LEGISLATIVE AUDIT COMMISSION

Review of
Department of Public Aid
Year Ended June 30, 2005

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REVIEW: 4256
DEPARTMENT OF PUBLIC AID
YEAR ENDED JUNE 30, 2005

FINDINGS/RECOMMENDATIONS - 8

ACCEPTED - 4
IMPLEMENTED - 4

REPEATED RECOMMENDATIONS - 0
PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 3

This review summarizes the auditors' reports for the Department of Public Aid for the year ended June 30, 2005, filed with the Legislative Audit Commission March 28, 2006. The auditors performed a financial audit and compliance examination in accordance with State law and *Government Auditing Standards*. The auditors stated the financial statements were fairly presented.

The Department of Public Aid, which was officially renamed the Department of Healthcare and Family Services as of July 1, 2005 (Department) is committed to empowering Illinois' citizens to lead healthier and more independent lives by providing adequate access to healthcare coverage at a reasonable cost; assisting families through the child support process by establishing and enforcing support obligations; and helping people become more self-sufficient in their home energy needs through energy conservation and bill payment assistance.

In FY05, the average monthly count of enrolled individuals in the medical programs was 1.9 million, including pregnant women, infants, children and teenagers, seniors and people with disabilities, people struggling with one-time catastrophic medical bills, and children and adults with chronic health problems. About two-thirds of the medical program budget is expended for health care to seniors and the disabled, which averaged about 600,000 persons per month.

The Division of Child Support Enforcement serves more than 600,000 families composed of TANF clients and any other Illinois citizens requesting child support enforcement services. More than $1.2 billion was collected in child support and arrearages in FY05. Over 310,000 households received assistance grants through LIHEAP and over 7,000 homes were weatherized in FY05. Finally, the Department's Inspector General conducted 3,950 fraud prevention investigations and 629 post-payment audits during FY05 and recovered $17.7 million in overpayments.

The Director of the Department during the audit period was Barry Maram. He has served as Director since February 26, 2003. He had no prior association with the Department. The number of employees during the period under review is summarized on the following page.

Summary of Employees

General Revenue Fund	FY05	FY04
Program Administration	325	357
Office of Inspector General	195	205
Attorney General	22	22
Medical	461	473
Managed Care	23	23
Kid Care – Look a Like	44	47
Kid Care - Rebate	39	40
Medi Rev*	9	9
Care Provider for Persons with DD	1	1
Long-Term Care Provider	12	13
Medical Special Purpose Trust	9	9
Child Support Administration	983	997
Public Assistance Recoveries Trust	148	151
Energy Assistance	25	0
Total GRF	**1,118**	**1,176**
Other Funds	**1,178**	**1,171**
GRAND TOTAL	**2,296**	**2,347**

* Medical electronic interchange recipient eligibility verification

Expenditures From Appropriations

The General Assembly appropriated $11,882,716,000 to the Department in FY05. Just over 50% ($6,030,291,000) of the Department's appropriated funds are from the General Revenue Fund. The Department also received appropriations totaling $5,579,425,000 from 25 other funds. Total expenditures from appropriated funds were $10,058,792,000 in FY05 which represents a decrease of $338,699,000, or 3.3%.

Administrative expenditures from the General Revenue Fund were $128,200,000 and distributive expenditures from the General Revenue Fund were $4,861,386,000 in FY05. All distributive expenditures were medical. Appendix A contains a summary of appropriations and expenditures for the period under review. The Department did not administer the energy assistance program until FY05. During FY05, the Department spent an additional $448,380,000 in non-appropriated funds. Lapse period expenditures were $135.3 million or 1.3%.

Federal Assistance

Appendix B is a summary of the federal assistance grant awards and disbursements for FY05. Federal assistance disbursements totaled $6,428,163,000 in FY05. By far, the largest federal assistance program is the Medical Assistance Program which provides financial assistance for payments of medical assistance on behalf of cash assistance recipients, children, pregnant women, and the aged who meet income and resource requirements and other categorically eligible groups. The federal government pays 50% of the expenses relating to most administrative costs for Medicaid, but some expenditures can be matched at 75% or 90%.

