SIKICH®

# STATE OF ILLINOIS
# DEPARTMENT OF
# CHILDREN AND FAMILY SERVICES

FINANCIAL AUDIT

**For the Year Ended June 30, 2018**

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

SIKICH.COM

**STATE OF ILLINOIS**
**DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

FINANCIAL AUDIT
For the Year Ended June 30, 2018

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**STATE OF ILLINOIS**
**DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

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## AGENCY OFFICIALS

| | |
|---|---|
| Acting Director | Marc D. Smith (April 15, 2019 – present)<br>Debra Dyer-Webster (February 16, 2019 – April 14, 2019)<br>Beverly J. Walker (June 26, 2017 – February 15, 2019)<br>Lise Spacapan (June 15, 2017 – June 25, 2017) |
| Director | George H. Sheldon (through June 14, 2017) |
| Chief Deputy Director | Debra Dyer-Webster (April 15, 2019 – present)<br>Vacant (February 16, 2019 – April 14, 2019)<br>Debra Dyer-Webster (September 16, 2017 – February 15, 2019) |
| Acting Chief of Staff | Steve Minter (February 26, 2019 – May 5, 2019) |
| Chief of Staff | Denice Murray (May 6, 2019 – present)<br>Vacant (February 26, 2019 – May 5, 2019)<br>Emily Monk (April 16, 2018 – February 25, 2019)<br>Vacant (April 11, 2018 – April 15, 2018)<br>Laura Roche (through April 10, 2018) |
| Acting Chief Fiscal Officer | Royce Kirkpatrick (September 1, 2018 – present) |
| Chief Fiscal Officer | Matt Grady (through August 31, 2018) |
| General Counsel | LaShawn Eddings (October 19, 2018 – present)<br>Lise Spacapan (through October 18, 2018) |
| Chief Internal Auditor | Kenneth Hovey (April 1, 2018 – present) |
| Acting Chief Internal Auditor | Denise Caldwell (through March 31, 2018) |

Department administrative offices are located at:

406 East Monroe
Springfield, Illinois 62701

100 West Randolph, Suite 6-100
Chicago, Illinois 60601

**STATE OF ILLINOIS**
**DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

FINANCIAL AUDIT
For the Year Ended June 30, 2018

## FINANCIAL STATEMENT REPORT

## SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Children and Family Services 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

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be material weaknesses. The material weaknesses are described in the accompanying Schedule of Findings on pages 54-73 of this report as item 2018-001, *Statewide Failure to Execute Interagency Agreements and Perform Essential Project Management Functions over Provider Enrollment in the Medicaid Program*, item 2018-002, *Inadequate General Information Technology Controls over IMPACT*, and item 2018-003, *Insufficient Review and Documentation of Provider Enrollment Determinations*.

## EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on May 13, 2019.

Attending were:

Illinois Department of Children and Family Services
- Ken Hovey, Chief Internal Auditor
- George Vennikandam, Senior Deputy Director, Operations
- Michael C. Jones, Senior Deputy Director, Clinical and Child Services
- Debra Dyer-Webster, Chief Deputy Director
- Alejandro Mateos, Deputy Chief of Staff
- Joe McDonald, Associate Deputy Director, Budget and Finance
- Nora Harms-Pavelski, Deputy Director, Child Protection
- Cynthia Richter-Jackson, Deputy Director, Quality Enhancement
- Juliana Harms, Associate Deputy Director, Clinical Behavioral Health
- Darryle Johnson, Licensing
- Dallas Chrome, Licensing
- John Swietzer, Child Death Review Team

**STATE OF ILLINOIS**
**DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

FINANCIAL AUDIT
For the Year Ended June 30, 2018

Office of the Auditor General
Adam Ausmus, Audit Manager
Kathy Lovejoy, Audit Manager

Sikich LLP
Amy L. Sherwood, Partner
Emma Walden, Supervisor

The Department's responses to the recommendations were provided by Joe McDonald, Associate Deputy Director, in correspondence dated May 15, 2019 and May 17, 2019. The Department of Healthcare and Family Services' responses to Finding 2018-001, 2018-002, and 2018-003 were provided by Theresa Eagleson, Director, in correspondence dated May 17, 2019. The Department of Human Services' responses to Findings 2018-001, 2018-002, and 2018-003 were provided by Amy DeWeese, Chief Internal Auditor, in correspondence dated May 17, 2019. The Department on Aging's responses to Findings 2018-001, 2018-002, and 2018-003 were provided by Nicholas Barnard, Chief Internal Auditor, in correspondence dated May 16, 2019.

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Members of American Institute of Certified Public Accountants

3201 W. White Oaks Dr., Suite 102
Springfield, IL 62704
217.793.3363

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# INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

## Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Children and Family Services (Department), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the 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 for the Department, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 2, the financial statements of the Department are intended to present the financial position and changes in financial position of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State 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, 2018, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2, the Department adopted Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2018. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Management has omitted management's discussion and analysis, budgetary comparison, pension-related, and other post employment benefit information for the Department 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The combining nonmajor, fiduciary and the agency fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor, fiduciary and the agency fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 combining nonmajor, fiduciary and the agency fund financial statements as listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2019, 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 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 Department management and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
May 17, 2019

# BASIC FINANCIAL STATEMENTS

**STATE OF ILLINOIS**
**DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
(Expressed in Thousands)

June 30, 2018

| | General Fund 0001 | Other Nonmajor Funds | Total Governmental Funds | Adjustments | Statement of Net Position |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Unexpended appropriations | $ 59,893 | $ - | $ 59,893 | $ - | $ 59,893 |
| Cash equity with State Treasurer | - | 148,215 | 148,215 | - | 148,215 |
| Cash and cash equivalents | 1,083 | 401 | 1,484 | - | 1,484 |
| Securities obligations | - | 1 | 1 | - | 1 |
| Due from other government - federal | - | 62,431 | 62,431 | - | 62,431 |
| Other receivables, net | 1,827 | - | 1,827 | - | 1,827 |
| Due from other Department funds | 34 | 877 | 911 | (911) | - |
| Due from other State Fiduciary funds | - | 354 | 354 | - | 354 |
| Due from other State funds | - | 259 | 259 | - | 259 |
| Prepaid expenses | - | - | - | 780 | 780 |
| Capital assets being depreciated, net | - | - | - | 391 | 391 |
| **Total assets** | $ 62,837 | $ 212,538 | $ 275,375 | $ 260 | $ 275,635 |
| **DEFERRED OUTLOWS OF RESOURCES** | | | | | |
| Pension | - | - | - | 211,796 | 211,796 |
| OPEB | - | - | - | 115,333 | 115,333 |
| **Total Deferred Outflows of Resources** | $ - | $ - | $ - | $ 327,129 | $ 327,129 |
| **Total assets and deferred outflows of resources** | $ 62,837 | $ 212,538 | $ 275,375 | $ 327,389 | $ 602,764 |

This statement is continued on the following page.

**STATE OF ILLINOIS**
**DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
(Expressed in Thousands)

June 30, 2018

| | General Fund 0001 | Other Nonmajor Funds | Total Governmental Funds | Adjustments | Statement of Net Position |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| Accounts payable and accrued liabilities | $ 52,615 | $ 82,034 | $ 134,649 | $ - | $ 134,649 |
| Intergovernmental payables | 2,213 | 353 | 2,566 | - | 2,566 |
| Due to other Department funds | 25 | 886 | 911 | (911) | - |
| Due to other State Fiduciary funds | - | 65 | 65 | - | 65 |
| Due to other State funds | 14,287 | 647 | 14,934 | - | 14,934 |
| Due to State of Illinois component units | 4,291 | 4,687 | 8,978 | - | 8,978 |
| Obligations under Securites Lending of State Treasurer | - | 1 | 1 | - | 1 |
| Unearned revenue | - | 1 | 1 | - | 1 |
| Compensated absences | | | | | |
| Due within one year | - | - | - | 1,891 | 1,891 |
| Due subsequent to one year | - | - | - | 17,015 | 17,015 |
| Net pension liability | - | - | - | 1,695,681 | 1,695,681 |
| Total OPEB liability | - | - | - | 1,153,815 | 1,153,815 |
| **Total liabilities** | $ 73,431 | $ 88,674 | $ 162,105 | $ 2,867,491 | $ 3,029,596 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | |
| Pension | - | - | - | 106,745 | 106,745 |
| OPEB | - | - | - | 110,300 | 110,300 |
| Unavailable revenue | - | 49,570 | 49,570 | (49,570) | - |
| **Total Deferred Inflows of Resources** | $ - | $ 49,570 | $ 49,570 | $ 167,475 | $ 217,045 |
| **Total liabilities and deferred inflows of resources** | $ 73,431 | $ 138,244 | $ 211,675 | $ 3,034,966 | $ 3,246,641 |

This statement is continued on the following page.

**STATE OF ILLINOIS**
**DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
(Expressed in Thousands)

June 30, 2018

| | General Fund 0001 | Other Nonmajor Funds | Total Governmental Funds | Adjustments | Statement of Net Position |
|---|---|---|---|---|---|
| **FUND BALANCES / NET POSITION** | | | | | |
| Fund Balances: | | | | | |
| Restricted | $ - | $ 238 | $ 238 | $ (238) | $ - |
| Committed | - | 74,107 | 74,107 | (74,107) | - |
| Assigned | - | 55 | 55 | (55) | - |
| Unassigned | (10,594) | (106) | (10,700) | 10,700 | - |
| Invested in capital assets, net of related debt | - | - | - | 391 | 391 |
| Restricted net position | - | - | - | 238 | 238 |
| Unrestricted net position | - | - | - | (2,644,506) | (2,644,506) |
| Total Fund Balances / Net position | $ (10,594) | $ 74,294 | $ 63,700 | $ (2,707,577) | $ (2,643,877) |
| **Total liabilities, deferred inflows of resources and fund balances** | $ 62,837 | $ 212,538 | $ 275,375 | | |

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

**STATE OF ILLINOIS**
**DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET POSITION
(Expressed in Thousands)

June 30, 2018

| | | |
|---|---|---|
| Total fund balances - governmental funds | $ | 63,700 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Prepaid expenses for governmental activities are current uses of financial resources for funds. | | 780 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 391 |
| Deferred outflows of resourses - Pensions | | 211,796 |
| Deferred inflows of resourses - Pensions | | (106,745) |
| Deferred outflows of resourses - OPEB | | 115,333 |
| Deferred inflows of resourses - OPEB | | (110,300) |
| Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds. | | 49,570 |
| 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 liabilities consist of: | | |
| Compensated absences | | (18,906) |
| Pension liability | | (1,695,681) |
| OPEB liability | | (1,153,815) |
| **Net position of governmental activities** | $ | (2,643,877) |

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

# STATE OF ILLINOIS
## DEPARTMENT OF CHILDREN AND FAMILY SERVICES

STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
(Expressed in Thousands)

For the Year Ended June 30, 2018

| | General Fund 0001 | Other Nonmajor Funds | Total Governmental Funds | Adjustments | Statement of Activities |
|---|---|---|---|---|---|
| **Expenditures/expenses:** | | | | | |
| Health and social services | $ 857,617 | $ 339,385 | $ 1,197,002 | $ 179,433 | $ 1,376,435 |
| Capital Outlays | 44 | - | 44 | (44) | - |
| **Total expenditures/expenses** | $ 857,661 | $ 339,385 | $ 1,197,046 | $ 179,389 | $ 1,376,435 |
| **Program revenues:** | | | | | |
| Charges for services: | | | | | |
| Licenses and fees | 6 | 70 | 76 | - | 76 |
| Other charges for services | 13,000 | 6,548 | 19,548 | - | 19,548 |
| Total | $ 13,006 | $ 6,618 | $ 19,624 | $ - | $ 19,624 |
| Operating grant revenue: | | | | | |
| Federal | - | 357,088 | 357,088 | 48,349 | 405,437 |
| Other | - | 38 | 38 | - | 38 |
| Total operating grant revenue | $ - | $ 357,126 | $ 357,126 | $ 48,349 | $ 405,475 |
| **Net program revenues (expense)** | (844,655) | 24,359 | (820,296) | (131,040) | (951,336) |
| **General revenues:** | | | | | |
| Interest and investment income | - | 1 | 1 | - | 1 |
| Other | 16 | 52 | 68 | - | 68 |
| **Total general revenues** | $ 16 | $ 53 | $ 69 | $ - | $ 69 |

This statement is continued on the following page.

