of the $330 million expended, $273.4 million was expended under CSLFRF, and $56.6 million was expended through CRF. The pass-through financial assistance was made available through the U.S. Department of the Treasury, the federal awarding agency. Federal funding for these programs was received by the Illinois Emergency Management Agency, so the receipts are not reported on the Department's financial statements. While the CRF funding has ended, the CSLFRF program allows spending through December 31, 2027. As the CSLFRF program is ongoing, the Department anticipates continued impact to its financial position

In fiscal year 2022, a plan was submitted to the federal government for Home and Community Based Services (HCBS) funding. The plan allows for a 10% enhanced federal match on eligible records with a claim paid date April 1, 2021 through March 31, 2022. The resulting enhanced federal revenue is expected to be utilized for spending related to fiscal years 2022 – 2025 to enhance HCBS. As of June 30, 2022, $72 million of spending related to the 10% enhanced rate was incurred, and the amount was offset against the federal liability at June 30, 2022. Accordingly, the $72 million was reported as federal revenue within the financial statements. The Department of Human Services and the Department on Aging also incurred HCBS spending, and $45.8 million was reported as a liability within the financial statements for their share of reimbursable expenditures.

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

(17) Restatement

The Department's financial statements and footnotes have been restated as of July 1, 2021, due to the following:

(a) Implementation of GASB Statement No. 87, Leases

GASB Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources and or outflows of resources based on the payment provisions of the contract. Implementation of Statement No. 87 resulted in a restatement to the Department's beginning net position as well as a restatement to certain footnote tables. Note 7, Capital Assets and Note 8, Long-Term Obligations were restated at June 30, 2021 as a result of GASB 87 implementation. Recognition of beginning leased assets and obligations were recognized as shown in the table below.

(b) Developmental Disabilities (DD) Waiver Backlog

Subsequent to June 30, 2022, it was determined there was an information technology system error at the Illinois Department of Human Services (DHS) causing a backlog in submission of data to the Illinois Department of Healthcare and Family Services (HFS) related to Developmental Disabilities (DD) waivers. DD waiver expenditures are remitted by DHS to HFS for federal claiming purposes. It was determined that the backlog extended back through services in November 2020. Based upon the expenditures eligible for claiming, the portion incurred through June 30, 2021 was identified. The resulting change in net position is shown in the table below. This issue was related to federal claiming only and did not result in any additional delay in processing of provider payments.

	Net Position (Deficit)	Note 7 - Capital Assets	Note 8 - Long-Term Obligations	DD Waiver Backlog
June 30, 2021, as previously reported	$ (674,865)	$ 46,103	$ 234	$ -
Implementation of GASB 87 (a)				
Right-to-use leased equipment	582	582	-	-
Accumulated depreciation	213	213	-	-
Lease obligations	(785)	-	785	-
DD Waiver Backlog	71,599	-	-	71,599
June 30, 2021, as restated	$ (603,256)	$ 46,898	$ 1,019	$ 71,599

(18) Subsequent Events

(a) The Illinois Application for Benefits Eligibility System Provider Portal

The Illinois Application for Benefits Eligibility (ABE) System Provider Portal (Portal) is a component of the Integrated Eligibility System (IES). The Provider Portal enables Medicaid providers to submit benefit applications for individuals online, with their consent. On approximately August 22, 2022, a potential privacy incident was reported within the Portal. The Illinois Department of Human Services (IDHS) and the Illinois Department of Healthcare and Family Services (HFS) (collectively, the Departments) opened an investigation into the matter. The incident concerned individuals whose application for Portal accounts were pending approval ("Non-Authorized Users") who may have been able to view customer applications for Medicaid, Supplemental Nutrition Assistance Program (SNAP) and/or Temporary Assistance for Needy Families (TANF).

In response to this incident, the Departments shut down the ABE system Provider Portal on August 23. 2022, to fix the issue. The system was reopened on September 29, 2022.

During the investigation, the Departments discovered that individuals who applied to become Provider Portal users potentially could see certain customer applications, before they were approved users, if they clicked on certain buttons in a specific order that was different from the displayed instructions while logged into their account. This means that benefit applications that were submitted through the Provider Portal prior to August 23, 2022, potentially could have been accessed by users who went to the Provider Portal and went through the provider application process.

The information that potentially could have been accessed included applicant name, gender, date of birth, county, application type, and application status. In some instances, additional information about the applicant, as well as other individuals included in the application for benefits, could have been viewed and could include any of the following: Social Security number, address, benefits applied for, income information, and medical information. After extensive technical analysis, the Departments determined that the security breach potentially included up to 520,924 households with 480,435 individuals. To date, the Departments do not know of any actual or attempted misuse of anyone's personal information because of this incident. The information the Departments do know indicates the risk of access or misuse is low.

The Departments notified the General Assembly, the Office of the Illinois Attorney General, the U.S. Department of Health and Human Services Office of Civil Rights, the media, and the potentially affected individuals on October 21, 2022. The Departments have paid no fines related to this breach. The Departments are providing one year of credit monitoring to potentially impacted individuals and a dedicated phone line to provide assistance and further information about this incident. The assistance line was available until January 23, 2023. The Department's vendor covered the costs of the mailings and services. The Department is issuing a subsequent mailing to Spanish speakers at the cost of approximately $25,120. The Department's vendor has refused to cover the cost of the Spanish mailing, but the Department may seek reimbursement from the vendor. Additionally, the Department has been contacted by the U.S. Department of Health and Human Services Office of Civil Rights regarding this breach (which is mandatory for breaches impacting over 500 individuals), although no penalties have been threatened or assessed.

(b) The Illinois Application for Benefits Eligibility System Manage My Case Portal

On March 13, 2023, suspicious user accounts were discovered within the ABE system and used within the Manage My Case (MMC) portal. The MMC portal is used by individuals to see case history and benefit information. The suspicious ABE accounts were able to link to existing MMC accounts by providing stolen personal information which the Departments believe were obtained through other, non-Departmental sources. The Departments have since deployed a new software to stop the creation of more suspicious user accounts and de-linked the suspicious accounts.

The information that potentially could have been accessed included the individual's name, address, phone number, date of birth, recipient identification number, individual ID, case ID, social security numbers, benefits applied and received, and income information. If the individual applied for benefits through the ABE portal, the application and any documents uploaded to support the application could be accessed. Information of individuals included on the application for benefits or receiving benefits with the household could also have been viewed.

The Departments determined that 50,839 individuals (18,336 households) were affected by this incident. The Departments notified the General Assembly, the Office of the Illinois Attorney General, the U.S. Department of Health and Human Services Office of Civil rights, the media, and the potentially affected individuals on May 12, 2023. The Departments are providing a dedicated phone line to provide assistance and answer questions about this incident. The phone line is available until August 14, 2023.

(c) Assistant State's Attorney Robbery

On August 18, 2022, child support case documents were stolen from an attorney during a robbery incident while traveling to court. At this time, the files have not been recovered. The child support case files contained personally identifiable information (PII) for 79 individuals. The Department notified the U.S. Department of Health and Human Services (HHS) on October 14, 2022, the affected individuals on October 12, 2022, and the General Assembly and the Office of the Illinois Attorney General on October 13, 2022. The Department provided one year's worth of credit monitoring to the impacted individuals at a total cost of $2,687. At this point in time, no investigation has been opened by HHS or penalties threatened or assessed.

(d) FEMA Medical Staffing Reimbursement

During the COVID-19 pandemic, a joint program (COVID-19 Surge Staffing Program) between the Illinois Department of Healthcare and Family Services, the Illinois Department of Public Health, and the Illinois Emergency Management Agency was implemented to provide supplemental staff to acute inpatient care facilities affected by high regional COVID-19 rates, such that they could expand their bed capacity, thus allowing them to take increased numbers of COVID-19 patients. It also provided staffing to reinforce larger institutions who typically received more acutely ill patients and transfers. This program was initially established to be funded 100% by the Department and required certain hospitals to enter into an agreement to reimburse the Department to receive services from the program.

During fiscal year 2022, the Department became aware of an opportunity to seek reimbursement through the Illinois Emergency Management Agency from the Public Assistance (PA) Program under the FEMA-4489-DR-IL disaster declaration. The Department submitted two separate applications for fiscal year 2021 and fiscal year 2022 expenses in the amount of $11.234 million and $390.330 million, respectively, and started to amend the agreements with hospitals requiring a reimbursement only if the Department did not receive federal reimbursement.

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

The application for reimbursement for the fiscal year 2022 expenses of $390.330 million is in the early stages of submission and an estimate on when a decision approving or denying the application is unknown.

(e) MoveIT System Attack

On May 31, 2023, an attack occurred though a software vulnerability in a product provided by a third-party file transfer company (MoveIT/Progress) that affected the State of Illinois. The Department of Innovation and Technology (DoIT) verified the incident occurred due to vulnerabilities to a SQL injection. The Illinois Department of Healthcare and Family Services (HFS) utilizes MoveIT for interfacing data between systems. DoIT's investigation into this event is ongoing and the full extent of this incident is unknown. If required, notifications will be provided to impacted individuals pursuant to the Personal Information Protection Act (PIPA), the Health Insurance Portability and Accountability Act (HIPAA), and any other applicable state or federal law. DoIT anticipates a dedicated assistance phone line/call center will be established.