Cash Receipts

Appendix C is a summary of cash receipts for FY05 and FY04. The Department's cash receipts and transfers were $12,326,642,000 in FY05, which is an increase of $2.9 billion, or 30.7%, over FY04. The Hospital Provider Fund is a new fund set up to receive assessments and disburse monies to qualifying hospitals. FY05 was the first year for DPA to administer the Energy Administration Fund and the Low Income Home Energy Assistance Block Grant Fund.

Property and Equipment

Appendix D is a summary of property and equipment for FY05. Property and equipment for which the Department was accountable was $44,694,000 at June 30, 2005, a decrease of $4.5 million over FY04.

Accounts Receivable

In FY05 net accounts receivable was almost $292 million, and does not include $2.5 billion which is the allowance for uncollectible accounts. The accounts are subject to all manner of collection including internal offsets against future claims for providers with outstanding debt, Comptroller's Offset system, cyclical billings, letters and telephone contacts, private collection agencies, liens and judgments, and notification of credit reporting agencies. The Department has implemented other methods of collection such as: income withholding, unemployment insurance benefit intercept, federal income tax refund offset, professional license revocations, judicial remedies, driver's license revocation, new hire reporting, financial institution data match, agency collectors, Department of Revenue initiative, and referral to the Attorney General's office.

Follow-up on Previous Audits

As a result of the audit on the KidCare program released in 2002, the OAG made seven recommendations to the Department. One of the recommendations, regarding the conversion to a permanent eligibility card, is only partially implemented. Although the Department plans to issue the cards annually instead of monthly, the Department is still researching what information should be displayed on the cards and from what materials the cards should be made.

Accountants' Findings and Recommendations

Condensed below are the eight findings and recommendations presented in the audit report. There were no repeated recommendations. The following recommendations are classified on the basis of updated information provided by Brenda Vost, External Audit Liaison for the Department of Public Aid, via electronic mail received October 24, 2006.

Accepted or Implemented

1. Follow current procedures and reiterate to supervisors the importance of the timely completion of all sections of performance appraisals.

<u>Findings:</u> The Department did not complete all performance appraisals on a timely basis. For nine out of 50 employee files tested, the performance appraisal was signed 39

Accepted or Implemented - continued

to 225 days late. One employee's prior year's performance appraisal was not completed annually.

Department personnel indicated the late completion was a result of supervisor oversight.

<u>Updated Response:</u> The Department agrees that all employees are to be evaluated annually. The Division of Personnel and Administrative Services continues to send notifications to the Division Administrators and Personnel Liaisons reminding them when evaluations are due. The Department will not process any personnel transactions (i.e., promotions, separations, transfers, etc.), with the exception of address changes, if the employee's performance appraisal is past due. Personnel continues to track employee evaluations in an effort to reduce the number that are not completed and signed in a timely manner.

2. Amend policies to require all employees maintain time sheets in compliance with State law. Ensure time sheets are completed in accordance with Department policies and retained by the fiscal office for the required statutory period.

<u>Finding:</u> The Department is not maintaining time sheets for its employees in compliance with the State Officials and Employees Ethics Act (Act). The Department had personnel policies in regard to timekeeping, but the Department only required "Executive Level Staff" to maintain a daily time sheet which documents the time spent each day on official State business. The Department had an average of 2,296 employees at June 30, 2005 and the Department only required 14 (0.61%) employees to prepare time sheets in accordance with the Act.

The auditors selected 6 of the 14 employees required to submit time sheets to determine whether the time sheets were completed for 3 of the 12 months under audit (July, November, and April). Two of 18 (11%) time sheets tested could not be located by the Department, as the employee had failed to complete them.

The Department stated they were ready to implement a department-wide timekeeping policy to comply with the Act. However, the union demanded to bargain over the impact; therefore, the policy has been put on hold.