**STATE OF ILLINOIS**
**DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
(Expressed in Thousands)

For the Year Ended June 30, 2018

| | General Fund 0001 | Other Nonmajor Funds | Total Governmental Funds | Adjustments | Statement of Activities |
|---|---|---|---|---|---|
| **Other sources (uses):** | | | | | |
| Appropriations from State resources | $ 863,146 | $ - | $ 863,146 | $ - | $ 863,146 |
| Lapsed appropriations | (16,191) | - | (16,191) | - | (16,191) |
| Receipts collected and transmitted to State Treasury | (13,538) | - | (13,538) | - | (13,538) |
| Loss on disposition of capital assets | - | - | - | (9) | (9) |
| Transfers-in | - | 5 | 5 | (5) | - |
| Transfers-out | (1,482) | (5) | (1,487) | 5 | (1,482) |
| **Total other sources (uses)** | $ 831,935 | $ - | $ 831,935 | $ (9) | $ 831,926 |
| Change in fund balance/net assets | (12,704) | 24,412 | 11,708 | (131,049) | (119,341) |
| Fund balance (deficit)/net position, July 1, 2017 | 2,110 | 49,882 | 51,992 | (2,576,528) | (2,524,536) |
| Fund balance/net position, June 30, 2018 | $ (10,594) | $ 74,294 | $ 63,700 | $ (2,707,577) | $ (2,643,877) |

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

**STATE OF ILLINOIS**
**DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
(Expressed in Thousands)

For the Year Ended June 30, 2018

| | | |
|---|---|---|
| **Net change in fund balances** | $ | 11,708 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Governmental funds report capital outlays as expenditures while the Statement of Activities report depreciation expense to allocate those expenditures over the life of the assets. This is the difference between capital additions and depreciation in the current period. | | (510) |
| Gains and losses from capital assets no longer in use are not recorded in governmental funds but are reported as other revenues and expenses in the Statement of Activities. In the current year, these transactions include losses on capital assets scrapped, damaged, or stolen. | | (9) |
| Prepaid expenses in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change from the prior year. | | 384 |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds. This amount represents the decrease in unavailable revenue over the prior year. | | 48,349 |
| Pensions: | | |
| Change in deferred outflows of resources. | | (138,545) |
| Change in deferred inflows of resources. | | (26,084) |
| OPEB: | | |
| Change in deferred outflows of resources. | | 115,293 |
| Change in deferred inflows of resources. | | (110,300) |
| 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. Also some expenditures reported in governmental funds decrease the amount of certain long-term liabilities reported on the Statement of Net Position and are therefore not reported as expenses in the Statement of Activities. | | |
| Decrease in net pension liability | | 58,788 |
| Decrease in total OPEB liability | | (79,111) |
| Decrease in compensated absences obligation | | 696 |
| **Change in net position of governmental activities** | $ | (119,341) |

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

**STATE OF ILLINOIS**
**DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

STATEMENT OF FIDUCIARY NET POSITION
(Expressed in Thousands)

June 30, 2018

| | Private Purpose Trust Funds | Agency Fund Children's Trust Fund 1122 |
|---|---|---|
| **ASSETS** | | |
| Cash equity with State Treasurer | $ - | $ 225 |
| Cash and cash equivalents | 94 | 2,879 |
| Investments | 610 | - |
| Due from other government - federal | - | 493 |
| **Total assets** | $ 704 | $ 3,597 |
| **LIABILITIES** | | |
| Due to other government - federal | - | 124 |
| Other liabilities | - | 3,473 |
| **Total liabilities** | $ - | $ 3,597 |
| **NET POSITION** | | |
| Restricted for: | | |
| Individuals, organizations, and other governments | 704 | |
| **Total net position** | $ 704 | |

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

**STATE OF ILLINOIS**
**DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
(Expressed in Thousands)

For the Year Ended June 30, 2018

| | Private Purpose Trust Funds |
|---|---|
| **Additions:** | |
| Investment earnings: | |
| Interest, dividends and other investment income (loss) | $ 47 |
| **Change in net position** | 47 |
| Net position, July 1, 2017 | 657 |
| **Net position, June 30, 2018** | $ 704 |

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

## (1) Organization

The Department of Children and Family Services (the 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 Illinois General Assembly. The Department operates under a budget approved by the General Assembly in which resources primarily from the State's General Revenue Fund 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 State Comptroller's Office) as defined by the Illinois 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 Bail Bond Fund, the Children and Family Benefit Fund, the Children's Trust Fund, the Katherine Schaffner Bequest Fund, and the Herrick House Children's Center Bequest Fund.

The Department is organized to provide for social services to children and their families in the State through grants and purchase-of-service arrangements with local service agencies. The mission of the Department is to:

- Protect children who are reported to be abused or neglected and to increase their families' capability to safely care for them;
- Provide for the well-being of children in our care;
- Provide appropriate, permanent families as quickly as possible for those children who cannot safely return home;
- Support early intervention and child abuse prevention activities; and
- Work in partnerships with communities to fulfill this mission.

## (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 dependency 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' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

***(b) Basis of Presentation***

The financial statements of the State of Illinois, Department of Children and Family Services, are intended to present the financial position and the changes in financial position of only the portion of the governmental activities, each major fund of the State of Illinois, 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, 2018 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial activities of the Department, which consist only of governmental activities, are reported under the health and social services function in the State of Illinois' Comprehensive Annual 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 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 only of governmental activities, which are primarily supported by taxes and intergovernmental revenues.

The statement of net position and governmental funds balance sheet presents the assets and liabilities 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 fund balances are presented in classifications that comprise a hierarchy based primarily on the extent to which the Department is bound to honor constraints on the specific purposes for which amounts can be spent.

The statement of activities presents a comparison between direct expenses and program revenues for the health and social services function of the Department's governmental activities. Direct expenses are those that are clearly identifiable with the health and social services 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 of fund financial statements is on 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 to be accounted for in another fund. The services, which are administered by the Department and accounted for in the General Fund, include health and social services. 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.

The Department also administers the following fund types:

**Governmental Funds:**

**Special Revenue** – These funds account for resources obtained from specific revenue sources that are legally restricted, committed or assigned to expenditures for specified purposes. Special revenue funds account for, among other things, federal grant programs, fees for service, and other resources restricted as to purpose.

**Fiduciary Funds:**

**Private Purpose Trust –** These funds account for resources legally held in trust for use by the Herrick House and the Katherine Schaffner Bequest. All resources of these funds, including any earnings on invested resources, may be used to support the Herrick House and the Katherine Schaffner Bequest. There is no requirement that any portion of these resources be preserved as capital.

**Agency –** These funds account for transactions related to assets collected by the Department, acting in the capacity of an agent, 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 are recorded when earned and expenses 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 intergovernmental grants and donations. 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 to be available when they are collectible 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 payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include federal grants and interest. All other revenue sources including licenses and fees and other miscellaneous revenues are considered to be measurable and available only when cash is received.

***(d) Shared Fund Presentation***

The financial statement presentation for the General Revenue Fund represents 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' Comprehensive Annual 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 between July and August annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

Appropriations from State Resources
This "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. For fiscal year 2018, the lapse period was extended through October.

Receipts Collected and Transmitted to State Treasury
This "other financing use" account represents all cash receipts received during the fiscal year from SAMS records.

***(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 inter-fund 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 equivalents also include cash on hand and petty cash funds.

***(g) Investments***

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. The Department holds investments pursuant to statutory authority for locally-held funds.

***(h) Inter-fund Transactions and Transactions with State of Illinois Component Units***

The Department has the following types of inter-fund 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. Inter-fund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as inter-fund receivables and payables in the governmental funds balance sheets or the government-wide statements 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 professional services received and payments of State and Federal programs.

### *(i) Capital Assets*

Capital assets, which include buildings and equipment, 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 using the straight-line method.

Capitalization thresholds and the estimated useful lives are as follows:

| Capital Asset Category | Capitalization Threshold | Estimated Useful Life (in Years) |
|---|---|---|
| Buildings | $100,000 | 10-60 |
| Building Improvements | $25,000 | 10-45 |
| Equipment | $5,000 | 3-25 |

### *(j) 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 costs (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.

***(k) Fund Balances***

Fund balance is divided into five classifications based primarily on the extent to which the Department is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in a spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation. Restricted fund balances at June 30, 2018, were restricted for health and social services.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action of the State legislature and signed into law by the Governor. Those committed amounts cannot be used for any other purpose unless the State legislature and Governor removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Committed fund balances at June 30, 2018, were committed for health and social services.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the Department for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the State legislature. Assigned fund balances at June 30, 2018, were assigned for health and social services.

Unassigned – The unassigned fund balance classification is the residual classification for the government’s general fund and includes all spendable amounts not contained in the other classifications.

The Department applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

***(l) Net position***

In the government-wide statement of net position, equity 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 the 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 do not meet the definition of "restricted" or "net investment in capital assets."

***(m) 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 and 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.

***(n) Pensions***

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

The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of service and the plans' 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 plans and additions to/deductions from the plans' 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.

***(o) Post-Employment 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 10).

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

***(p) Adoption of Governmental Accounting Standards Board (GASB) Statements***

Effective for the year ending June 30, 2018, the Department adopted the following GASB statements:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statement No. 45 and requires governments to report a liability on the face of the financial statements for the Other Postemployment Benefits (OPEB) they provide. In addition, this statement requires governments participating in all types of OPEB plans to present more extensive note disclosures and RSI about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government.

The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The implementation of this statement significantly impacted the Department's government-wide financial statements and footnote disclosure with the recognition of a Net OPEB liability, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position and OPEB expense on the Statement of Activities. Information regarding participation in the State Employees Group Insurance Program is disclosed in Note 10.

Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting guidance for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of this statement had no financial impact on the Department's net position or results of operations.

Statement No. 85, *Omnibus 2017*, which addresses practice issues identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The provisions related to postemployment benefits of this statement were incorporated with the implementation of GASB Statement 75.

Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. In addition, this statement improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of this statement had no financial impact on the Department's net position or results of operations.

***(q) Future Adoption of Governmental Accounting Standards Board (GASB) Pronouncements***

Effective for the year ending June 30, 2019, the Department will adopt the following GASB statements:

Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is intended to improve the information that is disclosed in notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should be including when disclosing information related to debt.

Effective for the year ending June 30, 2020, the Department will adopt the following GASB statements:

Statement No. 84, *Fiduciary Activities*, which is intended to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. In addition, this Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployments benefit arrangements that are fiduciary activities.

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

Effective for the year ending June 30, 2021, the Department will adopt 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.

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) to simplify accounting for interest cost incurred before the end of a construction period.

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

***(r) Reliance on Outside Information***

Due to the nature of relationships between the Department and various other State agencies, information related to Pension, OPEB and Securities Lending Transactions in these financial statements and related footnotes is provided through the Illinois Office of the Comptroller by the State Employees Retirement System, the Department of Central Management Services, and the State Treasurer, respectively.

Audits of these entities can be found on the website of the Illinois Office of the Auditor General.

## (3) Deposits and Investments

***(a) Deposits***

The State Treasurer is the custodian of the Department's deposits and investments for funds maintained in the State Treasury. The Department independently manages deposits and investments maintained outside 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 is available within the State of Illinois' Comprehensive Annual Financial Report.

Deposits for locally-held funds of governmental activities had a carrying amount and a bank balance of $38 thousand at June 30, 2018. Deposits of locally-held funds of fiduciary funds had a carrying amount and a bank balance of $94 thousand at June 30, 2018.

Cash on hand totaled $401 thousand at June 30, 2018.

***(b) Investments***

*Fair Value of Investments*

The Department measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

As of June 30, 2018, the Department had the following investments outside of the State Treasury, which were valued using Level 1 Fair Value Measurements:

| | Fair Value (Thousands) | Weighted Average Maturity (Years) |
|---|---|---|
| ***Fiduciary Funds*** | | |
| Open-ended Equity Mutual Funds | $ 456 | N/A |
| Open-ended Debt Mutual Funds | 154 | 8.000 |
| ***Total Investments*** | $ 610 | |

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 Money Market Mutual Funds, Financial Institution Investment Pool and the Open-ended Debt Mutual Funds were not rated.

Custodial Risk: The Department does not have a formal investment policy which restricts investments to address custodial credit risk. Custodial credit risk is the risk that, in the event of failure of the counterparty to a transaction, the Department would not be able to recover the value of investment or collateral securities in the possession of an outside party. The Department has no investments subject to custodial risk.

At June 30, 2018, the Department's investments in Open-ended Debt Mutual Funds, totaling $154 thousand, had the following quality ratings: (amounts expressed in thousands)

| Quality Ratings | Amounts |
|---|---|
| AAA | $ 95 |
| AA | 5 |
| A | 13 |
| BBB | 33 |
| BB | 7 |
| B | - |
| Other | 1 |
| Total | $ 154 |

***(c) Securities Lending Collateral***

Under the authority of the Treasurer's published investment policy that was developed in accordance with the State statute, 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 2018, Deutsche Bank AG lent U.S. Agency Securities, U.S. Treasury securities, and U.S. Agency Discount Notes 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 2018 on the amount of the 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 2018 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2018, 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, 2018 were $4,521,091,000 and $4,451,198,793, respectively.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2018 arising from securities lending agreements to the various funds of the State. The total allocated to the Department was $1 thousand at June 30, 2018.

## (4) Inter-fund Balances and Activity

### *(a) Balances Due to/from Other Funds*

The following balances (amounts expressed in thousands) at June 30, 2018 represents amounts due from other Department and State of Illinois funds.

| | Due from | | | |
|---|---|---|---|---|
| **Fund** | **Other Department Funds** | **Other State Funds** | **Other State Fiduciary Funds** | **Description/Purpose** |
| General | $ 34 | $ - | $ - | Due from other Department and State funds for reimbursement of expenditures incurred and receipt transfers. |
| Nonmajor governmental funds | 877 | 259 | 354 | Due from other Department and State funds for reimbursement of expenditures incurred and receipt transfers. |
| | $ 911 | $ 259 | $ 354 | |

The following balances (amounts expressed in thousands) at June 30, 2018 represent amounts due to other Department and State of Illinois funds.

| | Due to | | | |
|---|---|---|---|---|
| **Fund** | **Other Department Funds** | **Other State Funds** | **Other State Fiduciary Funds** | **Description/Purpose** |
| General | $ 25 | $ 14,287 | $ - | Due to State internal service funds for purchases of services and to Department and other State funds for reimbursement of expenditures incurred and transfers to fund mental health programs for children. |
| Nonmajor governmental funds | 886 | 647 | 65 | Due to State internal service funds for purchases of services and to other State funds for reimbursement of expenditures incurred and for excess advances received for grant expenditures to be incurred and to State fiduciary funds for pension contributions. Due to other Department funds for reimbursement of expenditures incurred and receipt transfers. |
| | $ 911 | $ 14,934 | $ 65 | |

### *(b) Transfers from (to) Other Funds*

Inter-fund transfers in (amounts expressed in thousands) for the year ended June 30, 2018, were as follows:

| Fund | Transfers in from Other Department Funds | Description/Purpose |
|---|---|---|
| Nonmajor governmental funds | $ 5 | Transfers in from another Department fund for revenue receipts for which expenses were incurred in another fund. |
| | $ 5 | |

Inter-fund transfers out (amounts expressed in thousands) for the year ended June 30, 2018, were as follows:

| Fund | Transfers out to Other Department Funds | Transfers out to Other State Funds | Description/Purpose |
|---|---|---|---|
| General | $ - | $ 1,482 | Transfers to other State funds to fund mental health programs for children. |
| Nonmajor governmental funds | 5 | - | Transfers to another Department fund for revenue receipts for which expenses were incurred in another fund. |
| | $ 5 | $ 1,482 | |

### *(c) Balances due to State of Illinois Component Units*

The following balances (amounts expressed in thousands) at June 30, 2018 represent amounts due to State of Illinois Component Units for reimbursement of expenses incurred.

| Component Unit | Due to General Fund | Due to Nonmajor Governmental Funds |
|---|---|---|
| Western Illinois University | $ - | $ 25 |
| Northern Illinois University | 1,564 | 1,018 |
| Southern Illinois University | 66 | 64 |
| University of Illinois | 2,661 | 3,580 |
| | $ 4,291 | $ 4,687 |

## (5) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2018 was as follows:

| | Balance July 1, 2017 | Additions | Deletions | Net Transfers | Balance June 30, 2018 |
|---|---|---|---|---|---|
| **Governmental activities:** | | | | | |
| Capital assets being depreciated: | | | | | |
| Equipment | $ 4,838 | $ 44 | $ 64 | $ (122) | $ 4,696 |
| Less accumulated depreciation: | | | | | |
| Equipment | 3,928 | 554 | 55 | (122) | 4,305 |
| Governmental activity capital assets, net | $ 910 | $ (510) | $ 9 | $ - | $ 391 |

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2018 was charged as follows:

| | |
|---|---|
| Health and social services | $ 554 |

## (6) Other Receivables

Other receivables at June 30, 2018, (expressed in thousands) consisted of the following:

***Governmental Funds***

| **Revenue Source** | **General Fund** |
|---|---|
| Parental assessments | $ 47 |
| Overpayments | 3,761 |
| Total other receivables | 3,808 |
| Allowance for uncollectible amounts | (1,981) |
| **Other receivables, net** | $ 1,827 |

## (7) Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2018 were as follows:

| | Balance July 1, 2017 | Additions | Deletions | Balance June 30, 2018 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Governmental activities:** | | | | | |
| Compensated absences | $ 19,602 | $ 25,502 | $ 26,198 | $ 18,906 | $ 1,891 |
| Other postemployment benefit obligation | 1,074,704 | 79,111 | - | 1,153,815 | - |
| Net pension liability | 1,754,469 | - | 58,788 | 1,695,681 | - |
| **Total Governmental Activities** | $ 2,848,775 | $ 104,613 | $ 84,986 | $ 2,868,402 | $ 1,891 |

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

## (8) Deferred Outflows and 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 and so will not be recognized as an expense or expenditure until then. The Department has deferred outflows related to the pension and OPEB plans that meet this criterion. In addition to liabilities, the statement of net position and the governmental funds balance sheet 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/fund balance that applies to a future period and so will not be recognized as revenue until then. In the governmental funds balance sheet, the Department has one item that meets the criterion for this category –Deferred Revenues – unavailable. In the statement of net position, the Department has deferred inflows related to the pension and OPEB plans that meet this criterion.

## (9) Defined Benefit Pension Plan

***Plan description.*** Substantially all of 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 and is treated as a cost sharing plan by the Department and is treated as a cost sharing plan by the Department.

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 CAFR 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.

| Regular Formula Tier 1 | Regular Formula Tier 2 |
|---|---|
| A member must have a minimum of eight years of service credit and may retire at:<br><br>• Age 60, with 8 years of service credit.<br>• 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.<br>• Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).<br><br>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. | A member must have a minimum of 10 years of credited service and may retire at:<br><br>• Age 67, with 10 years of credited service.<br>• Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67).<br><br>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. |

| Regular Formula Tier 1 | Regular Formula Tier 2 |
|---|---|
| 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.<br><br>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. | 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 2017 rate is $112,408.<br><br>If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum. |

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

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

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

***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 2018, this amount was $113,645.

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 2018, 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 2018, the employer contribution rate was 47.342%. The Department's contribution amount for fiscal year 2018 was $3,803 thousand. In addition, the Department recorded $93.184 million of revenue and expenditures in the General Fund to account for on-behalf payments to SERS for Department employees.

***Pension liability, deferred outflows of resources, deferred inflows of resources and expense related to pensions.*** At June 30, 2018, the Department reported a liability of $1,695.681 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, 2017 (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, 2017. As of the current year measurement date of June 30, 2017, the Department's proportion was 5.1529%, which was an increase of .0147% from its proportion measured as of the prior year measurement date of June 30, 2016.

For the year ended June 30, 2018, the Department recognized pension expense of $202.828 million, which is reported in the General government function of the Statement of Activities. The Department recognized a pension benefit for this amount, which is reported in Appropriations from State resources in the General Revenue Fund and the Statement of Activities. Of these amounts, $93.194 million represents contributions made by SERS on behalf of the Department. At June 30, 2018, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 998 | $ 53,708 |
| Changes of assumptions | 174,896 | 35,353 |
| Net difference between projected and actual investment earnings on pension plan investments | 1,479 | - |
| Changes in proportion | 30,620 | 17,684 |
| Department contributions subsequent to the measurement date | 3,803 | - |
| **Total** | **$ 211,796** | **$ 106,745** |

$3,803 thousand 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, 2019. 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, | |
|---|---|
| 2019 | $ 46,682 |
| 2020 | 47,881 |
| 2021 | 22,008 |
| 2022 | (15,323) |
| **Total** | **$ 101,248** |

***Actuarial methods and assumptions.*** The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Mortality: 105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added.

