

LEGISLATIVE AUDIT COMMISSION



Review of
Department of Public Aid
Year Ended June 30, 2000

622 Stratton Office Building
Springfield, Illinois 62706
217/782-7097

**REVIEW: 4147
DEPARTMENT OF PUBLIC AID
YEAR ENDED JUNE 30, 2000**

FINDINGS/RECOMMENDATIONS - 8

ACCEPTED - 8

REPEATED RECOMMENDATIONS - 5

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 24

This review summarizes an audit of the Department of Public Aid for the year ended June 30, 2000, filed with the Legislative Audit Commission May 17, 2001. The auditors performed a financial and compliance audit in accordance with State law and *Government Auditing Standards*. The auditors stated the financial statements were fairly presented except for the effect of the omissions of Child Support Enforcement Trust Funds #957, #1957 and #2957. Child Support Enforcement Trust Funds should be included in order to conform to generally accepted accounting principles.

The Department of Public Aid (Department) was established for the purpose of alleviating and preventing poverty, and thereby protecting and promoting the health and welfare of all the people of the State. The Department operates programs to enable access to quality health care, educate clients to make informed choices, establish and enforce parents' obligations to support their children and combat fraud and abuse in the programs it administers.

In July 1997, several of the Department's programs including Income Assistance, Day Care, Social Services, and Community Field Operations were transferred to the Department of Human Services. Still the Department is responsible for maintaining one of the largest budgets in the State. Appropriations for the Department's two programs, Medicaid and Child Support, increased from \$6.2 billion in FY99 to \$6.9 billion in FY2000.

The data below summarizes statistics for the Medical Assistance, No Grant (MANG) Program. Even though the number of monthly participants has increased, the average annual disbursement per participant in this program has remained steady over the last four years.

<i>Medical Assistance, No Grant:</i>	<i>2000</i>	<i>1999</i>
<i>Monthly Participants</i>	1,067,690	851,139
<i>Annual Disburse/Participant</i>	\$417	\$401
<i>Annual Program Payments</i>	\$445,202,042	\$341,611,819

REVIEW: 4147

The Department director during the one-year audit period was Ann Patla. She resigned effective February 28, 2001. The new director is Ms. Jackie Garner. She became the director on March 1, 2001, and did not serve in any capacity at the Department prior to her appointment. The number of employees during the period under review is summarized below.

Summary of Employees

General Revenue Fund	FY2000	FY99
Central	467	262
OIG	287	293
EDP	*	235
Training personnel	*	-
Attorney General	27	28
Medical Programs	541	533
Managed Care	42	5
HCBS Waiver	*	1
KidCare – Look a Like	124	24
KidCare – Rebate	38	9
Total GRF	1,526	1,390
Other Funds	1,327	1,354
GRAND TOTAL	2,853	2,744

* Reflects combination with other divisions.

Results of Internal Audit - Contract Review

The Department entered into a multi-year contract, effective July 1, 1991, to identify additional funds that could be recovered by the Department from Third Party Liability resources. In August 1995, management at the Department requested that its Bureau of Internal Audits initiate a review designed to determine whether the payments made to the vendor were accurate and contract deliverables complied with contract requirements. The internal audit was finalized December 1998, and subject to final legal determination, the auditors' opinion was that the contractor received inappropriate payments of not less than \$12.35 million and the Department should take appropriate action to recover misspent funds. The final report was provided to the Attorney General's office on January 29, 1999. The Attorney General's office took no action in FY2000.

Expenditures From Appropriations

The General Assembly appropriated \$6,931,775,000 to the Department in FY2000. Over 70% (\$4,913,048,000) of the Department's appropriated funds are from the General Revenue

REVIEW: 4147

Fund. The Department also received appropriations totaling \$2,018,727,000 from 11 other funds. Total expenditures from appropriated funds were \$6,587,457,000 in FY2000 which represents an increase of \$756,088,000, or 13%.

Administrative expenditures from the General Revenue Fund were \$207,966,000 and distributive expenditures from the General Revenue Fund were \$4,694,519,000 in FY2000. All distributive expenditures except medical were established in the Department of Human Services. Appendix A contains a summary of appropriations and expenditures for the period under review (FY2000) as well as FY99. During FY2000, the Department spent an additional \$191,034,000 in non-appropriated funds.