Response: The Department accepts the finding and stands ready to implement a department-wide timekeeping policy to comply with the Act. However, the union has demanded to bargain over the impact; therefore, implementation of the policy has been put on hold. The Department is implementing a policy instructing that a monthly time sheet reminder be sent to all Executive Level Staff.

Updated Response: Partially Implemented. The Department's policy that executive level staff prepare monthly time sheets was implemented. The Department's hold on implementation of the Department-wide timekeeping policy continues as the Department of Central Management Services coordinates implementation efforts.

3. Establish and implement a policy for handling old outstanding checks.

Finding: The State Disbursements Unit (SDU) bank account reconciliation at June 30, 2005 included old outstanding checks. The SDU has embossed on each check "void after ninety days." During testing of the SDU bank reconciliation, 9 of 25 (36%) outstanding checks included in the bank reconciliation were outstanding for more than ninety days. It was also noted that of the 175,231 checks outstanding at June 30, 2005, 75,165 (42.9%) were more than ninety days outstanding.

The Department stated that their policy is not explicit as to the number of days for SDU checks to escheat, be voided, and reissued, resulting in some checks being outstanding more than 90 days.

Updated Response: Implemented. The SDU's staledate procedures were updated, the check stock was changed, and computer programming changes for the new procedures were initiated. In February 2006 the SDU began the EPPICard opt-out initiative. All eligible custodial parents were enrolled for direct deposit, or in EPPIC, before the first run on the new staledate procedures. The new procedures enable parents who had not cashed their checks (because most checks were $5 or under and it was not cost effective for the parents to cash them) to access their funds electronically. Direct deposit instructions are provided to any cases enrolled in electronic disbursement after the staledated check procedures were implemented. For custodial parents who now have direct deposit or EPPIC and have a staledated check, the SDU can identify the staledated check, void the payment, and re-issue the payment for direct deposit.

4. Ensure that all interagency agreements are approved by an authorized signer prior to the effective date of the agreement.

Accepted or Implemented - continued

<u>Findings:</u> The Department failed to sign interagency agreements prior to the effective date. During testing of interagency agreements, 11 of 30 (37%) agreements were not signed for approval prior to the effective date. The agreements were signed between 7 and 347 days after the agreements became effective.

The Department stated that oftentimes with interagency agreements a law will pass and become effective prior to the Department drafting, reviewing, and signing the coordinating agreement.

<u>Updated Response</u>: Implemented. The Department has adopted controls to implement this recommendation through education on the importance of timely processing and approvals of those who draft the agreements, and with the development of a database to aid in monitoring the agreements.

5. File reports with the General Assembly within six months of a reorganization taking effect pursuant to the requirements of the Executive Reorganization Implementation Act and annually thereafter for three years. Also, file past due reports promptly.

<u>Finding:</u> The Department has not filed reports with the General Assembly regarding reorganization as required. The Executive Reorganization Implementation Act requires "Every agency created or assigned new functions pursuant to a reorganization shall report to the General Assembly not later than 6 months after the reorganization takes effect and annually thereafter for 3 years. This report shall include data on the economies affected by the reorganization and an analysis of the effect of the reorganization on State government. The report shall also include the agency's recommendations for further legislation relating to reorganization."

<u>Updated Response:</u> Partially implemented. The reports for the LIHEAP/Weatherization Program and one of the reports for the Circuit Breaker/Pharmaceutical Program reorganizations were filed with the Illinois General Assembly.

6. Rescind signature authorization for individuals no longer employed by or under agreement with the Department, and develop policies to monitor signature authorizations on file at the Comptroller's office.

<u>Findings:</u> The Department has not rescinded signature authorization for individuals no longer employed by or under agreement with the Department. The auditors noted that 8 of 39 (21%) of the signature authority cards on file at the Comptroller's office were for individuals who are no longer employed by or under agreement with the Department. The individuals had not been employed by or under agreement with the Department for between 49 and 730 days.

Department officials stated that the signature authorizations had not been rescinded due to employee oversight.