Inflation: 2.75%

Investment Rate of Return: 7.00%, net of pension plan investment expense, including inflation.

Salary increases: 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, 2014, valuation pursuant to an experience study of the period July 1, 2009 to June 30, 2013.

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, 2017, 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% | 5.5% |
| Developed Foreign Equity | 13% | 5.3% |
| Emerging Market Equity | 8% | 7.8% |
| Private Equity | 7% | 7.6% |
| Intermediate Investment Grade Bonds | 14% | 1.5% |
| Long-term Government Bonds | 4% | 1.8% |
| TIPS | 4% | 1.5% |
| High Yield and Bank Loans | 5% | 3.8% |
| Opportunistic Debt | 8% | 5.0% |
| Emerging Market Debt | 2% | 3.7% |
| Core Real Estate | 6% | 3.7% |
| Non Core Real Estate | 4% | 5.9% |
| Infrastructure | 2% | 5.8% |
| **Total** | 100% | |

***Discount rate.*** A discount rate of 6.78% was used to measure the total pension liability as of the measurement date of June 30, 2017 as compared to a discount rate of 6.64% used to measure the total pension liability as of the prior year measurement date. The June 30, 2017 single blended discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.56%, 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 contributions will be made based on the statutorily required rates under Illinois law. 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 2073. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2073, 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 5.78%** | **Discount Rate 6.78%** | **1% Increase 7.78%** |
|---|---|---|---|
| Department's proportionate share of the net pension liability | $ 2,051,810 | $ 1,695,681 | $ 1,404,223 |

***Payables to the pension plan.*** At June 30, 2018, the Department reported a payable of $11 thousand to SERS for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

## (10) Other Post-Employment 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 State Employees' Retirement System of Illinois ("SERS") are eligible for these other post-employment benefits ("OPEB"). The eligibility provisions for each of the retirement systems are defined within Note 9.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (SERS). 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 2018, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $10,926.24 ($6,145.92 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $14,939.04 ($5,165.04 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, 2018, was measured as of June 30, 2017, with an actuarial valuation as of June 30, 2016. At June 30, 2018, the Department recorded a liability of $1,153.815 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, 2017.

As of the current year measurement date of June 30, 2017, the Department's proportion was 2.7921%, which was an increase of 0.3215% from its proportion measured as of the prior year measurement date of June 30, 2016.

The Department recognized OPEB expense for the year ended June 30, 2018, of $83.511 million, which is reported in the General government function of the Statement of Activities. The Department recognized a benefit for this amount, which is reported in Appropriations from State resources in the General Revenue Fund and the Statement of Activities. Of these amounts, $9.388 million represents contributions made by SEGIP on behalf of the Department. At June 30, 2018, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

| | | |
|---|---|---|
| **Deferred outflows of resources** | | |
| Differences between expected and actual experience | $ | 370 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | | 114,931 |
| Department contributions subsequent to the measurement date | | 32 |
| **Total deferred outflows of resources** | $ | 115,333 |
| | | |
| **Deferred inflows of resources** | | |
| Changes of assumptions | $ | 109,554 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | | 746 |
| **Total deferred inflows of resources** | $ | 110,300 |

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, 2019. 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,** | | |
|---|---|---|
| 2019 | $ | 1,124 |
| 2020 | | 1,124 |
| 2021 | | 1,124 |
| 2022 | | 1,124 |
| 2023 | | 505 |
| Total | $ | 5,001 |

***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, 2016, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2016.

| | |
|---|---|
| **Valuation date** | June 30, 2016 |
| **Measurement date** | June 30, 2017 |
| **Actuarial cost method** | Entry Age Normal |
| **Inflation rate** | 2.75% |
| **Projected salary increases*** | 3.00% - 15.00% |
| **Discount rate** | 3.56% |
| **Healthcare cost trend rate** | |
| Medical (Pre-Medicare) | 8.0 % grading down 0.5% in the first year to 7.5%, then grading down 0.01% in the second year to 7.49%, followed by grading down of 0.5% per year over 5 years to 4.99% in year 7 |
| Medical (Post-Medicare) | 9.0% grading down 0.5% per year over 9 years to 4.5% |
| Dental | 7.5% grading down 0.5% per year over 6 years to 4.5% |
| Vision | 3.00% |
| **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 2017 and 2018 are based on actual premiums. Premiums after 2018 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax. |

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

Additionally, the demographic assumptions used in the OPEB valuation are identical to those used in the June 30, 2016 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

| | Retirement age experience study^ | Mortality^^ |
|---|---|---|
| **SERS** | July 2009 - June 2013 | 105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added. |

^ The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.

^^ 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 2.85% at June 30, 2016, and 3.56% at June 30, 2017, was used to measure the total OPEB liability.

***Sensitivity of total OPEB liability to changes in the single discount rate.*** The following presents the plan's total OPEB liability, calculated using a Single Discount Rate of 3.56%, as well as what the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.56%) or lower (2.56%) than the current rate (amounts expressed in thousands):

| | 1% Decrease 2.56% | Discount Rate Assumption 3.56% | 1% Increase 4.56% |
|---|---|---|---|
| Department's proportionate share of total OPEB liability | $ 1,308,994 | $ 1,153,815 | $ 999,510 |

***Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate.*** The following presents the plans total OPEB liability, calculated using the healthcare cost trend rates as well as what the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates (amounts in table expressed in thousands). The key trend rates are 8.0% in 2018 decreasing to an ultimate trend rate of 4.99% in 2025, for non-Medicare coverage, and 9.0% decreasing to an ultimate trend rate of 4.5% in 2027 for Medicare coverage.

| | 1% Decrease | Cost Trend Rates Assumption | 1% Increase |
|---|---|---|---|
| Department's proportionate share of total OPEB liability | $ 985,926 | $ 1,153,815 | $ 1,292,420 |

**(11) Fund Deficits**

The Federal Projects Fund (nonmajor governmental fund) had a deficit fund balance of $106 thousand at June 30, 2018. The deficit will be eliminated by future recognition of earned but unavailable revenues. At June 30, 2018, earned but unavailable revenues for this fund were $106 thousand.

**(12) Risk Management**

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

**(13) Commitments and Contingencies**

***(a) Operating leases***

The Department leases copiers and other office equipment, under the terms of noncancelable operating lease agreements that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was $3,518 thousand for the year ended June 30, 2018.

The following is a schedule of future minimum lease payments under operating leases (amounts expressed in thousands):

| Year Ending June 30, | Amount |
|---|---|
| 2019 | $ 570 |
| 2020 | 505 |
| 2021 | 470 |
| 2022 | 241 |
| 2023 | 16 |
| Total | $ 1,802 |

***(b) Commitments related to Adoptive Parents and Permanent Guardians***

The Department enters into agreements with Adoptive Parents and Permanent Guardians of youth in care of the Department. These agreements generally provide monthly subsidies to the parents or guardians of these youth in care until they turn 18 years of age. The table below estimates the Department's future commitment related to these youth as of June 30, 2018:

| All Cases | | | Adoptive Parents | | | Permanent Guardians | | |
|---|---|---|---|---|---|---|---|---|
| Current Age | Cases | Amount Committed | Current Age | Cases | Amount Committed | Current Age | Cases | Amount Committed |
| 00 | - | $ - | 00 | - | $ - | 00 | - | $ - |
| 01 | 33 | 3,449,952 | 01 | 33 | 3,449,952 | 01 | - | - |
| 02 | 225 | 20,278,434 | 02 | 213 | 19,184,620 | 02 | 12 | 1,093,814 |
| 03 | 423 | 36,146,005 | 03 | 405 | 34,736,072 | 03 | 18 | 1,409,932 |
| 04 | 657 | 52,626,787 | 04 | 608 | 48,779,159 | 04 | 49 | 3,847,628 |
| 05 | 793 | 59,717,775 | 05 | 728 | 54,954,900 | 05 | 65 | 4,762,875 |
| 06 | 1,011 | 71,864,725 | 06 | 922 | 65,630,874 | 06 | 89 | 6,233,852 |
| 07 | 1,074 | 68,339,304 | 07 | 975 | 62,497,481 | 07 | 99 | 5,841,824 |
| 08 | 1,302 | 77,164,475 | 08 | 1,152 | 68,675,351 | 08 | 150 | 8,489,124 |
| 09 | 1,370 | 72,306,795 | 09 | 1,173 | 62,049,612 | 09 | 197 | 10,257,183 |
| 10 | 1,584 | 76,390,042 | 10 | 1,391 | 67,009,199 | 10 | 193 | 9,380,842 |
| 11 | 1,555 | 65,621,765 | 11 | 1,358 | 57,382,209 | 11 | 197 | 8,239,557 |
| 12 | 1,653 | 59,933,537 | 12 | 1,426 | 52,068,736 | 12 | 227 | 7,864,801 |
| 13 | 1,698 | 50,466,560 | 13 | 1,451 | 42,735,055 | 13 | 247 | 7,731,505 |
| 14 | 1,750 | 39,883,636 | 14 | 1,499 | 34,453,136 | 14 | 251 | 5,430,500 |
| 15 | 1,770 | 28,668,717 | 15 | 1,500 | 24,423,750 | 15 | 270 | 4,244,967 |
| 16 | 1,803 | 17,711,096 | 16 | 1,519 | 15,019,781 | 16 | 284 | 2,691,315 |
| 17 | 1,889 | 6,406,402 | 17 | 1,598 | 5,415,302 | 17 | 291 | 991,099 |
| Total | 20,590 | $ 806,976,007 | | 17,951 | $ 718,465,189 | | 2,639 | $ 88,510,818 |

***(c) Litigation***

The Department is routinely involved in a number of other legal proceedings and claims that cover a wide range of matters. In the opinion of management, the outcome of these matters is not expected to have any material adverse effect on the financial position or results of operations of the Department.