Federal Assistance

Appendix B is a summary of the federal assistance grant awards and disbursements for FY2000. Federal assistance disbursements totaled \$4,154,723,000 in FY2000. 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. The State match for this program is 50%.

Cash Receipts

Appendix C is a summary of cash receipts for fiscal years 2000 and 1999. The Department's cash receipts and transfers were \$5,625,541,000 in FY2000, which is an increase of \$526,046,000, or 10.3%, over FY99.

Property and Equipment

Appendix D is a summary of property and equipment for FY2000. Property and equipment for which the Department was accountable was \$49,685,000 at June 30, 2000, an increase of \$5.5 million over FY99.

Follow-up Of Previous Audits

The Special Assistant Auditors performed limited agreed upon procedures through observation and inquiry with the Department to follow-up on four Program and Management Audits conducted by the Office of the Auditor General in FY99 and FY2000.

The auditors reported that six of 15 recommendations from the **Management Audit of the SDU** conducted by the Auditor General were not implemented; seven were partially

REVIEW: 4147

implemented; and only two were implemented. These recommendations were not implemented:

- Conduct Audit of KIDS;
- Remove SDU Inactive Cases;
- Reconcile Case Information;
- Calculate Payment Processing Time;
- Require SAS 88 Audit Reports; and
- Ensure Timely IV-D Disbursements and Cost Recovery.

These recommendations were partially implemented:

- Enhance Clerk's Access to SDU System;
- Improve Employer Notices;
- Improve Project Planning;
- Ensure that Contracts Protect the State;
- Monitor SDU Contract;
- Define Contract Terms; and
- Identify Restrictions on Emergency Payment Recoupment.

The recommendations concerning the authority for emergency payments and use of the trust funds were implemented.

The Department has taken steps to address many of the findings contained in the **Management Audit of Delta Dental**. However, additional improvements are needed, including monitoring the ratio of participants to dentists, completing required audits of expenses charged to the Department, and strengthening procurement procedures. The Department is currently developing contract negotiations procedures, which will address the documentation of discussions and correspondences cited in prior year recommendations.

The Department and Delta agreed to deduct \$6,901 for claims paid by Delta due to lost interest on excess surplus. As of August 2000, the Department was conducting detailed reviews of Delta Dental charges and interest audits.

As a direct result of the **Management Audit of Pilsen-Little Village Community Mental Health Center**, during FY2000, the Office of the Inspector General (OIG) completed a post payment compliance audit at Pilsen's largest facility. Based on the results of this audit, the Department is in the process of recouping \$16,008 in overpayments. The OIG also completed four desk audits at other Pilsen locations and is recovering \$4,510 in overpayments.

As a result of the **Management and Program Audit on Medicaid Home Health Care Agencies**, the Department has made some progress in addressing recommendations from

REVIEW: 4147

that audit concerning billing problems. The Department is still investigating how to make better use of hospital discharge information and to identify provider billing irregularities.

Accountants' Findings and Recommendations

Condensed below are the eight findings and recommendations presented in the audit report. There were eight repeated recommendations. The following recommendations are classified on the basis of information provided by Elwin Lay, Chief Internal Auditor for the Department of Public Aid, via electronic mail received August 10, 2001.

Accepted

- 1. Continue efforts to identify and correct all data integrity problems in the Key Information Delivery System (KIDS). Apply necessary resources to strengthen control over financial reporting of child support activity by performing periodic internal tests of account balances and evaluating the reasonableness of child support financial reports, in order to reduce to a low level the risk that misstatements in amounts material to the financial statements will be detected within a timely period by employees. (Repeated-1998)**

Findings: The Department was unable to provide evidence of substantial improvements to the integrity of the data in the Key Information Delivery System (KIDS), which has resulted in the Department's inability to validate the Child Support Enforcement accounts receivable balance at June 30, 2000.

The Department was federally mandated by the Federal Family Support Act of 1988 to design and implement an automated child support information system by October 1, 1997. The deadline was later extended to August 1, 1998. The Department signed a contract for the development of KIDS in December 1991. The original completion date was May 1993, but through many contract revisions and numerous problems with the vendor, the actual implementation date was not until August 1998. The original amount of the first contract was \$5,880,000. The ending total paid on the contract was \$17,208,886. The original vendor did not complete the project.