Combining Schedule of Accounts - General Fund

June 30, 2022 (Expressed in Thousands)

	General Revenue 0001	U of I Hospital Services 0136	State Coronavirus Urgent Remediation Emergency 0324	County Provider Trust 0329	Care Provider for Persons with DD 0344	Long-Term Care Provider 0345	Hospital Provider 0346	Special Education Medicaid Matching 0355	Trauma Center 0397	Public Aid Recoveries Trust 0421
ASSETS										
Unexpended appropriations	$ (610,116)	$ -	$ (33,170)	$ -	$ -	$ -	$ -	$ -	$ 251	$ -
Cash equity with State Treasurer	676	10,695	-	8,208	-	35,926	271,790	-	-	893,418
Cash and cash equivalents	3,179	-	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	706	-	10,136	-	20,002	40,581	-	-	-
Due from other government - federal	896,628	27,296	-	-	192	27,408	-	84,528	159	19,706
Due from other government - local	-	-	219	123,462	-	-	-	18	-	-
Taxes receivable, net	-	-	-	-	614	7,432	72,428	-	-	-
Other receivables, net	46,921	4	33,042	59	-	116	235	-	-	963,679
Notes receivables	-	-	-	-	-	-	-	-	-	-
Due from other Department funds	26,147	9,895	-	-	-	-	-	-	-	23,091
Due from other State funds	39	-	-	-	-	133	-	-	-	-
Due from State of Illinois component units	-	11,422	249	-	-	-	-	-	-	-
Total assets	$ 363,474	$ 60,018	$ 340	$ 141,865	$ 806	$ 91,017	$ 385,034	$ 84,546	$ 410	$ 1,899,894
LIABILITIES										
Accounts payable and accrued liabilities	$ 283,591	$ -	$ 340	$ 87	$ -	$ 48,926	$ -	$ -	$ 231	$ 21,191
Due to other government - federal	357,252	-	-	36,087	-	2	-	-	-	66
Due to other government - local	12,780	-	-	95,478	-	598	-	84,546	20	1,214
Due to other Department funds	406,036	-	-	-	-	-	-	-	-	1,778,348
Due to other State funds	1,505	-	-	28	-	37	-	-	-	1,708
Due to other State fiduciary funds	-	-	-	49	-	11	-	-	-	488
Due to State of Illinois component units	14,682	48,798	-	-	-	-	-	-	-	4,468
Unearned Revenue	-	-	-	-	-	-	-	-	-	-
Obligations under securities lending of State Treasurer	-	706	-	10,136	-	20,002	40,581	-	-	-
Total liabilities	1,075,846	49,504	340	141,865	-	69,576	40,581	84,546	251	1,807,483
DEFERRED INFLOWS OF RESOURCES										
Unavailable revenue - Federal operating grants	867,099	24,590	-	-	192	9,601	-	33,722	15	8,082
Unavailable revenue - Medical provider assessment tax	-	-	-	-	114	3,716	68,959	-	-	-
Unavailable revenue - Other taxes	-	-	-	-	-	15	-	-	-	-
Unavailable revenue - Other operating grants	-	11,422	-	2,190	-	-	-	-	-	-
Unavailable revenue - Other revenues	-	-	-	-	-	-	-	-	-	-
Unavailable revenue - Other charges for services	-	-	-	-	-	-	-	-	-	7,508
Total deferred inflows of resources	867,099	36,012	-	2,190	306	13,332	68,959	33,722	15	15,590
FUND BALANCES (DEFICITS)										
Committed for health and social services	-	-	-	-	500	8,109	-	-	144	76,821
Unassigned	(1,579,471)	(25,498)	-	(2,190)	-	-	275,494	(33,722)	-	-
Total fund balances (deficits)	(1,579,471)	(25,498)	-	(2,190)	500	8,109	275,494	(33,722)	144	76,821
Total liabilities, deferred inflows of resources, and fund balances (deficits)	$ 363,474	$ 60,018	$ 340	$ 141,865	$ 806	$ 91,017	$ 385,034	$ 84,546	$ 410	$ 1,899,894

(Continued)

Combining Schedule of Accounts -
General Fund

June 30, 2022 (Expressed in Thousands)

	Electronic Health Record Incentive 0503	Juvenile Rehab Services Medicaid Matching 0575	Health Information Exchange 0606	Medical Interagency Program 0720	Drug Rebate 0728	Medicaid Buy-in Program Revolving 0740	Healthcare Provider Relief 0793	Medical Special Purposes Trust 0808	Eliminations	Total
ASSETS										
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (643,035)
Cash equity with State Treasurer	-	-	318	2,295	247,110	1,225	241,196	1,644	-	1,714,501
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	3,179
Securities lending collateral equity with State Treasurer	-	-	50	253	45,645	193	70,633	-	-	188,199
Due from other government - federal	-	-	-	6,156	2,426	-	406,200	2,760	-	1,473,459
Due from other government - local	-	-	-	-	-	-	256,279	-	-	379,978
Taxes receivable, net	-	-	-	-	-	-	3,035	-	-	83,509
Other receivables, net	-	-	-	4	265	1	621,500	-	-	1,665,826
Notes receivables	-	-	-	-	-	-	117,354	-		117,354
Due from other Department funds	-	-	-	-	1,778,348	-	370,000	3,050	(2,210,527)	4
Due from other State funds	-	-	-	-	-	-	6,123	-	-	6,295
Due from State of Illinois component units	-	-	-	291	-	-	-	-	-	11,962
Total assets	$ -	$ -	$ 368	$ 8,999	$ 2,073,794	$ 1,419	$ 2,092,320	$ 7,454	$ (2,210,527)	$ 5,001,231
LIABILITIES										
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 980	$ 3,855	$ 3	$ 316,251	$ 5,740	$ -	$ 681,195
Due to other government - federal	-	-	-	-	690,193	-	864,062	-	-	1,947,662
Due to other government - local	-	-	-	70	-	-	69,398	-	-	264,104
Due to other Department funds	-	-	-	-	-	-	26,143	-	(2,210,527)	-
Due to other State funds	-	-	-	45	-	-	63,372	230	-	66,925
Due to other State fiduciary funds	-	-	-	-	-	-	-	-	-	548
Due to State of Illinois component units	-	-	-	5,766	49	-	9,770	-	-	83,533
Unearned Revenue	-	-	-	-	-	-	98,949	-	-	98,949
Obligations under securities lending of State Treasurer	-	-	50	253	45,645	193	70,633	-	-	188,199
Total liabilities	-	-	50	7,114	739,742	196	1,518,578	5,970	(2,210,527)	3,331,115
DEFERRED INFLOWS OF RESOURCES										
Unavailable revenue - Federal operating grants	-	-	-	5,577	-	-	248,624	273	-	1,197,775
Unavailable revenue - Medical provider assessment tax	-	-	-	-	-	-	-	-	-	72,789
Unavailable revenue - Other taxes	-	-	-	-	-	-	-	-	-	15
Unavailable revenue - Other operating grants	-	-	-	291	-	-	-	-	-	13,903
Unavailable revenue - Other revenues	-	-	-	-	-	-	237,421	-	-	237,421
Unavailable revenue - Other charges for services	-	-	-	-	-	-	-	-	-	7,508
Total deferred inflows of resources	-	-	-	5,868	-	-	486,045	273	-	1,529,411
FUND BALANCES (DEFICITS)										
Committed for health and social services	-	-	318	-	1,334,052	1,223	87,697	1,211	-	1,510,075
Unassigned	-	-	-	(3,983)	-	-	-	-	-	(1,369,370)
Total fund balances (deficits)	-	-	318	(3,983)	1,334,052	1,223	87,697	1,211	-	140,705
Total liabilities, deferred inflows of resources, and fund balances (deficits)	$ -	$ -	$ 368	$ 8,999	$ 2,073,794	$ 1,419	$ 2,092,320	$ 7,454	$ (2,210,527)	$ 5,001,231

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

For the Year Ended June 30, 2022
(Expressed in Thousands)

	General Revenue 0001	U of I Hospital Services 0136	State Coronavirus Urgent Remediation Emergency 0324	County Provider Trust 0329	Care Provider for Persons with DD 0344	Long-Term Care Provider 0345	Hospital Provider 0346
REVENUES							
Operating grants - federal, net	$ 4,482,748	$ 139,676	$ -	$ 2,077,045	$ 14,223	$ 171,177	$ 2,795,666
Other operating grants	243,700	29,070	-	731,598	-	-	-
Licenses and fees	415	-	-	-	-	-	-
Other charges for services, net	-	-	-	-	-	-	-
Interest and other investment income	-	41	-	143	-	(1,247)	(2,228)
Medical provider assessment tax	-	-	-	277,914	20,729	145,116	1,563,441
Other taxes, net	-	-	-	-	-	33,646	-
Other	1,432	-	-	-	-	-	-
Total revenues	4,728,295	168,787	-	3,086,700	34,952	348,692	4,356,879
EXPENDITURES							
Health and social services	7,745,577	195,600	317,650	2,984,694	-	319,771	4,199,727
Debt service principal	-	-	-	-	-	-	-
Debt service interest	-	-	-	-	-	-	-
Capital outlays	3,683	-	-	-	-	80	-
Total expenditures	7,749,260	195,600	317,650	2,984,694	-	319,851	4,199,727
Excess (deficiency) of revenues over (under) expenditures	(3,020,965)	(26,813)	(317,650)	102,006	34,952	28,841	157,152
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	7,899,124	-	338,391	-	1,300	-	-
Lapsed appropriations	754,226	-	(20,106)	-	(1,301)	-	-
Receipts collected and transmitted to State Treasury	(4,461,632)	-	(635)	-	(35,136)	-	-
Amount of SAMS transfers-in	-	-	-	-	-	-	-
Amount of SAMS transfers-out	45,000	-	-	-	-	-	-
Transfers-in	-	39,614	-	-	-	30,000	240,000
Transfers-out	(930,044)	-	-	-	-	(20,000)	(415,000)
Net other sources (uses) of financial resources	3,306,674	39,614	317,650	-	(35,137)	10,000	(175,000)
Net change in fund balances	285,709	12,801	-	102,006	(185)	38,841	(17,848)
Fund balances (deficits), July 1, 2021	(1,865,180)	(38,299)	-	(104,196)	685	(30,732)	293,342
FUND BALANCES (DEFICITS), JUNE 30, 2022	$ (1,579,471)	$ (25,498)	$ -	$ (2,190)	$ 500	$ 8,109	$ 275,494