SUPPLEMENTARY INFORMATION

**STATE OF ILLINOIS**
**DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
(Expressed in Thousands)

June 30, 2018

| | Special Revenue | | | | | | |
|---|---|---|---|---|---|---|---|
| | Children's Services Fund 0220 | Federal Projects Fund 0566 | Special Purpose Fund 0582 | Child Abuse Prevention Fund 0934 | Bail Bond Fund 1119 | Children and Family Benefit Fund 1121 | Total |
| **ASSETS** | | | | | | | |
| Cash equity with State Treasurer | $ 147,279 | $ 749 | $ 184 | $ 3 | $ - | $ - | $ 148,215 |
| Cash and cash equivalents | 363 | - | - | - | 1 | 37 | 401 |
| Securities lending collateral equity of State Treasurer | - | - | - | 1 | - | - | 1 |
| Due from other government - federal | 62,055 | 376 | - | - | - | - | 62,431 |
| Due from other Department funds | 852 | 7 | - | - | - | 18 | 877 |
| Due from other State Fiduciary funds | 350 | 4 | - | - | - | - | 354 |
| Due from other State funds | 104 | 79 | 76 | - | - | - | 259 |
| **Total assets** | $ 211,003 | $ 1,215 | $ 260 | $ 4 | $ 1 | $ 55 | $ 212,538 |
| **LIABILITIES** | | | | | | | |
| Accounts payable and accrued liabilities | $ 81,865 | $ 159 | $ 10 | $ - | $ - | $ - | $ 82,034 |
| Intergovernmental payables | 298 | 54 | 1 | - | - | - | 353 |
| Due to other Department funds | 30 | 852 | 4 | - | - | - | 886 |
| Due to other State Fiduciary funds | 57 | 3 | 5 | - | - | - | 65 |
| Due to other State funds | 629 | 15 | 3 | - | - | - | 647 |
| Due to State of Illinois component units | 4,556 | 131 | - | - | - | - | 4,687 |
| Obligations under securities lending of State Treasurer | - | - | - | 1 | - | - | 1 |
| Unearned revenue | - | 1 | - | - | - | - | 1 |
| **Total liabilities** | $ 87,435 | $ 1,215 | $ 23 | $ 1 | $ - | $ - | $ 88,674 |
| **DEFERRED INFLOW OF RESOURCES** | | | | | | | |
| Unavailable revenue | 49,464 | 106 | - | - | - | - | 49,570 |
| **Total deferred inflow of resources** | $ 49,464 | $ 106 | $ - | $ - | $ - | $ - | $ 49,570 |
| **Total liabilities and deferred inflows of resources** | $ 136,899 | $ 1,321 | $ 23 | $ 1 | $ - | $ - | $ 138,244 |
| **FUND BALANCES** | | | | | | | |
| Restricted | - | - | 237 | - | 1 | - | 238 |
| Committed | 74,104 | - | - | 3 | - | - | 74,107 |
| Assigned | - | - | - | - | - | 55 | 55 |
| Unassigned | - | (106) | - | - | - | - | (106) |
| **Total fund balances (deficits)** | $ 74,104 | $ (106) | $ 237 | $ 3 | $ 1 | $ 55 | $ 74,294 |
| **Total liabilities, deferred inflows of resources and fund balances** | $ 211,003 | $ 1,215 | $ 260 | $ 4 | $ 1 | $ 55 | $ 212,538 |

**STATE OF ILLINOIS**
**DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
(Expressed in Thousands)

For the Year Ended June 30, 2018

| | Special Revenue | | | | | | |
|---|---|---|---|---|---|---|---|
| | Children's Services Fund 0220 | Federal Projects Fund 0566 | Special Purpose Fund 0582 | Child Abuse Prevention Fund 0934 | Bail Bond Fund 1119 | Children and Family Benefit Fund 1121 | Total |
| **REVENUES** | | | | | | | |
| Federal government | $ 354,075 | $ 2,562 | $ 451 | $ - | $ - | $ - | $ 357,088 |
| Licenses and fees | - | - | 70 | - | - | - | 70 |
| Interest and other investment income | - | - | - | 1 | - | - | 1 |
| Other charges for services | 6,548 | - | - | - | - | - | 6,548 |
| Other operating grants | - | - | 38 | - | - | - | 38 |
| Other | 9 | - | 37 | 6 | - | - | 52 |
| **Total revenues** | $ 360,632 | $ 2,562 | $ 596 | $ 7 | $ - | $ - | $ 363,797 |
| **EXPENDITURES** | | | | | | | |
| Health and social services | 336,699 | 2,172 | 453 | 61 | - | - | 339,385 |
| **Total expenditures** | $ 336,699 | $ 2,172 | $ 453 | $ 61 | $ - | $ - | $ 339,385 |
| **Excess (deficiency) of revenues over (under) expenditures** | 23,933 | 390 | 143 | (54) | - | - | 24,412 |
| **OTHER SOURCES (USES) OF FINANCIAL RESOURCES** | | | | | | | |
| Transfers-in | 5 | - | - | - | - | - | 5 |
| Transfers-out | - | (5) | - | - | - | - | (5) |
| **Net other sources (uses) of financial resources** | 5 | (5) | - | - | - | - | - |
| **Net change in fund balances** | 23,938 | 385 | 143 | (54) | - | - | 24,412 |
| Fund balances (deficits), July 1, 2017 | 50,166 | (491) | 94 | 57 | 1 | 55 | 49,882 |
| **FUND BALANCES (DEFICITS), JUNE 30, 2018** | $ 74,104 | $ (106) | $ 237 | $ 3 | $ 1 | $ 55 | $ 74,294 |

**STATE OF ILLINOIS**
**DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

COMBINING STATEMENT OF FIDUCIARY NET POSITION -
PRIVATE PURPOSE TRUST FUNDS
(Expressed in Thousands)

June 30, 2018

| | Katherine Schaffner Bequest Fund 1117 | Herrick House Children's Center Bequest Fund 1207 | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 80 | $ 14 | $ 94 |
| Investments | 610 | - | 610 |
| **Total assets** | $ 690 | $ 14 | $ 704 |
| **NET POSITION** | | | |
| Restricted for: | | | |
| Individuals, organizations, and other governments | 690 | 14 | 704 |
| **Total net position** | $ 690 | $ 14 | $ 704 |

**STATE OF ILLINOIS**
**DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
PRIVATE PURPOSE TRUST FUNDS
(Expressed in Thousands)

For the Year Ended June 30, 2018

| | Katherine Schaffner Bequest Fund 1117 | Herrick House Children's Center Bequest Fund 1207 | Total |
|---|---|---|---|
| **Additions:** | | | |
| Investment earnings: | | | |
| Interest, dividends and other investment income (loss) | $ 47 | $ - | $ 47 |
| **Change in net position** | 47 | - | 47 |
| Net position, July 1, 2017 | 643 | 14 | 657 |
| **Net position, June 30, 2018** | $ 690 | $ 14 | $ 704 |

**STATE OF ILLINOIS**
**DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUND
(Expressed in Thousands)

For the Year June 30, 2018

| | Children's Trust Fund (1122) | | | |
|---|---|---|---|---|
| | Balance July 1, 2017 | Additions | Deductions | Balance June 30, 2018 |
| **ASSETS** | | | | |
| Cash equity with State Treasurer | $ 245 | $ 3,401 | $ 3,421 | $ 225 |
| Cash and cash equivalents | 2,570 | 2,570 | 2,261 | 2,879 |
| Due from other government - federal | 452 | 2,611 | 2,570 | 493 |
| **Total assets** | $ 3,267 | $ 8,582 | $ 8,252 | $ 3,597 |
| **LIABILITIES** | | | | |
| Due to other government - federal | $ 164 | $ 1,878 | $ 1,918 | $ 124 |
| Amounts held on behalf of State Wards | 3,103 | 6,704 | 6,334 | 3,473 |
| **Total liabilities** | $ 3,267 | $ 8,582 | $ 8,252 | $ 3,597 |

3201 W. White Oaks Dr., Suite 102
Springfield, IL 62704
217.793.3363

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

Honorable Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Children and Family Services (Department), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated May 17, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2018-001, 2018-002, and 2018-003 that we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2018-001, 2018-002, and 2018-003.

## State of Illinois, Department of Children and Family Services' Response to Findings

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

## State of Illinois, Department of Healthcare and Family Services' Response to Findings

The State of Illinois, Department of Healthcare and Family Services' responses to items 2018-001, 2018-002, and 2018-003 are described in the accompanying schedule of findings. The State of Illinois, Department of Healthcare and Family 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.

## State of Illinois, Department of Human Services' Response to Findings

The State of Illinois, Department of Human Services' responses to items 2018-001, 2018-002, and 2018-003 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.

## State of Illinois, Department on Aging's Response to Findings

The State of Illinois, Department on Aging's responses to items 2018-001, 2018-002, and 2018-003 are described in the accompanying schedule of findings. The State of Illinois, Department on Aging's 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 Department'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 Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
May 17, 2019

## SCHEDULE OF FINDINGS

### CURRENT FINDINGS – *Government Auditing Standards*

**2018-001 FINDING** (Statewide Failure to Execute Interagency Agreements and Perform Essential Project Management Functions over Provider Enrollment in the Medicaid Program)

The Department of Healthcare and Family Services (HFS), the Department of Human Services (DHS), the Department of Children and Family Services (DCFS), and the Department on Aging (DoA) (collectively, the "Departments") failed to execute adequate internal controls over the implementation and operation of the State of Illinois' Illinois-Michigan Program Alliance for Core Technology system (IMPACT). Specifically, management of the Departments did not enter into interagency agreements (IA) defining each agency's roles and responsibilities, and did not perform essential project management functions over the implementation of IMPACT.

**Project Background**

Throughout calendar years 2012-2015, the Departments and the State of Michigan's Department of Community Health (DCH) began studying possible modifications to Michigan's existing Medicaid Management Information System (MMIS) to allow Illinois to share it and its related infrastructure with the goal being to eventually replace HFS' outdated MMIS to accommodate the processing of the State of Illinois' Medicaid provider enrollment determinations and all Medicaid claim payments to such providers. In 2015, HFS and DCH signed an intergovernmental agreement formally establishing IMPACT. The implementation of IMPACT was scheduled to be rolled out in three phases. Phase 1 was placed in service in November 2013 and March 2014, and encompassed providing financial assistance for the development and implementation of the Electronic Health Record Medicaid Incentive Payment Program (eMIPP) module. Phase 2 was placed in service in July 2015, and encompassed the development and the implementation of the Provider Enrollment (PE) module. The PE module was designated by HFS to be the State of Illinois' book of record for the eligibility determinations of providers offering services for and on-behalf of the State of Illinois' Medicaid recipients. Both the eMIPP and PE modules interface with the existing State of Illinois' MMIS and are the basis for which providers are determined eligible to provide Medicaid services and receive Medicaid claim payments. Phase 3 includes the final development and implementation stages of IMPACT and was scheduled to be placed in service in calendar year of 2018; however, implementation had not taken place as of the end of our fieldwork. HFS staff stated IMPACT is not ready to accommodate the managed-care-rate payment structure and is currently targeted to be placed in service in March 2020. According to filings with the U.S. Department of Health & Human Services, the IMPACT project was expected to cost the State of Illinois approximately $103 million. As of September 30, 2018, after only implementing two phases of the project, HFS had expended over $50 million with the largest part of the system conversion outstanding. As of the end of our fieldwork, HFS has increased the original budget to approximately $173 million.

**HFS' and Delegated Agencies' Roles**

As set by the State of Illinois' State Plan under Title XIX of the *Social Security Act* (State Plan) (Section 1.1), the State's designated agency responsible for administering and supervising the administration of the Medicaid Program is HFS. However, Section 1.1 of the State Plan also allows for HFS to delegate specific functions to other State entities to assist with the administration of the Medicaid Program, pursuant to a written IA defining each agency's roles and responsibilities. During our testing, we identified the following delegated agencies, which we will refer to as HFS' Delegated Agencies, and examples of the Medicaid services they provide which utilizes IMPACT for enrollment of their providers. DHS administers several human service programs under the Medicaid Program, including developmental disabilities support services, rehabilitation services, and substance abuse (prevention and recovery) services. DCFS administers the State's child welfare program which includes cooperating in the establishment of Medicaid eligibility for children who are wards of the State. DoA administers the State's programs for residents aged 60 and older, including Home and Community Based Services to Medicaid recipients who meet Community Care Program requirements.