Updated Response: Implemented. The Department has rescinded signature authorizations for individuals no longer employed by or under agreement with the Department. The Department's Office of General Counsel receives periodic reports of changes in employment status for all Department employees, and reviews the report to determine whether rescission of an individual's signature authority is warranted. The Department promptly notifies the Comptroller's Office when an individual's signature authority is rescinded so the card can be removed from the active file.

7. Implement additional controls for the University of Illinois Hospital Services Fund (Fund 136) to ensure only necessary balances are maintained and excess funds are timely transferred to Fund 001 as mandated by State statute.

Finding: The Department has inadequate controls to ensure excess funds in the University of Illinois Hospital Services Fund (Fund 136) are transferred to the General Revenue Fund (Fund 001).

The Department did not transfer excess monies from Fund 136 to Fund 001 until May. In May the Department transferred $30.0 million to Fund 001; however, the average daily balance of Fund 136 from July 1 until the transfer was $42.4 million. Prior to the transfer, the highest daily balance was $47.6 million and the lowest daily balance was $29.9 million. In addition, it was noted that two marginal transfers were made prior to May that totaled $2.2 million. The average daily balance of the fund was approximately $38.2 million for the fiscal year.

The Department stated that they generally maintained a balance in Fund 136 necessary for making payments to the University of Illinois Hospital, as well as an estimate of likely payments for expedited providers, which are paid from other funds. Periodically, excess funds are transferred to Fund 001 at times of low cash flow, in order to ensure cash availability for payments to expedited providers, which are paid from other funds.

Updated Response: Implemented. Monthly the Department compares expected University of Illinois Hospital Services Fund (UIHSF) spending and available cash balances. The Department transferred $52.2M to the General Revenue Fund (GRF) over the last six months of FY06 and has requested $29M in FY07 transfers through the end of September 2006. As a result, the end-of-month UIHSF cash balances have remained significantly lower than those cited above for the period of February-September 2006.

Accepted or Implemented - concluded

8. Address the compliance requirements provided by State law. If the Department concludes that the demonstration programs are no longer needed, the Department should seek legislation to have the mandate rescinded.

Finding: The Department did not continue the implementation of reimbursement methodology for demonstration programs or submit an annual report to the Illinois Department of Public Health (IDPH).

The Alternative Health Care Delivery Act (Act) is intended to foster new innovations in health care delivery through the development of demonstration projects to license and study alternative health care delivery systems.

The Act requires the Department to develop and implement a reimbursement methodology for all facilities participating in the demonstration program. In addition, the Department shall keep a record of services provided under the demonstration program to recipients of medical assistance under the Illinois Public Aid Code and shall submit an annual report of that information to the IDPH.

The Department stated that the reimbursement methodology had been developed but not implemented due to no apparent provider interest in proceeding with the demonstration programs. The Department further stated no providers have requested reimbursement; therefore, there is no data to report to IDPH.

Updated Response: During the last legislative session, the Department requested that paragraph d-5 of section 30 of the Alternative Health Care Delivery Act be repealed. That provision was not included in the legislation that was enacted. The Department will again seek a repeal of that provision.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1), which was in effect during the two-year period under review, stated that “the principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts.” The law recognized that there will be emergency situations when it will be impossible to conduct bidding. It provided a general exemption for emergencies “involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records, or to avoid lapsing or loss of federal or donated funds. The Chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make ‘quick purchases’, including but not limited to items available at a discount for a limited period of time.”

State agencies were required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit was to set forth the circumstance requiring the emergency purchase. The Commission received quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission was directed to review the purchases and to comment on abuses of the exemption.

During FY05 the Department filed four affidavits for emergency purchases totaling $630,880.50 as follows:

- $249,980.50 for assistance in processing child support orders;
- $205,900.00 for fraud prevention at the Office of the Inspector General;
- $100,000.00 to negotiate hospital services; and
- $75,000.00 for computer software for medical programs.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time. The Department of Public Aid reported in July 2005 that it had 50 employees spending more than 50% of their working time away from their official headquarters.