(Continued)

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

For the Year Ended June 30, 2022
(Expressed in Thousands)

	Special Education Medicaid Matching 0355	Trauma Center 0397	Public Aid Recoveries Trust 0421	Electronic Health Record Incentive 0503	Juvenile Rehab Services Medicaid Matching 0575	Health Information Exchange 0606	Medical Interagency Program 0720
REVENUES							
Operating grants - federal, net	$ 165,532	$ 1,070	$ 70,643	$ 4,451	$ 5	$ -	$ 6,386
Other operating grants	-	-	-	-	-	-	884
Licenses and fees	-	-	-	-	-	-	-
Other charges for services, net	-	-	153,544	-	-	-	-
Interest and other investment income	-	-	-	-	-	1	4
Medical provider assessment tax	-	-	-	-	-	-	-
Other taxes, net	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Total revenues	165,532	1,070	224,187	4,451	5	1	7,274
EXPENDITURES							
Health and social services	199,254	1,935	137,097	4,451	5	-	5,620
Debt service principal	-	-	256	-	-	-	-
Debt service interest	-	-	8	-	-	-	-
Capital outlays	-	-	633	-	-	-	-
Total expenditures	199,254	1,935	137,994	4,451	5	-	5,620
Excess (deficiency) of revenues over (under) expenditures	(33,722)	(865)	86,193	-	-	1	1,654
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	10,210	-	-	-	-	-
Lapsed appropriations	-	(8,275)	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	(926)	-	-	-	-	-
Amount of SAMS transfers-in	-	-	-	-	-	-	-
Amount of SAMS transfers-out	-	-	-	-	-	-	-
Transfers-in	-	-	4,980	-	-	-	-
Transfers-out	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	-	1,009	4,980	-	-	-	-
Net change in fund balances	(33,722)	144	91,173	-	-	1	1,654
Fund balances (deficits), July 1, 2021	-	-	(14,352)	-	-	317	(5,637)
FUND BALANCES (DEFICITS), JUNE 30, 2022	$ (33,722)	$ 144	$ 76,821	$ -	$ -	$ 318	$ (3,983)

(Continued)

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

For the Year Ended June 30, 2022
(Expressed in Thousands)

	Drug Rebate 0728	Medicaid Buy-in Program Revolving 0740	Healthcare Provider Relief 0793	Medical Special Purposes Trust 0808	Eliminations	Total
REVENUES						
Operating grants - federal, net	$ (1,392)	$ -	$ 7,089,244	$ 5,169	$ -	$ 17,021,643
Other operating grants	-	-	-	-	-	1,005,252
Licenses and fees	-	-	-	-	-	415
Other charges for services, net	-	9	61,450	-	(153,544)	61,459
Interest and other investment income	(1,881)	16	(4,394)	-	-	(9,545)
Medical provider assessment tax	-	-	1,086,537	-	-	3,093,737
Other taxes, net	-	-	294,202	-	-	327,848
Other	-	-	38,653	-	-	40,085
Total revenues	(3,273)	25	8,565,692	5,169	(153,544)	21,540,894
EXPENDITURES						
Health and social services	(607,336)	98	10,720,576	3,899	(153,544)	26,075,074
Debt service principal	-	-	177	-	-	433
Debt service interest	-	-	6	-	-	14
Capital outlays	-	163	9,165	6,741	-	20,465
Total expenditures	(607,336)	261	10,729,924	10,640	(153,544)	26,095,986
Excess (deficiency) of revenues over (under) expenditures	604,063	(236)	(2,164,232)	(5,471)	-	(4,555,092)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	-	-	8,249,025
Lapsed appropriations	-	-	-	-	-	724,544
Receipts collected and transmitted to State Treasury	-	-	-	-	-	(4,498,329)
Amount of SAMS transfers-in	-	-	-	-	-	-
Amount of SAMS transfers-out	-	-	-	-	-	45,000
Transfers-in	-	-	974,300	550	(1,289,444)	-
Transfers-out	-	-	-	-	1,289,444	(75,600)
Net other sources (uses) of financial resources	-	-	974,300	550	-	4,444,640
Net change in fund balances	604,063	(236)	(1,189,932)	(4,921)	-	(110,452)
Fund balances (deficits), July 1, 2021	729,989	1,459	1,277,629	6,132	-	251,157
FUND BALANCES (DEFICITS), JUNE 30, 2022	$ 1,334,052	$ 1,223	$ 87,697	$ 1,211	$ -	$ 140,705

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2022 (Expressed in Thousands)

	Special Revenue				
	Provider Inquiry Trust 0341	**Money Follows the Person Budget Transfer 0522**	**Tobacco Settlement Recovery 0733**	**Child Support Administrative 0757**	**Total**
ASSETS					
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -
Cash equity with State Treasurer	201	5,156	-	33,178	38,535
Securities lending collateral equity with State Treasurer	-	811	-	-	811
Due from other government - federal	-	-	-	16,489	16,489
Other receivables, net	40	5	-	6,449	6,494
Due from other Department funds	-	-	-	-	-
Total assets	$ 241	$ 5,972	$ -	$ 56,116	$ 62,329
LIABILITIES					
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 6,888	$ 6,888
Due to other government - federal	-	-	-	176	176
Due to other government - local	-	-	-	5,001	5,001
Due to other Department funds	-	-	-	4	4
Due to other State funds	-	-	-	5,767	5,767
Due to other State fiduciary funds	-	-	-	1,351	1,351
Due to State of Illinois component units	-	-	-	-	-
Obligations under securities lending of State Treasurer	-	811	-	-	811
Total liabilities	-	811	-	19,187	19,998
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - License and fees	34	-	-	-	34
Unavailable revenue - Other revenues	-	-	-	6	6
Total deferred inflows of resources	34	-	-	6	40
FUND BALANCES (DEFICITS)					
Committed for health and social services	207	5,161	-	36,923	42,291
Unassigned	-	-	-	-	-
Total fund balances (deficits)	207	5,161	-	36,923	42,291
Total liabilities, deferred inflows of resources, and fund balances (deficits)	$ 241	$ 5,972	$ -	$ 56,116	$ 62,329

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

For the Year Ended June 30, 2022 (Expressed in Thousands)

	Special Revenue				
	Provider Inquiry Trust 0341	**Money Follows the Person Budget Transfer 0522**	**Tobacco Settlement Recovery 0733**	**Child Support Administrative 0757**	**Total**
REVENUES					
Operating grants - federal, net	$ -	$ -	$ 120,061	$ 105,756	$ 225,817
License and fees	166	-	-	-	166
Other charges for services, net	-	-	-	30,384	30,384
Interest and other investment income	-	21	-	-	21
Total revenues	166	21	120,061	136,140	256,388
EXPENDITURES					
Health and social services	-	73	243,613	142,841	386,527
Debt service principal	-	-	-	223	223
Debt service interest	-	-	-	7	7
Capital outlays	-	-	-	14,454	14,454
Total expenditures	-	73	243,613	157,525	401,211
Excess (deficiency) of revenues over (under) expenditures	166	(52)	(123,552)	(21,385)	(144,823)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	-	-	245,010	-	245,010
Lapsed appropriations	-	-	30,300	-	30,300
Receipts collected and transmitted to State Treasury	-	-	(120,061)	-	(120,061)
Transfers-in	-	-	-	35,600	35,600
Transfers out	-	-	-	-	-
Capital lease financing	-	-	-	-	-
Net other sources (uses) of financial resources	-	-	155,249	35,600	190,849
Net change in fund balances	166	(52)	31,697	14,215	46,026
Fund balances, July 1, 2021	41	5,213	(31,697)	22,708	(3,735)
FUND BALANCES (DEFICITS), JUNE 30, 2022	$ 207	$ 5,161	$ -	$ 36,923	$ 42,291

Combining Statement of Fiduciary Net Position - Custodial Funds

June 30, 2022 (Expressed in Thousands)

	Child Support Enforcement Trust 0957	Child Support Enforcement Trust - SDU 2957	Total
ASSETS			
Cash equity with State Treasurer	$ 13,690	$ -	$ 13,690
Cash and cash equivalents	2,989	1,450	4,439
Other receivables, net	165,324	9	165,333
Total assets	182,003	1,459	183,462
LIABILITIES			
Accounts payable and accrued liabilities	182,003	1,459	183,462
Total liabilities	182,003	1,459	183,462
NET POSITION			
Unrestricted net position	-	-	-
Total net position	$ -	$ -	$ -

Combining Statement of Changes in Fiduciary Net Position
Custodial Funds

For the Year Ended June 30, 2022 (Expressed in Thousands)

	Child Support Enforcement Trust 0957	Child Support Enforcement Trust - SDU 2957	Total
Additions			
Custodial fund deposits received	$ 140,700	$ 946,578	$ 1,087,278
Total additions	140,700	946,578	1,087,278
Deductions			
Custodial funds disbursed	140,700	946,578	1,087,278
Total deductions	140,700	946,578	1,087,278
Net increase (decrease) in fiduciary net position	-	-	-
Net position, July 1, 2021	-	-	-
Net position, June 30, 2022	$ -	$ -	$ -

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INDEPENDENT AUDITORS REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Healthcare and Family Services (Department), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and we have issued our report thereon dated July 31, 2023.