**Auditor Testing and Results**

In order to determine if the Departments complied with federal and State laws, rules, and regulations when they developed, implemented, and operated IMPACT, we reviewed the Departments' applicable policies and procedures governing IMPACT. Our testing identified the following material weaknesses in internal control:

- The Departments did not have current, formal written agreements defining the roles and responsibilities of HFS or its Delegated Agencies of the Medicaid Program.

- While DHS utilized IMPACT to formally approve providers for the purposes of granting payments of their Medicaid claims, it did not utilize IMPACT as its book of record or rely on it to verify the providers met certain federal requirements. In this instance, the book of record means the mandatory system designated by HFS to be used for the tracking of the State's activities, events, or decisions when approving or denying the enrollment of Medicaid providers. When we inquired of DHS as to why it did not retain the documentation within IMPACT to support its determination of enrollment, DHS management stated it chose to maintain the supporting documentation outside of IMPACT as it could not rely on IMPACT.

- When we inquired of DCFS and DoA as to what their processes were regarding the use of IMPACT, they both stated they did not use IMPACT after formally approving the providers for the purpose of granting payments of their Medicaid claims. They both believed HFS was doing the subsequent review of, and maintenance of, provider enrollment information for them. After asking HFS to confirm if DCFS' and DoA's statements were accurate, HFS management stated that was not the case and both DCFS and DoA had the responsibility to subsequently review their providers' eligibility for enrollment in the Medicaid program.

- The Departments implemented IMPACT despite the inability of IMPACT to allow Illinois officials to generate customary and usual system internal control reports, including such information as provider data, security measures, or updates made to IMPACT. The Departments must go through the third party service provider (TSP) in order to obtain any reports needed by the State.

- Based on testing of the documented procedures governing IMPACT, we noted the following:
    - the procedures only addressed the actions that should have been taken by HFS and did not include the procedures to be followed or taken by the Delegated Agencies;
    - the procedures contained contradictory provisions; and,
    - the procedures did not depict the actual actions taken by HFS staff during the audit period.

- The Departments failed to establish and maintain adequate general information technology controls over IMPACT. (See Finding 2018-002 for further details.)

- The Departments had inadequate project management over the implementation of IMPACT. According to the Intergovernmental Agreements, Amendments, and Statements of Work signed between HFS and the TSP, who maintains and hosts IMPACT, the TSP was to provide HFS various deliverables throughout the implementation of the project for its timely review and approval. During our testing of the deliverables required to be provided, we noted the following:
    - HFS did not receive 9 of the 60 (15%) required deliverables,
    - For 39 of the 51 (76%) deliverables received, there was no supporting documentation to demonstrate HFS had approved them, and
    - One of the 51 (2%) deliverables received, the PE Implementation Plan, was noted as "draft". As a result, HFS does not have supporting documentation to show it received and approved the "final" version of the deliverable. The purpose of the PE Implementation Plan was to define the overall approach for the implementation of the PE module of IMPACT.

- As a result of inadequate project management, the Departments did not implement adequate security controls over IMPACT. (See Finding 2018-002 for further details)

- The Departments did not design and establish an adequate internal control structure over provider enrollment determination *such that sufficient and appropriate evidence, maintained in a paperless format, existed to support each provider met various compliance requirements at the time when the Departments determined each provider's eligibility*. Further, management at the Departments failed to adequately monitor manual provider enrollment determinations, as (1) staff did not consistently document their review of the provider applications in accordance with HFS' Process Checklists and (2) HFS did not establish a system of supervisory reviews of work performed by staff. (See Finding 2018-003 for further details.)

Auditing standards applicable to financial audits and compliance examinations contained in the *Government Auditing Standards* issued by the Comptroller General of the United States Sections 1.01-1.02 state:

> The concept of accountability for use of public resources and government authority is key to our nation's governing processes. Management and officials entrusted with public resources are responsible for carrying out public functions and providing service to the public effectively, efficiently, economically, ethically, and equitably within the context of the statutory boundaries of the specific government program. As reflected in applicable laws, regulations, agreements, and standards, management and officials of government programs are responsible for providing reliable, useful, and timely information for transparency and accountability of these programs and their operations. Legislators, oversight bodies, those charged with governance, and the public need to know whether (1) management and officials manage government resources and use their authority properly and in compliance with laws and regulations; (2) government programs are achieving their objectives and desired outcomes; and (3) government services are provided effectively, efficiently, economically, ethically, and equitably.

Further, the Code of Federal Regulations (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 that 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).

In addition, the Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) requires all agencies to establish and maintain a system of internal fiscal and administrative controls, which shall provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable laws; (2) obligations and costs are in compliance with applicable laws; and (3) 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.

In addition, generally accepted information technology guidance endorses the implementation of project management techniques to certify computer system development activities meet management's objectives.

The Departments' management indicated the above control deficiencies were due to the limited reporting capabilities of IMPACT and employee oversight.

Failure to execute IAs and failure to perform essential project management functions could expose the State to unnecessary and avoidable litigation, approval of ineligible providers, excessive expenditures, over-reliance on contractors, and could result in a system that does not meet the needs of the State and the individuals dependent on the State for Medicaid services. In addition, the Departments' lack of due diligence in performing project management responsibilities has contributed to a significant increase in project timeline and associated costs. (Finding Code No. 2018-001)

**RECOMMENDATION**

We recommend management of the Departments execute detailed IAs which define the roles and responsibilities of each agency regarding the Medicaid Program. The IAs should sufficiently address necessary procedures to enforce monitoring and accountability provisions over IMPACT as required by the Code of Federal Regulations, the State Plan, and the Act so the enrollment of providers offering services to recipients of the Medicaid program is carried out in an effective, compliant, efficient, and economical manner. We further recommend the Departments obtain and review/approve the remaining deliverables from the TSP and, in the future, the Departments should establish adequate controls over project management for the development and implementation of major projects, such as IMPACT.

**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE**

The Department of Healthcare and Family Services (HFS) accepts the recommendation. The above control deficiencies were due to management not prioritizing creation of new interagency agreements in line with the new system and performing quality checks of employee performance.

HFS currently has interagency agreements with the agencies processing provider medical claims through HFS. HFS will update these agreements to include the roles and responsibilities of each agency that is using the Provider Enrollment module of the IMPACT system as necessary.

The Department processes payments for deliverables and contractual obligations via invoice vouchers which include the statement "I certify that the goods or services specified on this voucher were for the use of this agency and that the expenditure for such goods or services was authorized and lawfully incurred; that such goods or services meet all the required standards set forth in the purchase agreement or contract to which this voucher relates; and that the amount shown on this voucher is correct and is approved for payment. If applicable, the reporting requirements of Section 5.1 of the Governor's Office of Management and Budget Act have been met." The invoice vouchers are signed by the receiving officer, head of unit and agency head. All deliverables were received, reviewed and paid in accordance with State requirements; however, this particular contract outlined additional requirements for deliverable approval and the Department could not provide all items due to staff turnover. Additional processes were implemented in response to a previous audit finding related to this same issue; however, the deliverables and approvals noted by the auditor during this audit pre-date the new process that was implemented.

**AUDITOR'S COMMENT TO DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE**

As noted above, the Department had not received all the required deliverables, therefore, the auditors are unclear as to how the Department of Healthcare and Family Services could have reviewed and paid for all contract deliverables in accordance with the State requirements.

**DEPARTMENT OF HUMAN SERVICES' RESPONSE**

The Department of Human Services (DHS) agrees with the recommendation. DHS will work with the Department of Healthcare and Family Services (HFS) to execute a detailed Intergovernmental Agreement (IGA) which defines the roles and responsibilities of each agency to enforce monitoring and accountability provisions over IMPACT as required. In addition, DHS will work with HFS to establish adequate controls over project management for the development and implementation of major projects, such as IMPACT.

**DEPARTMENT OF CHILDREN AND FAMILY SERVICES' RESPONSE**

The Department of Children and Family Services (DCFS) agrees with the auditor's recommendation. DCFS looks forward to discussions and will work towards executing agreement(s) that will define its role, responsibilities and cooperation with other State agencies with regard to IMPACT and the State's Medicaid Program.

**DEPARTMENT ON AGING'S RESPONSE**

The Illinois Department on Aging (IDoA) partially agrees with the finding. IDoA believes that HFS, as the State Medicaid Agency, should be the Agency that initiates an Interagency Agreement (IA) with the operating agencies. However, the Department will coordinate with HFS to enter into an IA related to IMPACT.

IDoA disagrees with other elements of the finding. IDoA is a limited user within IMPACT, having just one employee who accesses the system. In the third bullet, the finding states that IDoA believes HFS was completing subsequent review of provider enrollment information. IDoA has controls in place that are used when a provider is certified by the Department. These controls are outside of IMPACT and are performed in accordance with IDoA rules to become a provider for the Department. IDoA is not party to the enrollment information review. The Department, in accordance with internal rules and ultimately its Medicaid Waiver, certifies providers for programs administered by the Department. Additionally, IDoA doesn't classify providers as Medicaid or not, IDoA classifies participants in their programs.

There are elements of the finding, such as receipt of deliverables, security controls, and policies and procedures that would not be items that would exist within IDoA. When an IA is entered into with HFS, IDoA will focus on including items in the IA that would affect the way that the system is currently utilized and controls necessary to certify to HFS that IDoA is fulfilling their responsibility as it relates to IMPACT.

**2018-002** **FINDING** (Inadequate General Information Technology Controls over IMPACT)

The Department of Healthcare and Family Services (HFS), the Department of Human Services (DHS), the Department of Children and Family Services (DCFS), and the Department on Aging (DoA) (collectively, the "Departments") failed to execute adequate internal controls over the implementation and operation of the State of Illinois' Illinois-Michigan Program Alliance for Core Technology system (IMPACT). Specifically, the Departments did not establish and maintain general information technology controls (general IT controls) over IMPACT which was developed to document and monitor provider enrollment for those providers offering services to recipients of the Medicaid Program administered throughout the State of Illinois.

*Auditor's Note: In this finding, we want to point out to the reader that our testing was mostly conducted at and through HFS, as it is the State's designated Medicaid agency and has the ultimate responsibility for administering and supervising the Medicaid Program. However, as described in Finding 2018-001, HFS is allowed to and has delegated certain responsibilities to other State agencies to carry out the Medicaid Program. In addition, each of the listed above State agencies expends and/or receives a material amount of federal and State dollars which is accounted for in either its entity-wide financial statements or is essential to the auditors opining on its compliance assertions. Finally, when reviewing documentation of the development and implementation of IMPACT, we identified that management of both HFS and the delegated State agencies took part in the discussions. As a result of this reasoning and the material weaknesses in internal control we noted in Finding 2018-001 that describe managements' failure to formally outline each of the State agencies' responsibilities, we believe there is a shared fiduciary responsibility to guarantee the Medicaid services administered at each of the listed State agencies are provided in accordance with federal and State laws, rules, and regulations and that management of each of the State agencies failed to perform those essential fiduciary responsibilities.*

**Auditor Testing and Results**

During our testing, we noted the Departments did not have access to or control over IMPACT and its infrastructure. IMPACT and its infrastructure is hosted by and maintained through a third party service provider (TSP). As a result, we were unable to perform adequate procedures to satisfy ourselves that certain general IT controls (i.e. security over the environment, disaster recovery assurance, and change management procedures) over IMPACT were operating effectively during the audit period. The TSP did not obtain or provide the Departments with a System and Organization Control (SOC) report, which would provide the State and the auditors information on the design and effectiveness of internal control over IMPACT.

Security over Illinois Users Testing

As part of the audit process, we requested HFS provide us the population of all State staff who had access to IMPACT. Although HFS provided a population to us, documentation demonstrating the completeness and accuracy of the population could not be provided. HFS stated it could not provide the necessary documentation, as the TSP controls it. Due to these conditions, we were unable to conclude that the population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C § 530, and AT-C § 205.35).

Even given the population limitations noted above, we tested a sample of State users who had access to IMPACT. Our testing revealed the following:

- 28 of the 49 (57%) users tested had access rights to IMPACT as of June 30, 2018, however, we noted the users had in fact terminated employment prior to June 30, 2018; and,
- Due to both 1) the lack of reporting functionality within IMPACT and 2) the Departments not requesting the TSP to develop and provide ad hoc reports, the Departments' management did not perform access reviews on an ongoing basis during the audit period.

As a result of the Department's failure to establish appropriate security controls over IMPACT, we cannot determine if IMPACT and the State's data contained within the system are adequately protected from unauthorized access and accidental or intentional destruction or alteration.

Edits Testing

As part of the audit process, we requested HFS provide us the population of all active edits from IMPACT. In response to this request, HFS provided us the Detailed System Design Document (DSDD). Upon reviewing the 359 individual documents which comprised the DSDD, we noted the DSDD did not contain a concerted listing of active edits, as the documents outlined the overall system design assuming all edits would be implemented. Our testing revealed not all of the design features included in the DSDD had been implemented. Further, in order to use the DSDD for population purposes, we would have to have the knowledge as to which "edits" were active and were not during the audit period.

An edit check, or test, checks data entered into a system for validity before it is processed. It is commonly used by businesses, organizations, and agencies that need to perform numerous checks on information before it is passed along to someone who can process the data. An edit check can verify the eligibility of applicants or claims. Submissions that fail an edit check often are returned so that they can be corrected. As the Departments were unable to provide us a complete listing of active edits, we cannot test them to determine if they are functioning properly, which would provide some assurance that the data in IMPACT is accurate and in accordance with applicable laws, rules, and regulations governing providers of services for the Medicaid Program of the State.

Disaster Recover Testing

In response to our requests to review the Departments' disaster recovery plan related to IMPACT, HFS provided a preliminary Business Continuity Plan which we noted was a "draft" version; and, therefore, had not been finalized and approved by HFS management.

We also requested documentation demonstrating the Departments had conducted disaster recovery activities during the audit period. HFS provided the State of Michigan's Department of Health and Human Services, NGDICloudDisaster Recovery Report (Report), dated October 26, 2017. Our review of the Report noted the following weaknesses as it related to the State of Illinois's portion of IMPACT:

- A significant amount of information had been redacted; therefore, we were unable to determine the extent of the disaster recovery exercise and its relationship to Illinois data.
- The Departments had neither reviewed the Report nor been involved in the actual recovery exercise.

In addition, we requested documentation regarding the backup (including due diligence in ensuring backups were successfully generated) of the Departments' IMPACT data; however, HFS management stated, per the intergovernmental agreement, the State of Michigan is responsible for providing the State of Illinois with sufficient storage for operations and backups, along with establishing the disaster recovery environment.

As a result of the Departments' failure to obtain, review, and fully understand the TSP's disaster recovery controls, including guaranteeing backups were successfully completed, and because we were not able to determine the extent of the TSP's disaster recovery exercise as it related to Illinois' data covered by the Report, we believe the Departments failed to adequately protect IMPACT and the State's data against the possibility of major disruptions of services and loss of data, and we are unable to determine if IMPACT and the State's data were adequately protected during the audit period.

Change Management

As a result of the Departments' failure to obtain a SOC report, as noted above, or conduct their own timely independent internal control reviews over how changes were made by the TSP to IMPACT and its environment, we are unable to determine that changes made to IMPACT during the audit period were proper and approved.

The Code of Federal Regulations (42 C.F.R. §95.621(f)(1)), *Automated Data Processing (ADP) System Security Requirements*, requires State agencies to be responsible for the security of all ADP projects under development, and operational systems involved in the administration of the U.S. Department of Health & Human Services programs. State agencies are required to determine the appropriate security requirements based on recognized industry standards or standards governing security of federal ADP systems and information processing.

Generally accepted information systems technology guidance (including the National Institute of Standards and Technology and Government Accountability Office) endorses the development of well-designed and well-managed controls to protect computer systems and data, and endorse the formal development and testing of disaster recovery plans. Tests of disaster recovery plans (and the associated documentation of the test results) verify that the plan, procedures, and resources provide the capability to recover critical systems within the required timeframe. Generally accepted information technology guidance endorses the implementation of suitable change management procedures to control changes to computer systems. Effective change management procedures reduce the risk of unauthorized, improper, or erroneous changes to computer systems.

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

The Departments' management indicated the above control deficiencies were due to limited reporting capabilities of IMPACT and employee oversight.

As a result of the Departments' failure to obtain, review, and fully understand the TSP's general IT controls as it related to IMPACT and because we were not able to determine the adequacy of the TSP's general IT controls over IMPACT, we are not able to rely on IMPACT with respect to our testing of provider eligibility and related compliance requirements over the enrollment of providers and subsequent payments made to approved providers who provide services to recipients of the State's Medicaid Program. (Finding Code No. 2018-002)

**RECOMMENDATION**

We recommend management of the Departments implement adequate internal control over the implementation and design of IMPACT, including regular reviews of user access rights, reviews of edit checks on data integrity, disaster recovery activities, and change management procedures.

**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE**

The Department of Healthcare and Family Services (HFS) accepts the recommendation. The above control deficiencies were due to management not prioritizing negotiating appropriate documentation from its third-party service provider (TSP) and the differences in audit requirements between the two states.

IMPACT provider enrollment and the electronic Medicaid Incentive Payment Program (eMipp) were implemented in a modular fashion from the rest of the IMPACT Core Medicaid Management Information System (MMIS) functionality. The modular implementation did not include a reporting tool for general reports. When the core IMPACT MMIS components are fully implemented these reports will exist and will be available to Illinois state staff to generate on demand. However, while the Department is still operating in production with the two live modules only, Illinois will obtain these reports from the third-party service provider and periodically review user access.

Illinois is sharing, with the TSP, a single code base with two separate instances of the database. For provider enrollment there is a change management process that is in place for making changes to the IMPACT code base. There are Tier 1 and Tier 2 approvals from Illinois before any changes are made. Illinois recognizes there was no System and Organization Controls (SOC) report obtained from the TSP. In lieu of a SOC report, the TSP will be sharing a copy of the TSP Centers for Medicare and Medicaid Services Security Assessment Report when it is completed. The Department will continue to work with the TSP to obtain documentation to support general IT controls are adequate. The disaster recovery tests performed for the Illinois provider enrollment and eMipp servers will be obtained and reviewed by the Department on a routine basis.

**AUDITOR'S COMMENT TO DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE**

The Department states the State of Illinois and the State of Michigan have different audit requirements which resulted in part to the noted deficiencies. When being audited, both States are considered governmental entities whose auditing standards are set forth by the American Institute of Certified Public Accountants (AICPA) and the United States Government Accountability Office (GAO). In the case of IMPACT, for the State of Illinois, IMPACT is hosted and maintained by a TSP. As a result, the Departments are required to obtain a SOC report or perform another type of independent review over the system's general IT internal control (as mentioned in the above finding). For the State of Michigan, IMPACT is hosted and maintained by the State itself and, therefore, the State of Michigan is not required to obtain a SOC report or perform another type of independent review over IMPACT's general IT internal controls as the State of Michigan has control over it. In summary, as required by auditing standards, the State of Illinois needs an independent review over IMPACT's general IT internal control and the State of Michigan does not.

**DEPARTMENT OF HUMAN SERVICES' RESPONSE**

The Department of Human Services agrees with the recommendation. DHS will work with the Department of Healthcare and Family Services (HFS) to implement adequate internal controls over the implementation and design of IMPACT.

**DEPARTMENT OF CHILDREN AND FAMILY SERVICES' RESPONSE**

The Department of Children and Family Services (DCFS) accepts this finding and will cooperate with HFS in determining what, if any, responsibilities related to the auditor's recommendation apply to DCFS and will ensure those responsibilities are defined in the interagency agreement referenced in Finding 2018-001. DCFS will develop processes or procedures to comply with the roles and responsibilities defined in the agreement.

**DEPARTMENT ON AGING RESPONSES**

The Illinois Department on Aging (IDoA) disagrees with the applicability of this finding to IDoA. The finding asserts that internal controls over the implementation and operation of the system were lacking. IDoA does not have any purview over implementation or operation of the system and therefore has no responsibility in establishing and maintaining general information technology controls over the system.

**AUDITOR'S COMMENT TO DEPARTMENT ON AGING'S RESPONSE**

As noted in Finding 2018-001, the Departments do not have current, formal written agreements defining the roles and responsibilities of HFS or its Delegated Agencies of the Medicaid Program. Until such time as the Departments define the roles and responsibilities of each agency, we are unable to determine which agency is responsible for what actions.

**2018-003** **FINDING** (Insufficient Review and Documentation of Provider Enrollment Determinations)

The Department of Healthcare and Family Services (HFS), the Department of Human Services (DHS), the Department of Children and Family Services (DCFS), and the Department on Aging (DoA) (collectively, the "Departments") failed to design and implement adequate internal controls over the implementation and operation of the State of Illinois' Illinois-Michigan Program Alliance for Core Technology system (IMPACT) sufficient to prevent inaccurate determinations and approvals of provider enrollment for those providers offering services to recipients of the Medicaid Program administered throughout the State. Specifically, we noted the Departments did not sufficiently review and document approval for provider enrollments and, as a result, did not maintain all necessary documentation supporting provider enrollment approvals.

*Auditor's Note: In this finding, we want to point out to the reader that our testing was mostly conducted at and through HFS, as it is the State's designated Medicaid agency and has the ultimate responsibility for administering and supervising the Medicaid Program. However, as described in Finding 2018-001, HFS is allowed to and has delegated certain responsibilities to other State agencies to carry out the Medicaid Program. In addition, each of the listed above State agencies expends and/or receives a material amount of federal and State dollars which is accounted for in either its entity-wide financial statements or is essential to the auditors opining on its compliance assertions. Finally, when reviewing documentation of the development and implementation of IMPACT, we identified that management of both HFS and the delegated State agencies took part in the discussions. As a result of this reasoning and the material weaknesses in internal control we noted in Finding 2018-001 that describe managements' failure to formally outline each of the State agencies' responsibilities, we believe there is a shared fiduciary responsibility to guarantee the Medicaid services administered at each of the listed State agencies are provided in accordance with federal and State laws, rules, and regulations and that management of each of the State agencies failed to perform those essential fiduciary responsibilities.*

The Departments implemented the Provider Enrollment module of IMPACT in July 2015 for the intake and processing of applications in order to determine enrollment for providers offering services to recipients of the Medicaid Program administered throughout the State.