Report on Internal Control Over Financial Reporting

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

In planning and performing our audit of the financial statements, we considered the Department's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings as items 2022-001 through 2022-009 we identified certain deficiencies in internal control, described that we consider to be material weaknesses and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 2022-001 through 2022-008 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as item 2022-009 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as item 2022-004.

Department's Responses to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Department's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The Department's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

State of Illinois, Department of Human Services' Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The State of Illinois, Department of Human Services' responses to items 2022-001 through 2022-004 and 2022-009 are described in the accompanying Schedule of Findings. The State of Illinois, Department of Human Services' responses were not subjected to the auditing procedures applied to the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Restricted Use of this Report

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and the Department's management and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

Decatur, Illinois
July 31, 2023

2022-001. **FINDING** (Inadequate general information technology controls over IES)

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

Management of the Departments have a shared responsibility for various human service programs in the State and for internal controls over the manual and automated processes relating to eligibility for these programs. The Departments' IES is the automated system used by the Departments to intake, process (with the assistance of caseworkers), and approve assistance applications, maintenance items, and redeterminations of eligibility as well as to make payments for the State's human service programs.

In addition to the conditions noted below, related IES issues over the lack of a detailed interagency agreement are noted in Finding 2022-009, and issues over disaster recovery controls are noted in Finding 2022-002.

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

During the Departments' internal security review, completed as part of its Plan of Actions and Milestones (2022) report to the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (Federal CMS), significant threats over DoIT's general IT environment, which hosts IES, were identified.

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

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

Federal CMS' *MARS-E Document Suite* (minimum acceptable risk standards for exchanges), states protecting and ensuring the confidentiality, integrity, and availability of state Marketplace information, common enrollment information, and associated information systems is the responsibility of the states.

The Departments' management indicated a multi-year IES technology refresh project was in progress.

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

Change Control

<u>IES Application Changes - Policies and Procedures</u>

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

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

Additionally, we noted backout plans to return the system to a previous functional version in the event a change moved into production caused undesired results had not been prepared for individual infrastructure changes.

The internal control requirements of the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) within the Code of Federal Regulations (Code) (2 C.F.R. § 200.303) requires the Departments to establish and maintain effective internal control over the Medicaid Program to provide reasonable assurance the Departments are managing the Medicaid Program in compliance with federal statutes, regulations, and the terms and conditions and comply with federal statutes, regulations and terms and conditions of the Medicaid Program.

These internal controls should be in compliance with guidance in *Standards for Internal Control in the Federal Government* (otherwise commonly referred to as the Green Book) issued by the Comptroller General of the United States or the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

The National Institute of Standards and Technology (NIST), Special Publication 800-128, *Guide for Security-Focused Configuration Management of Information Systems*, states critical elements are to include:

- Developed and documented policies, plans, and procedures, and
- Proper authorization, testing, approval and tracking of all changes.

Furthermore, NIST, Special Publication 800-53, Fifth Revision, *Security and Privacy Controls for Federal Information Systems and Organizations*, Configuration section, states policies and procedures should be in place detailing who can authorize modifications and how the authorizations are to be documented. Additionally, documentation of authorizations should be obtained prior to implementation.

The Departments' Change Management Policy and Procedure requires each change to IES to have impact scores completed, Departments' approval of the requirements and design documents, a ServiceNow ticket, release notes, and be approved by the IES Bureau Chief to move the change to the production environment.

The Departments' management indicated the change management policies and procedures are in the process of being updated, however they are not yet complete due to other competing priorities.

Failure to establish and adhere to robust internal controls over changes to IES diminishes the Departments' ability to secure IES as well as the recipient data from unauthorized changes and accidental or intentional destruction or alteration.

User Access

<u>IES User Access Policies and Procedures</u>

The Departments indicated there were no updates to IES user access policies and procedures during fiscal year 2022. During our testing of the Departments' access provisioning policies, we noted the policies did not define the time-period in which the Departments were required to disable a terminated individual's system access. Also, there was no systemic record of the date when the access was removed, or a management-defined definition of timeliness. Therefore, we were unable to determine whether user access was removed timely when a user was transferred or terminated.

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

The National Institute of Standards and Technology (NIST), Special Publication 800-53, Fifth Revision, *Security and Privacy Controls for Federal Information Systems and Organizations*, Access Control section, states an entity is to define within policies and procedures personal security transactions, establishment and termination of access, based on assessed risk of the entity's environment. Additionally, the U.S. Department of Health and Human Services' Security Rule adopted pursuant to the Health Information Portability and Accountability Act and published within the Code (45 C.F.R. § 164.308(a)(3)(ii)(C)) requires the Departments to implement "procedures for terminating access to electronic protected health information when the employment of, or other arrangement with, a workforce member ends."

The Departments' management stated the IES Access Policy was in the process of being updated during fiscal year 2022, to include timelines of access terminations, but was not finalized until August 2022 (fiscal year 2023) due to competing priorities.

The Departments' failure to define the timeframe in which user access rights should be removed in the IES system upon termination increases the risk IES may be accessed by individuals who are not authorized to access recipients' personal and health information.

Findings over the IES Environment, Change Control, and User Access were first noted during the Departments' financial audits of the year ended June 30, 2017. In subsequent years, the Departments have been unsuccessful in fully implementing corrective action plans. (Finding Code No. 2022-001, 2021-001, 2021-002, 2020-003, 2020-004, 2019-004, 2018-007, 2017-009)

RECOMMENDATION

We recommend management of both Departments work together to strengthen controls over the IES environment by addressing all significant threats identified in the Plan of Actions and Milestones (2022) report to the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services.

We also recommend management of both Departments strengthen controls in the IES Change Management Plan by including:

- Specific requirements for the prioritization or classification of changes,
- Definitions of the numerical grading for determining impact,
- Detailed documentation requirements for test scripts and results, impact analysis, design documentation, or other required documentation,
- Definitions of when changes are required to include a specific requirement, who should review the various steps, and when, and by whom approvals are required, and
- Requirements for backout plans to return the system to a previous functional version in the event a change moved into production causes undesired results, for individual infrastructure changes.

Further, we recommend management of the Departments enhance internal control over IES user access by adopting a formal written policy or procedure which includes a definition of "timely" for disabling an individual's access to the IES system, and a process for tracking whether access was revoked timely based on the definition.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will work with the Department of Human Services and the Department of Innovation and Technology to implement the recommendation.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

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

2022-002. **FINDING** (Inadequate disaster recovery controls over the Integrated Eligibility System (IES))

The Department of Healthcare and Family Services and the Department of Human Services (collectively, the "Departments") lacked the ability to perform a full disaster recovery and lacked adequate disaster recovery controls over the Integrated Eligibility System (IES).

Management of the Departments have a shared responsibility for various human service programs in the State and for internal controls over the manual and automated processes relating to eligibility for these programs. The Departments' IES is the automated system used by the Departments to intake, process (with the assistance of caseworkers), and approve assistance applications, maintenance items, and redeterminations of eligibility as well as to make payments for the State's human service programs.

The Departments did not have full disaster recovery functionality and consequently have not conducted disaster recovery testing over IES since 2019.

In addition, although the Department of Human Services' Disaster Recovery Plan (Plan) addresses the recovery and operation of IES, we noted the Plan did not include:

- Detailed recovery scripts,
- Detailed environment diagrams,
- IES support staff and vendor contact information,
- Responsibilities for recovery of IES,
- Documentation on the backup of IES, and
- Did not fully depict the current environments.

This finding was first noted during the Departments' financial audits of the year ended June 30, 2019. In subsequent years, the Departments have been unsuccessful in fully implementing a corrective action plan.

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

The National Institute of Standards and Technology (NIST), Special Publication 800-53, Fifth Revision, *Security and Privacy Controls for Federal Information Systems and Organizations*, Contingency Planning section, includes disaster recovery plans and the testing of disaster recovery plans as baseline security controls integral to ensuring appropriate security requirements and controls are applied to information systems.

The Departments' management indicated IES servers are being migrated as part of the IES technology refresh project.

The lack of an adequate disaster recovery plan and the lack of functionality with which to perform full disaster recovery could result in the Departments' inability to recover IES data in the event of a disaster, which could be detrimental to recipients of benefits, and the Departments', and State's operations. (Finding Code No. 2022-002, 2021-003, 2020-005, 2019-005)

RECOMMENDATION

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

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

- Detailed recovery scripts,
- Detailed environment diagrams,
- IES support staff and vendor contact information,
- Responsibilities for recovery of IES,
- Documentation on the backup of IES, and
- The current environment for all areas.