**Auditor Testing and Results**

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

*Population Completeness*
We requested HFS management to provide us the population of all provider applications approved during Fiscal Year 2018. Although HFS provided a population, it could not provide documentation demonstrating the completeness and accuracy of the population. Due to these conditions, we were unable to conclude the population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C § 530, and AT-C § 205.35).

Even given the population limitations noted above, we performed testing on a sample of the approved provider applications from the population provided.

*Detail Sample Testing*
Based on the population provided by HFS, during Fiscal Year 2018, the Departments approved 27,886 provider applications. In order to determine if the providers' applications were approved in accordance with federal and State laws/rules/regulations, a sample of 138 approved applications were selected for testing. Our testing of the 138 provider files revealed that 26 of the provider files contained multiple exceptions, 74 provider files contained 1 exception, and 38 of the provider files contained no exceptions. The specific exceptions noted are as follows:

- Seventy of the 138 (51%) provider files sampled were for providers who requested the applicable Department to backdate their eligibility beginning dates. Our testing revealed that all 70 (100%) of those provider files did not contain documentation of the applicable Department's exception for allowing the backdating of eligibility for the providers. As a result, it could not be determined if the backdating of eligibility, and the subsequent payments made by the State for the providers' retroactive billings, were proper.

  The *Medicaid Provider Enrollment Compendium* notes it is incumbent on the Departments to mitigate the risk of an improper enrollment, as payments for the backdated period are improper unless an exception applies.

- Forty-two of the 138 (30%) provider files sampled did not contain documentation or comments of the applicable Department's staff review of the providers' required professional licenses to confirm the licenses were valid at the time the application was approved. After our initial testing results were provided to the Departments, the Departments were subsequently able to provide us with documentation demonstrating that each of the 42 providers were appropriately licensed at the time of application.

  The Code of Federal Regulations (Code) (42 C.F.R. § 455.412(a)) requires the Departments to have a method for verifying that any provider claiming to be licensed in accordance with the laws of any State is licensed by such State.

  In addition, HFS' *Approval Process Document, applicable to Atypical Individuals and Individuals,* requires Department staff reviewing licenses to document their review of ensuring the licenses were valid and current in the comments section in IMPACT.

- Nine of the 138 (7%) provider files sampled contained a license or certification which had an open ended expiration date. As such, when the provider file was compared to the monthly screenings, IMPACT registered an error that the provider was not properly licensed/certified at that specific point in time. We noted the provider file did not contain documentation to demonstrate Department staff followed up on the results of these matches to verify enrollment when the review was performed by staff. After our initial testing results were provided to the Departments, the Departments were subsequently able to provide us with documentation demonstrating that each of the nine providers were appropriately licensed/certified during the audit period.

  The Code (42 C.F.R. § 455.412(b)) requires the Departments to confirm the provider's license has not expired and that there are no current limitations on the provider's license/certification. In addition, HFS' *Approval Process Document, applicable to Atypical Individuals and Individuals,* requires the end date for required licenses/certifications to be current in IMPACT.

- Four of the 138 (3%) provider files sampled did not contain documentation of the applicable permanent professional license(s). The providers' profile contained the applicable temporary professional license(s) which had expired. As such, when the provider file was compared to the monthly screenings, IMPACT registered an error that the provider was not properly licensed since the temporary license(s) was expired. We noted the provider file did not contain contemporaneous documentation to demonstrate Department staff followed up on the results of these matches to verify proper licensure. After our initial testing results were provided to the Departments, the Departments were subsequently able to provide us with documentation demonstrating that each of the four providers were appropriately licensed during the audit period.

  The Code (42 C.F.R. § 455.412(b)) requires the Departments to confirm that the provider's license has not expired and that there are no current limitations on the provider's license.

- One of the 138 (1%) provider files sampled indicated a significant risk existed that the provider had been sanctioned; however, the Department lacked contemporaneously prepared documentation the provider was appropriately approved after the sanction was reviewed and disposed of by either a supervisor or HFS' Office of the Inspector General (OIG). As a result, we cannot determine if the provider was appropriately approved.

  HFS' *Approval Process Document, applicable to Atypical Individuals and Individuals,* requires Department staff to send applications with sanctions to their supervisor or the OIG for review and determination.

- One of the 138 (1%) provider files sampled, who would provide transportation services, did not contain documentation that the provider's driver's license was reviewed to confirm it was valid and current at the time of approval. As a result, we cannot determine if the provider was appropriately approved.

  HFS' *Handbook for Providers of Medical Services, Chapter 100, General Policy and Procedures* requires IMPACT to verify the driver's license to determine validity at a specific point in time.

- One of the 138 (1%) provider files sampled showed the provider had the potential to be deceased as a result of IMPACT's database checks; however, the provider file did not contain documentation to demonstrate Department staff followed up on the error to determine if the provider was in fact deceased. After our initial testing results were provided to the Departments, the Departments were subsequently able to provide us with documentation demonstrating that the provider was not deceased and properly approved.

  HFS' *Approval Process Document, applicable to Atypical Individuals and Individuals,* requires Department staff to manually review all screening results that return a 90% or less precision match. The precision rate percentage of less than 100% indicates that when the provider entered its information into IMPACT to enroll in the Medicaid program, the information entered did not match certain attributes in the IMPACT verification process.

- One of the 138 (1%) provider files sampled showed "no results were found" when the IMPACT screenings were performed on the provider; however, the provider file did not contain documentation to demonstrate Department staff followed up on the results prior to verifying enrollment. As a result, we cannot determine if the provider was appropriately approved.

  HFS' *Approval Process Document, applicable to Atypical Individuals and Individuals,* requires Department staff to review the results of all screenings. Any screenings that are documented as invalid are to be manually verified.

- In addition to our testing of the 138 provider applications and their related files, we tested information systems which interfaced with IMPACT during the audit period. Our testing revealed that for the months of December 2017, January 2018, and February 2018, none of the provider profiles were checked against the National Council for Prescription Drug Program (NCPDP) database to determine if the applicable licenses and certifications were valid and current, as required.

> 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 that providers continue to meet the enrollment criteria for their provider type, in accordance with § 455.436.

In response to these matters, HFS officials indicated IMPACT's current functionality does not include a module which would allow for the retention of electronic records reviewed by staff.

The Code (2 C.F.R. § 200.303) requires nonfederal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include establishing procedures to ensure internal controls over eligibility determinations to ensure only eligible providers receive payments under federal programs at the time the expenditure is made. 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 resources are utilized efficiently, effectively, and in compliance with applicable law. Inherent within this requirement is showing, at the time when eligibility was determined and payments were made, the Departments had documentation showing the provider was eligible to participate.

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

Finally, the State Records Act (5 ILCS 160/8) requires the Departments to preserve records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the State and of persons directly affected by the agency's activities.

The Departments were not able to quantify the amount of billings, including retroactive billings, paid to these providers, for each impacted State agency. As a result, we were not able to assess the potential misstatement of the financial statements caused by unsupported retroactive billings and other noncompliance with the Code.

Inadequate controls over the operation of IMPACT, such as insufficient review and approval of provider enrollment information, may result in providers being inaccurately determined eligible, the State expending federal and State funds for which provider enrollment has not been adequately demonstrated or documented, and may result in future expenditures to providers who are ineligible to provide services to recipients of the State's Medicaid Program. Noncompliance with federal laws and regulations could lead to denied claims, sanctions and/or loss of future federal funding and result in misstatement of agency financial statements. (Finding Code No. 2018-003)

**RECOMMENDATION**

We recommend management of the Departments improve controls to better ensure Department staff and supervisors are properly obtaining, reviewing, and retaining documentation in IMPACT to support Medicaid provider enrollment. As a part of improved controls, we recommend the Departments increase the level of staff training and oversight.

**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE**

The Department of Healthcare and Family Services (HFS) partially accepts the recommendation.

The IMPACT system requires staff to review and update any information that cannot be systematically verified. The system does not currently include functionality which allows staff to retain electronic records reviewed by staff; however, the system does retain an audit trail which indicates the portion of the system that has been updated along with a date, time and employee stamp. The Department could substantiate that staff updated the portion of the record requiring manual review as required. The Department provided post audit documentation to substantiate all providers were eligible during the time they were approved. The Department, however, did not maintain an electronic copy of the documentation manually reviewed. HFS will improve controls by instituting a quality assurance program that tests whether staff are reviewing appropriate documentation and using the system appropriately. This will target any needs for additional training and oversight.

**AUDITOR'S COMMENT TO DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES' RESPONSE**

The Department contends they provided post audit documentation to demonstrate all providers were eligible during the time they were approved. However, as noted above, the Department did not provide documentation that seventy providers requesting the Department to backdate their eligibility beginning date had a documented exception to allow for the backdating as required by the *Medicaid Provider Enrollment Compendium*.

In addition, the Department did not provide documentation demonstrating, as required by their own process: (1) a provider had a proper driver's license; (2) proper followup action was taken for any provider who was a significant risk of having a sanction; and (3) proper followup action was taken for any provider who yielded no screening results.

**DEPARTMENT OF HUMAN SERVICES' RESPONSE**

The Department of Human Services (DHS) agrees with the recommendation. DHS will work with the Department of Healthcare and Family Services (HFS) to improve controls to ensure DHS staff and supervisors are properly obtaining, reviewing and retaining documentation in IMPACT to support provider enrollment. As part of improved controls, DHS will also work with HFS to increase oversight and staff training where necessary.

**DEPARTMENT OF CHILDREN AND FAMILY SERVICES' RESPONSE**

The Department of Children and Family Services (DCFS) accepts this finding, and will cooperate with HFS in determining what, if any, responsibilities related to the auditors recommendation apply to DCFS and will ensure those responsibilities are defined in the interagency agreement referenced in Finding 2018-001. DCFS will develop processes or procedures to comply with the roles and responsibilities defined in the agreement.

**DEPARTMENT ON AGING'S RESPONSE**

The Illinois Department on Aging (IDoA) disagrees with the finding as it relates to IDoA. The Department maintains an All Willing and Qualified (AWAQ) certification process for all providers in the Community Care Program. That process certifies providers to be qualified under the programmatic and administrative requirements outlined in Administrative Rule. Only after the certification process is complete and an agreement to provide services to participants has been executed is a provider's information entered into IMPACT to either be located in the system or added as a Community Care Program provider.

There is no part of the certification process at IDoA that utilizes IMPACT. All provider monitoring is performed at the Department and outside IMPACT.

**AUDITOR'S COMMENT TO DEPARTMENT ON AGING'S RESPONSE**

As noted in Finding 2018-001, the Departments do not have current, formal written agreements defining the roles and responsibilities of HFS or its Delegated Agencies of the Medicaid Program. Until such time as the Departments define the roles and responsibilities of each agency, we are unable to determine which agency is responsible for what actions.

With regards to the process noted by DoA, we understand the Department performs the AWAQ certification process for its providers in the Community Care Program outside of IMPACT. However, as also noted in Finding 2018-001, IMPACT is the State's designated book of record for providers certified in the Medicaid Program.

## PRIOR YEAR FINDINGS NOT REPEATED

None.