Finally, we recommend the Departments perform disaster recovery testing on a regular basis as defined in the Plan.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will work with the Department of Human Services and the Department of Innovation and Technology to implement the recommendation.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. The IDHS will continue to work with the Department of Innovation and Technology (DoIT) to update the IDHS agency Disaster Recovery Plan to include documentation of facility-specific Continuation of Operations plans and procedures. Furthermore, the IDHS will continue to work with DoIT to finalize the IES Information System Contingency Plan and to complete and document a tabletop exercise during this fiscal year.

2022-003. **FINDING** (Inadequate general information technology controls over IMPACT)

The Department of Healthcare and Family Services (HFS) and the Department of Human Services (DHS) (collectively, the "Departments") had inadequate general information technology controls over the State of Illinois' Illinois Medicaid Program Advanced Cloud Technology (IMPACT) system.

Management of the Departments have a shared responsibility for various human service programs in the State and for internal controls over the manual and automated processes relating to eligibility for these programs. The Departments' IMPACT system is a multi-agency effort to implement a web-based system to give providers a more convenient and consistent user experience and to ensure beneficiaries receive timely and high-quality Medicaid Services. The IMPACT system is an automated system used by the Departments to accommodate provider enrollment approvals and all Medicaid claim payments to such providers.

User Access
The Departments did not have adequate user access controls over the IMPACT system. During testing, we noted:

- HFS could not provide documentation of new users' access approval to the IMPACT system for one of 25 (4%) new users.
- HFS did not timely remove access to the IMPACT system for six of 15 (40%) terminated users. User access was removed 10 to 230 days after termination dates.

HFS management indicated the new user exception noted was due to oversight. Additionally, with respect to the failure to timely remove access, HFS management indicated it had relied on the automatic lockout feature of the IMPACT system. DHS management indicated they were relying on the user access review process performed by HFS.

Disaster Recovery
The Departments did not have adequate disaster recovery controls over the IMPACT system. HFS contracts with a service provider to perform the disaster recovery procedures and backups of the IMPACT system, and the service provider is also responsible for the maintenance of the IMPACT system. During testing, we noted:

- HFS was unable to provide documentation to demonstrate daily database backups for five of 13 (38%) days.
- HFS was unable to provide support for the server operating system (server O/S) backup for seven of 13 (54%) days.
- Two of 13 (15%) daily database backups documented the backups had failed.
  - Upon inquiry, it was determined the backup failed from May 27, 2022 to August 29, 2022. HFS notified the service provider on August 17, 2022 of the failures and subsequently the issue was resolved.
- Six of 13 (46%) server O/S backup reports did not contain any data (the report was simply a blank file).
  - Upon inquiry, we noted the server O/S backup reports did not contain backup data from March 11, 2022 to September 16, 2022. HFS staff had not previously reviewed the report data so they were unaware the reports did not contain data. On July 18, 2022, the service provider notified HFS of the issue with the server O/S backup data reports; however, the issue was not resolved until September 2022.

HFS management stated the exceptions noted were due to the transition of the disaster recovery process to the service provider and oversight. DHS management indicated they were relying on HFS.

This finding was first noted during the Departments' financial audit reports for the year ended June 30, 2018. In subsequent years, the Departments have been unsuccessful in fully implementing a corrective action plan.

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

The internal control requirements of the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) within the Code (2 C.F.R. § 200.303) requires the Departments to: (1) establish and maintain effective internal control over the Medicaid Program to provide reasonable assurance the Departments are managing the Medicaid Program in compliance with federal statutes, regulations, and the terms and conditions; and (2) comply with federal statutes, regulations and terms and conditions of the Medicaid Program. These internal controls should be in compliance with guidance in *Standards for Internal Control in the Federal Government* (otherwise commonly referred to as the Green Book) issued by the Comptroller General of the United States or the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO).

The Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Access Control Section, sanctions the development, implementation, and monitoring of internal controls over access. In addition, the Contingency Planning Section, includes system backup requirements integral to protecting user-level information, system-level information, and system documentation.

Inadequate internal controls over user access could result in unauthorized use and/or inappropriate access to the IMPACT system which could go undetected by the Departments for an extended period of time. The lack of controls over system backups could result in the Departments' inability to recover IMPACT data in the event of a disaster, which could be detrimental to recipients of benefits and cause inefficiencies within the Departments' processes and operations. (Finding Code No. 2022-003, 2021-005, 2020-007, 2019-010, 2018-002)

RECOMMENDATION

We recommend the Departments strengthen their internal controls over the IMPACT system's user access approval and ensure the timely removal of access for terminated employees or employees no longer requiring access. Additionally, we recommend the Departments ensure the backups of the IMPACT system and its data are successful.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will be reviewing the onboarding and offboarding procedures. Reminders will be sent out to all managers reminding them of the requirements for terminating user access upon separation or transfer of employees. HFS would like to note that as of March 2022, the Impact application authentication is now integrated with the State of Illinois' single sign on tool. This is a secondary safeguard for termination of access. HFS will also be evaluating a centralized process for both onboarding and offboarding employees to help reduce errors.

In addition, during fiscal year 2022 HFS transitioned oversight of the hardware and software from one vendor to another and during that transition we were unaware of the backup report issues. This was rectified in September 2022. We believe that the controls are now in place and email notification of each backup is being received and monitored by state staff.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

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

2022-004. **FINDING** (Insufficient review and documentation of provider enrollment determinations and failure to timely execute interagency agreement)

The Department of Healthcare and Family Services (HFS) failed to timely execute an interagency agreement (IA) with the Department of Human Services (DHS) establishing adequate internal controls over operation of the State of Illinois' Illinois Medicaid Program Advanced Cloud Technology (IMPACT) system. In addition, HFS failed to sufficiently review and document provider enrollment requirements either prior to the approval of enrollment, and/or during the required monthly screenings for enrolled providers.

Interagency Agreement
Our testing noted an IA between HFS and DHS, defining each agency's roles and responsibilities as they related to IMPACT, was not executed until June 10, 2022. Therefore, each agency's roles and responsibilities, as they related to the IMPACT system, were not formally established until the end of the fiscal year.

HFS and DHS management stated the IA was not signed until the end of fiscal year 2022 due to delays in the signature approval process.

Inaccurate IMPACT Provider Population
During our review of the active provider population from the IMPACT system at June 30, 2022, we noted errors in the provider information for 138 of 314,543 (0.04%) providers as follows:

- Eight of 138 (6%) active providers had incorrect provider enrollment end dates; however, they were correctly reported as active in the population.
- 130 of 138 (94%) providers were not properly classified. The providers should have been classified as inactive at June 30, 2022.

Due to these issues, we were unable to conclude the Department's population was sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 500.08).

Detail Sample Testing of IMPACT Providers
Even given the population limitations noted above which hindered our ability to conclude whether the selected sample was representative of the population as a whole, we selected a sample from the population and tested whether or not the provider's eligibility was approved in accordance with applicable federal and State laws/rules/regulations. During fiscal year 2022, the IMPACT system noted 25,238 provider enrollment 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 60 approved applications were selected for testing. Our testing results noted:

- One (2%) provider had a National Board Certification which had expired during the fiscal year and a subsequent screening to document valid certification was not performed.
- One (2%) provider had a criminal background and the Office of the Inspector General's review of this criminal background was not documented in IMPACT.
- HFS was unable to provide support for one or more monthly batch screenings performed for seven (12%) providers.

HFS management stated the active status, expired certification, and lack of criminal background check documentation was due to oversight. Additionally, HFS management stated the lack of support for the monthly batch screenings was due to a system error which has since been addressed.

This finding was first noted during the Departments' financial audit report for the year ended June 30, 2018. In subsequent years, the Departments have been unsuccessful in fully implementing a corrective action plan.

The Code of Federal Regulations (Code) (42 C.F.R. § 455.412 (b)) requires the applicable Department to confirm the provider's license has not expired and there are no current limitations on the provider's license/certification. The Code (42 C.F.R. § 455.412 (a)) requires the Departments to have a method for verifying any provider claiming to be licensed in accordance with the laws of any State is licensed by such State. The Code (42 C.F.R. § 455.412 (b)) requires confirmation a provider's license has not expired and there are no current limitations on the provider's license/certification. In addition, HFS's *Approval Process Document, applicable to Atypical Individuals and Individuals*, requires HFS staff reviewing licenses to document their review of ensuring the licenses were valid and current in the comments section in IMPACT.

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

The Code (2 C.F.R § 200.303), *Internal Controls*, requires the Departments to: (1) establish and maintain effective internal control over the Medicaid Program to provide reasonable assurance the Departments are managing the Medicaid Program in compliance with federal statutes, regulations, and the terms and conditions; and (2) comply with federal statues, regulations and terms and conditions of the Medicaid Program. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" (otherwise commonly referred to as the Green Book) issued by the Comptroller General of the United States or the "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO).

Additionally, the Code (42 C.F.R. § 431.17) requires the Departments to maintain records necessary for the proper and efficient operations of the State's Medicaid Plan.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Departments 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; obligations and costs are in compliance with applicable laws; and funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation and 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.

Inadequate controls over the operation of the IMPACT system, such as insufficient review, approval and monitoring of provider enrollment information, could result in providers being inaccurately determined eligible for enrollment, the State expending federal and State funds for which providers eligibility for enrollment have not been adequately demonstrated or documented, and could result in further expenditures to providers who are ineligible for enrollment. Noncompliance with federal laws and regulations could result in denied claims, sanctions and/or loss of future federal funding, and ultimately inaccurate financial statements or financial information. Further, failure to timely execute an IA during the audit period increased the risk that the IMPACT system may not have met the requirements of each party. (Finding Code No. 2022-004, 2021-006, 2020-008, 2019-010, 2018-002)

RECOMMENDATION

We recommend HFS management work with DHS management to ensure any future IAs are timely executed and to ensure all provider applications are properly reviewed, approved, and documented within the IMPACT system, and batch screenings are performed monthly. Further, we recommend HFS strengthen its internal controls over identifying a complete and accurate population of active providers.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. HFS will work to ensure future interagency agreements are executed timely. The Provider Enrollment Bureau implemented a quality control review process to reduce human errors during the screening process and believes staff errors will be further reduced when staff are required to only navigate one system. HFS believes there was a miscommunication regarding the population to be provided to the auditors and will ensure a clear understanding before providing future populations.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. IDHS will work with HFS to ensure any future IAs are timely executed. Furthermore, IDHS will work with HFS to ensure all provider applications are properly reviewed, approved, and documented within the IMPACT system and batch screenings are performed monthly.

2022-005. **FINDING** (Failure to review service providers' internal controls)

The Department of Healthcare and Family Services (Department) did not obtain or conduct independent internal control reviews of its service providers.

The Department utilized service providers for various services in the engagement period, including:

- Software used in the data matching and verification, process management, and reporting of client's redeterminations of eligibility.
- Administration and payment of claims for the enrollees of the State's Dental Program.
- An externally developed and hosted application, Illinois Medicaid Program Advanced Cloud Technology (IMPACT), which processed the Medicaid Incentive Payment Program (eMIPP) payments and provider credentialing certifications.
- The software and infrastructure for the Department's Pharmacy Benefits Management System (PBMS).
- Management and operations of the State's Disbursement Unit for the collection and disbursement of payments under child support orders.
- IT hosting, software, and data entry services, as well as the establishment of rates and review of information related to the State's Managed Care Program.
- Infrastructure IT and IT related services for the State of Illinois' Integrated Eligibility System (IES) provided by the Department of Innovation and Technology (DoIT).

During testing of the 19 service providers, we noted:

- The Department did not obtain a System and Organization Control (SOC) report from the service provider or conduct independent internal control review of the outsourced controls for four (21%) service providers.
- The SOC report for one (5%) service provider did not cover the entire engagement period, and the Department did not provide a bridge letter from the service provider to address its controls from the date of the most recent SOC report to the Department's fiscal year end.
- The contracts between the Department and six (32%) service providers did not contain a requirement for a SOC report or an independent internal control review of the outsourced controls. In lieu of receiving a SOC report for one of the service providers, the Department obtained an independent certification of control requirements for information protection. However, the Department did not perform a comprehensive review of the independent certification.
- The SOC reports of nine (47%) service providers identified Complementary User Entity Controls (CUECs) relevant to the service provider's subservice organizations. The Department did not perform additional assessments on the subservice organizations to determine if the CUECs had been implemented.

This finding was first noted during the Department's financial audit of the year ended June 30, 2015. In subsequent years, the Department has been unable to fully implement its corrective action.

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

Federal CMS', *MARS-E Document Suite* (minimum acceptable risk standards for exchanges), states that protecting and ensuring the confidentiality, integrity, and availability of state Marketplace information, common enrollment information, and associated information systems is the responsibility of the states.

The industry standard for understanding business processes, internal controls, and the suitability and operating effectiveness of internal controls provided by a service provider is through obtaining a SOC 1 Type 2 report. A SOC 1 Type 2 report provides:

a. Service provider management's description of the service organization's system,
b. A written assertion by service provider management about whether in all material respects and, based on suitable criteria, including:
   i. service provider management's description of the service organization's system fairly presents the service organization's system was designed and implemented throughout the specified period,
   ii. the controls related to the control objectives stated in service provider management's description of the service organization's system were suitably designed throughout the specified period to achieve those control objectives, and the controls related to the control objectives stated in service provider management's description of the service organization's system operated effectively throughout the specified period to achieve those control objectives; and,
c. An Independent Service Auditor's report that:
   i. expresses an opinion on the matters in b (i and ii), and
   ii. includes a description of the service auditor's tests of controls and the results thereof.

Additionally, the National Institute of Standards and Technology (NIST), Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, Fifth Revision), System and Services Acquisition section, requires entities outsourcing their IT environment or operations to obtain assurance over the entities internal controls related to services provided. Such assurance may be obtained via System and Organization Control reports or independent reviews.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Department management indicated it has made various attempts to obtain required SOC reports and bridge letters from service providers but have not been able to obtain this documentation. Department management also indicated certain contracts did not include language requiring SOC reports from vendors and these contracts have since expired and been replaced, or have been updated to include this language. Department management further indicated it has also made attempts to reach out to service providers to obtain SOC reports from subservice providers. Lastly, Department management indicated these requests were met with mixed responses, and therefore management only completed a high-level review of the subservice SOC reports received.

Without having obtained and reviewed a SOC report or another form of independent internal control review, the Department does not have assurance the service provider's internal controls are adequate to ensure program payments and claims are accurate and secure. The SOC reports, which include the CUECs, specifically assume the user entities will apply complementary controls included in the reports. The system descriptions within the SOC reports presume these controls will be implemented by the user entities and doing so is necessary to fully achieve the control objectives covered by the SOC reports. (Finding Code No. 2022-005, 2021-007, 2020-009, 2019-011, 2018-014, 2017-011, 2016-003, 2015-004)

RECOMMENDATION

We recommend the Department:

- Obtain SOC reports or perform independent reviews of internal controls associated with outsourced systems at least annually. If an independent review is performed, the related report should include an "opinion" concerning the IT internal controls, a description of the general IT controls, and the testing performed.
- Obtain bridge letters from service providers when the SOC report does not cover the entire engagement period.
- Include the requirement for a SOC report or an independent internal control review of the outsourced controls in the contracts between the Department and the service provider.
- Perform additional assessments on the subservice organizations to determine if CUECs were implemented.

DEPARTMENT RESPONSE

The Department of Healthcare and Family Services accepts the recommendation. Since the FY2021 audit cycle, the Department's processes related to third-party service providers have improved in the following ways:

- Creation of a Contract Risk Management Unit, dedicated to monitoring and mitigating risks related to third-party service providers. One position in the Unit has been filled. The Department did not find a successful candidate for the remaining position. Another attempt to recruit and hire a Contract Risk Coordinator is in progress.
- Improvement in identification of vendors and services requiring SOC reports.
- Improved communication with contract monitors and vendors decreasing the incidence of SOC reports not received from 50% to 21%.
- Development and implementation of service provider CUEC review and documentation of applicable controls, reducing the number of reports for which service provider CUEC reviews were not performed to zero.

The Department will continue to mature its processes related to third-party service providers, including:

- Fully staffing the Contract Risk Management Unit.
- Training of Department staff.
- Improved monitoring of risks related to subservice providers, including relevant subservice provider CUECs.

2022-006. **FINDING** (Inadequate general information technology controls)

The Department of Healthcare and Family Services (Department) had inadequate general information technology controls.

The Department utilizes several applications containing critical, confidential, and sensitive information in order to meet its mission. These applications are used by the Department for managing the State's healthcare program, fulfilling the State's child support obligations, and for the Department's internal financial and human resource information. We identified the following such applications:

- Medicaid Management Information System (MMIS)
- Key Information Delivery System (KIDS)
- Enterprise Resource Planning (ERP) System
- Pharmacy Billing and Management System (PBMS)
- HFS Payroll System

During our testing of user access to these applications, we noted the following:

- Six (5%) of 113 users did not require access.
- One (5%) of 21 new users did not have documentation of access approval; therefore, appropriate access rights were unable to be determined.
- Four (29%) of 14 terminated users did not have access timely disabled. Access was disabled 83 to 204 days after the user's termination date.

In addition, the Department performed a user access review of mainframe applications (MMIS, KIDS, and the HFS Payroll System) during fiscal year 2022. The Department identified eight of the 1,756 (1%) users in which a review was not completed, and no further action was taken by the Department. Therefore, we are unable to determine if these users should have had their access removed.

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.

The National Institute of Standards and Technology (NIST), Special Publication 800-53 Fifth Revision, Security and Privacy Controls for Information Systems and Organizations, Access Control section, requires entities to ensure access is appropriate, access is timely terminated, and access reviews are conducted periodically.

Department management indicated the exceptions noted were primarily due to oversight, and some internal processes did not identify all users.

Failure to maintain adequate internal controls over users' access to the applications and data may result in unauthorized access to the Department's information. (Finding Code No. 2022-006)

RECOMMENDATION

We recommend the Department strengthen controls to ensure access to its applications and data is appropriate. Specifically, we recommend the Department:

- Maintain documentation of the appropriateness of the users' access rights to applications.
- Ensure access rights of terminated employees are immediately removed.
- Ensure users only have access to applications as required by their job duties.
- Ensure new users' access is properly approved.

DEPARTMENT RESPONSE

The Department of Healthcare and Family Services accepts the recommendation. The Division of Information Security will work with business unit staff to strengthen controls in place and encourage them to follow the documented procedures to ensure appropriate user access to HFS data. In addition, the Department will also be evaluating a centralized process for both onboarding and offboarding employees to help reduce errors.

2022-007. **FINDING** (Financial statement preparation weaknesses)

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

Adjustments to Financial Statements

During our audit of the Department's financial statements, we brought the following errors to the Department's attention. The Department subsequently corrected these errors.

1. "Accounts payable & accrued liabilities" in the Public Aid Recoveries Trust Fund (0421) was overstated by $6.2 million and "Other charges for services" was understated by the same amount.
2. Footnote 3(a), Deposits: Cash on deposit for locally held funds of fiduciary activities reported a carrying amount of $7.62 million and should have been $4.44 million.
3. Footnote 8, Long-Term Obligations: Changes in long-term obligations table originally disclosed incorrect balances for the lease obligations line. The July 1, 2021 restated balance was originally reported as $656 thousand and should have been $1.02 million. The deletions amount was originally reported as $292 thousand and should have been $656 thousand.
4. Footnote 14, Commitments and Contingencies: The Department did not initially disclose whether a liability or receivable had been recorded related to three disclosed items which existed on June 30, 2022.
5. Footnote 17, Restatement: The implementation of GASB Statement No. 87, Leases table originally disclosed incorrect balances for the lease obligations line. The net deficit amount was originally reported as $422 thousand and should have been $785 thousand.

Further, the Department lacked effective communication between its program and fiscal areas which resulted in the additional errors described below. These errors were identified after updated detailed information was provided to the financial reporting area, and additional analysis was performed both internally and with other affected State Departments to identify accurate financial revisions. As a result of the further analysis subsequently performed by the Department, management provided us with multiple revisions to its draft financial statements which contained many modifications, with the final revision provided on July 17, 2023. Several of the modifications were individually inconsequential to the overall fairness of the presentation of its financial statements. However, the modifications also included the following:

6. "Due from other State funds" in the Healthcare Provider Relief Fund (0793) was understated by $4.5 million and "Federal operating grants" was understated by the same amount for Supplemental Nutrition Assistance Program (SNAP) expenditures paid by another state agency.
7. "Federal operating grants" in the Healthcare Provider Relief Fund (0793) was understated by $59.4 million. "Due to other government – federal" was understated by $13.6 million, and "Due to other State funds" was understated by $45.8 million. The Department subsequently identified these changes after further analysis of the financial reporting for the Home and Community Based Services (HCBS) expenditures and revenues.
8. "Due from other Government - Federal" in the General Revenue Fund (0001) was understated by $601 million. "Federal operating grants" was understated by $529 million and the prior period net position was understated by $72 million at the government-wide level due to the Department's inability to timely submit a federal

reimbursement claim for HCBS developmental disabilities (DD) waiver program expenditures paid by another state agency. The details regarding what contributed to this issue are more fully described in Finding 2022-008 (Insufficient controls over administration of Medicaid claims).

Timeliness of Disclosures to Auditors

Two of the issues described above were brought to the attention of the auditors' months after the end of the fiscal year. For the item noted in number 7 above, we were provided information in March 2023 about additional HCBS receivables for which management became aware of in December 2022. Additionally, the under reporting of reimbursable DD program expenditures for Medicaid funded waiver programs described in item 8 above was not communicated to auditors until June 2023, despite management becoming aware of the issue in January 2023.

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

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

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that, among other things, revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

The Illinois State Auditing Act (30 ILCS 5/3-12) requires the Department to aid and assist the Auditor General, or his designated representatives, in the exercise of his powers and duties. Such duties, include but are not limited to performing the Department's annual financial audit, which involves the auditors receiving prompt disclosure of known events, conditions, and transactions which could impact either an ongoing audit or previously released audit.

Department management stated the adjustments noted were due to inter and intra Departmental communications and oversight. Further, Department management indicated the discovery of the above issues were not promptly reported to us because the Department had not fully quantified the issues and the related financial statement adjustments and disclosures.

Weaknesses in the design and operation of the Department's internal controls over financial reporting adversely affected the Department's ability to timely prepare accurate financial statements, and in the future, could hinder the overall accuracy of the transactions reported in the State's Annual Comprehensive Financial Report. The internal control weaknesses over financial reporting and the failure to timely disclose the above errors also delayed the completion of the Department's financial audit and the Statewide financial audit. Further, the delay in identifying and communicating accounting errors significantly increases the risk that operational or strategic decisions are made without the benefit of recent and relevant information, or decisions may be delayed because recent relevant information is not otherwise available. (Finding Code No. 2022-007)

RECOMMENDATION

We recommend the Department strengthen its internal controls to ensure its financial reporting is complete and accurate and in accordance with GAAP. Additionally, we recommend Department management promptly disclose known events, conditions, and transactions of the Department which could impact either an ongoing audit or previously released audit performed by the Office of the Auditor General, even if the full ramifications of the matter are not yet known.

DEPARTMENT RESPONSE

The Department of Healthcare and Family Services accepts the recommendation.

The “Accounts payable & accrued liabilities” issue and the four following footnote issues (items #1 - #5 above) were caused by human error during financial report preparation. The Department will strive to improve financial reporting preparation and review processes.

As noted in the finding above, items #6 and #7 involved issues where information was either not provided to financial reporting staff (#6) or where information previously provided to financial reporting staff was updated after the filing of the Department’s financial statements (#7). Department financial reporting staff notified the auditors of the revisions related to item #7 upon receiving the data necessary to calculate the impact to its financial statements.

The DD federal waiver federal claiming challenge (item #8) was caused by multiple information technology programing issues in DHS systems (not Healthcare and Family Services systems). The cause of one of these programming issues cannot be identified. Due to the total cause of the underlying IT programming issues not being determined, the Department took steps to quantify the DHS DD waiver claims by processing the expenditures through edits in the Department’s Medicaid Management Information System and federal claiming systems to ensure the billings were accurate and appropriate for federal claiming. As referenced by the auditors, once the scope of the issue became more clearly defined upon completion of the March 31, 2023, quarterly federal claim (completed May 2023), the Department informed external state management partners and subsequently notified the auditors on June 12, 2023. See further discussion in the response to finding #8.

The Department will engage in conversations with the auditors concerning their expectations relative to when less than fully vetted issues should be brought to their attention.

2022-008. **FINDING** (Insufficient controls over administration of Medicaid claims)

The Department of Healthcare and Family Services (Department) did not have adequate internal controls to ensure all eligible expenditures initiated by other State agencies were included in its Medicaid federal financial participation (FFP) reimbursement claims.

On June 12, 2023, nearly one year from the June 30, 2022, financial statements date, Department management notified us that it did not include certain other agency waiver Medicaid expenditures, made by the Department of Human Services (DHS), in its quarterly FFP claims during the fiscal year ended June 30, 2022. The impact of this issue on the Department's financial statements and any associated adjustments are more fully described in Finding 2022-007 (Financial statement preparation weaknesses).

As part of its operational responsibilities, DHS administers Home and Community Based Services (HCBS) developmental disabilities (DD) waiver programs. Weekly, DHS sends the Department, via an automated file transfer, its DD expenditure information. After each automated file transfer of expenditure data occurs, an acceptance/rejection report is generated and automatically sent from the Department to DHS for them to review and notify the Department of any discrepancies. On a quarterly basis, the Department also generates a federal revenue summary report which is provided to DHS that reflects the funds it expended on programs for which Medicaid FFP is claimed. The summary report includes the total claimed for FFP related to DHS expenditures for the most recent quarter, as well as the preceding quarters of the fiscal year. DHS is expected to review the summary report and notify the Department of any discrepancies. The Department, as the lead agency for the State's Medicaid program, submits quarterly FFP claims to the U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services (Federal CMS) for reimbursement according to the applicable Medicaid FFP percentage.

In January 2021, failures in the automatic transmission of expenditure data from DHS to the Department began occurring, resulting in the Department's inability to claim FFP for DD waiver expenditures. The cause of the data transfer failure from January 2021 through June 2021 is not known. Additionally, in July 2021, DHS moved from its previously used software platform to the State of Illinois' Enterprise Resource Planning (ERP) System. When the software platform change was implemented, a programming error occurred which prevented the automated file transfer from taking place. Because the Department did not receive the expenditure information, federal claiming on these DD expenditures did not occur during the audit period. The programing error continued until January 2023. Further, because the Department did not receive the expenditure information, the acceptance/rejection and federal revenue summary reports noted above did not include such expenditures and DHS staff did not subsequently identify they were missing. The automated file transfer issue impacted only federal claiming and had no effect on DHS' payment to providers.

DD waiver expenditures described herein are paid from DHS' appropriations and reported by DHS, while the revenue from the FFP reimbursements is deposited and reported by the Department in the General Revenue Fund (GRF). Such divergence in the reporting of DD waiver expenditures and resultant revenues inherently increases the risk that errors and omissions in claiming may occur.

As a result of the inadequate internal controls which led to the missing DHS expenditure data for which to claim FFP, DD expenditures were excluded from the Department's Federal CMS quarterly claims for roughly a 24-month period (substantially all of calendar 2021 and 2022). For fiscal year 2022, we noted the Department did not submit approximately $1.1 billion in DD expenditures to

Federal CMS on its quarterly claims report until the quarter ended March 30, 2023. The FFP portion of the $1.1 billion in DD expenditures equated to approximately $601 million in federal grant revenue to the State of Illinois which was delayed in being deposited into the State Treasury for up to 21 months. The amount of FFP claimed from expenditures paid after fiscal year 2022 up until the automated file transfer error was identified and resolved was outside the fiscal year 2022 audit period, and therefore, we did not request such information.

Further, because the Code of Federal Regulations (45 C.F.R § 95.7) states the Department can only claim FFP reimbursement within 2 years after the calendar quarter in which the qualifying expenditure has been paid, the Department was unable to claim FFP on approximately $80 million of DD expenditures paid by DHS during the quarter ended March 31, 2021, representing approximately $40 million of federal grant revenue being lost to the State if not granted an exception by the federal government.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation, and that funds applicable to the State's 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. Also, the Illinois State Collection Act of 1986 (30 ILCS 210/3) requires the timely collection of claims owed to the State.

Department management stated the DD expenditures were not reported in FFP claims in the period in which the expenditures were paid due to the technological breakdowns described above. Further, management stated the controls in place that utilized acceptance/rejection and federal revenue summary reports provided to DHS were not sufficiently effective to prompt the identification of the issue and communication thereof.

Failure to ensure adequate internal controls over the State's Medicaid claims process for all eligible expenditures resulted in the delay of a significant amount of State revenue being reported and received. Further, such weaknesses in internal control adversely affected the Department's ability to fulfill its responsibility to timely prepare accurate financial statements, including amounts reported as receivable from the federal government. (Finding Code No. 2022-008)

RECOMMENDATION

We recommend the Department implement adequate internal controls over its administration of the Medicaid claims process in order to timely identify any missing expenditure data with which to claim FFP for eligible expenditures initiated by other State agencies. We also recommend the Department coordinate with DHS, and other State agencies where applicable, to prospectively explore affecting a budgeting change whereby the reimbursement revenue of individual programs are deposited and reported by the same agency and within the same fund to increase oversight thereof.

DEPARTMENT RESPONSE

The Department accepts the recommendation.

As noted by the auditors, management of the DD waiver program is shared between DHS and the Department. DHS administers the DD waiver program and pays provider billings. The Department, as the federally designated single state Medicaid agency, is tasked with claiming federal reimbursement.

While the Department acknowledges current internal controls did not result in timely identification of the DD waiver automated file transfer issue, the auditors do reference two existing DD waiver tracking reports (acceptance/rejection report and federal revenue summary report) produced by the Department and shared with DHS for purposes of verifying DD waiver billing information received by Healthcare and Family Services and the resulting amount of federal revenue claimed. This longstanding inter-agency reporting process has historically served as an effective internal control but given the DD waiver issue, the entire system of internal controls will be revisited as described in the corrective action plan detailed later in this response.

Regarding the timing of the Department's auditor notification, the DD waiver federal claiming challenge was caused by multiple information technology programing issues in DHS systems (not Healthcare and Family Services systems). The cause of one of these programming issues cannot be identified. Due to the total cause of the underlying IT programming issues not being determined, the Department took steps to quantify the DHS DD waiver claims by processing the expenditures through edits in the Department's Medicaid Management Information System (MMIS) and federal claiming systems to ensure the billings were accurate and appropriate for federal claiming. As referenced by the auditors, once the scope of the issue became more clearly defined upon completion of the March 31, 2023, quarterly federal claim (completed May 2023), the Department informed external state management partners and subsequently notified the auditors on June 12, 2023. The Department will engage in conversations with the auditors concerning their expectations relative to when less than fully vetted issues should be brought to their attention.

The Department will begin conversations with the Governor's Office of Management and Budget and the Illinois Office of the Comptroller to explore options for allowing GRF federal revenue to be reflected in the financial statements of non-Healthcare and Family Services agencies responsible for the administration of Medicaid services. The Department cannot independently effectuate that recommended change.

In response to this audit finding, the Department and DHS will reinforce the use of current internal controls and pursue the following corrective action plan:

- DHS and DHS Department of Innovation and Technology (DoIT) staff have implemented weekly reports on DD waiver payment submissions to the Department to allow DHS staff information to review and timely identify any issues with the DD waiver submissions to Healthcare and Family Services.
- The Department will review and revise its quarterly other agency Medicaid spending/federal revenue reporting.
    - Report will be redesigned to provide prior quarter/year comparisons to allow for more effective identification of problematic issues.
    - Recipient list will be updated to ensure appropriate distribution.
- DHS staff will review the Department's quarterly other agency Medicaid spending/federal revenue reporting to identify any unanticipated changes for all DHS Medicaid programs.
- The Department will engage Medical Programs staff with knowledge of the DD waiver to also review the revised report upon each quarterly issuance.

- The Department's Office of Internal Audit, with cooperation from DHS Office of Internal Audit, will perform a comprehensive review of data sharing between Healthcare and Family Services and DHS used to support federal claiming. The audit report will be shared with both agencies for purposes of recommended process improvements.
- Both agencies will continue to work with DoIT to quickly address any identified future programming issues.
- Both agencies will reinforce with staff the need to immediately inform senior fiscal management if any future challenges are identified at the detail level which may impact Medicaid provider bill payment submission to the Department or the flow of federal revenue.

2022-009. **FINDING** (Detailed agreement between the Department of Human Services, the Department of Healthcare and Family Services and the Department of Innovation and Technology (DoIT) over IES not finalized)

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

Management of the Departments have a shared responsibility for various human service programs in the State and for internal controls over the manual and automated processes relating to eligibility for these programs. The Departments' IES is the automated system used by the Departments which intakes, processes (with the assistance of caseworkers), and approves recipient applications, maintenance items, and redeterminations in order to determine eligibility and make payments for the State's human service programs.

The Departments' IES application and data resides on DoIT's environment. In addition, DoIT's staff is responsible for coordinating and making changes to the IES application and data after receiving approved instructions from the Departments. Furthermore, DoIT's staff assists the Departments with user access security.

Additionally, as set by the State of Illinois' State Plan under Title XIX of the Social Security Act (State Plan) (Section 1.1), the State has designated agency responsibility for administering and supervising the administration of the Medicaid Program to HFS. However, Section 1.1 of the State Plan allows 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).

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Interagency Agreement
During our audit, we noted the Departments had drafted an interagency agreement with DoIT defining the roles and responsibilities for each agency (DHS, HFS and DoIT), however, it was not executed during fiscal year 2022.

This finding was first noted during the Departments' financial audits of the year ended June 30, 2019. In subsequent years, the Departments have been unsuccessful in fully implementing a corrective action plan.

The internal control requirements of the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) within the Code of Federal Regulations (2 C.F.R. § 200.303), requires the Departments to: (1) establish and maintain effective internal control over the Medicaid Program to provide reasonable assurance the Departments are managing the Medicaid Program in compliance with federal statutes, regulations, and the terms and conditions; and (2) comply with federal statutes, regulations and terms and conditions of the Medicaid Program. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" (otherwise commonly referred to as the Green Book) issued by the

Comptroller General of the Unites States or the "Integrated Framework" issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO).

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Departments 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 State's resources.

The Departments' management indicated the IA had been delayed due to turnover of staff involved in the process.

The Departments' failure to execute the appropriate IA increases the risk that IES functions will not be performed by each party in accordance with their assigned responsibility. (Finding Code No. 2022-009, 2021-004, 2020-006, 2019-006)

RECOMMENDATION

We recommend management of the Departments complete and execute the IES intergovernmental agreement which defines the roles and responsibilities of DHS, HFS and DoIT.

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE

The Department of Healthcare and Family Services (HFS) accepts the recommendation. The IES intergovernmental agreement was fully executed on March 16, 2023.

DEPARTMENT OF HUMAN SERVICES' RESPONSE

The Illinois Department of Human Services (IDHS) accepts the recommendation. The IES intergovernmental agreement was fully executed on March 16, 2023.

A. **FINDING** (Insufficient internal controls over changes to the Integrated Eligibility System (IES) and recipient data)

During the previous engagement, the Department of Healthcare and Family Services and the Department of Human Services (collectively, the "Departments") had insufficient internal controls over changes to the Integrated Eligibility System (IES) and recipient data.

During the current engagement, we noted the Departments continued to have insufficient internal controls over changes to IES and recipient data. These conditions have been combined with other general information technology control exceptions we noted in Finding 2022-001. (Finding Code No. 2021-001, 2020-003, 2019-004, 2018-007, 2017-009)

B. **FINDING** (Inadequate access review procedures for the Integrated Eligibility System (IES))

During the previous engagement, the Department of Healthcare and Family Services and the Department of Human Services (collectively, the "Departments") failed to implement adequate procedures over the user access review process for the Integrated Eligibility System (IES).

During the current engagement, we noted the Departments continued to fail at implementing adequate procedures over the user access review process for IES. These conditions have been combined with other general information technology control exceptions we noted in Finding 2022-001. (Finding Code No. 2021-002, 2020-004)

C. **FINDING** (Inadequate internal controls over census data)

During the previous engagement, the Department of Healthcare and Family Services (Department) did not have a reconciliation process to provide assurance census data submitted to its pension and other post-employment benefits (OPEB) plans was complete and accurate.

During the current engagement, we noted the Department performed the initial complete reconciliation of the Department's census data for fiscal year 2021 data to develop a base year of complete and accurate census data. Additionally, we noted the Department implemented a process to annually obtain the incremental changes in its census data and reconcile these changes back to the Department's internal supporting records. As a result, this finding is not repeated. (Finding Code No. 2021-008, 2020-011)