The Department assumed responsibility for the development of KIDS from the contractor on December 31, 1997. Project delays led to Department staff converting cases from the previous system to KIDS in order to meet the final federal deadline, without regard to accuracy of data. A review of the system was performed in FY2000 by a workgroup comprised of Department staff to determine the extent to which noted problems had been resolved or still existed and what corrective actions were needed.

REVIEW: 4147

The auditors' review of the workgroup results noted the following:

- In a randomly selected sample of 81 child support cases, errors similar to those found in the past two audits still existed;
- All 81 cases contained one or more errors;

Accepted - continued

- 20 out of 81 cases reviewed contained errors related to accounts receivable balances; and
- some of the problems required system changes to KIDS, retraining of supervisors and field staff and/or closer supervision of field staff.

Due to data integrity problems noted during the Federal Certification Review, the KIDS system is conditionally certified by the federal government. The Department was still in the process of cleansing data during the auditors' fieldwork.

Response: Accepted. IDPA does not concur with the references made to data integrity problems in this finding. Based on the Department of Health and Human Service's (DHHS) FSA88 certification follow-up in Chicago on August 19, 1999, IDPA and the State of Illinois demonstrated to the satisfaction of DHHS that conditions associated with data integrity were fully satisfied. For reasons unknown to DHHS, IDPA was never officially informed until April 2001 that data integrity conditions were fully satisfied. In light of this information, IDPA believes that KIDS is fully certified in compliance with FSA 88.

IDPA is continuing its efforts in identifying and correcting all data integrity problems. Data integrity improvement is a continual process in all systems. IDPA has applied all necessary resources to ensure KIDS meets the additional federal requirements for Federal Welfare Reform and the needs of the State. A federal review of IDPA's implementation of the additional requirements was completed in 4/01 and a report is expected.

IDPA has made great strides in accounts receivable reporting during the last two years. The Department is able to support its accounts receivable balances with case level detail.

- 2. Obtain reports outlined in contractual agreements within the timeframes specified; utilize the reports to monitor and evaluate the contractor's performance; monitor contracts to ensure significant functions, such as reconciliations, are performed timely; audit the activities at the SDU; and fully implement audit recommendations made in the Auditor General's management audit of the SDU.**

Findings: The Department did not obtain reports necessary to monitor, evaluate and report activity of the SDU. The Department executed a contract in February 1999, ultimately totaling \$24 million, with the DuPage County Circuit Clerk. The contract required the Circuit

REVIEW: 4147

Clerk to develop, establish and operate the SDU. Auditors noted that the Department did not obtain the following reports from the contractor, as required:

- monthly report of all transactions performed the preceding month;
- monthly report on total transactions processed, total dollars collected, and total dollars disbursed;
- an exception report of all payments received but not disbursed by the SDU;
- an exception report of all unapplied payments received by the SDU;
- an exception report of all checks returned due to insufficient funds or stop payment;
- an exception report for checks returned as undeliverable;
- an exception report for misapplied payments;
- a report on the number of customer service inquiries and the source of the inquiry; and
- monthly report of actual expenditures for equipment.

The Department did not audit or contract for an audit of the SDU to determine reliability of SDU financial information. The monthly report of all transactions was not submitted because the contractor did not perform monthly reconciliations as required by the contract. Other reports were not submitted due to start-up difficulties and a higher priority given to processing child support checks. Due to the absence of adequate reports, particularly an audit, the auditors could not render an opinion for the financial activity of the SDU Fund.

Response: Accepted. The contract with the DuPage County Clerk expired on June 30, 2000 and the Department is now operating the SDU. The SDU Project Director is monitoring reports that current related providers are contracted to submit. The Department is also performing an audit of the activities at the SDU.

Due to the changed environment since the audit period of the OAG's Management Audit, the Department is coordinating with the OAG to ensure the March 2000 recommendations are appropriately implemented.

3. Supervise, monitor and report all equipment, and ensure accurate and timely reporting of equipment.

Findings: The Department did not have a complete property listing as of June 30, 2000. The Department's property listing did not include the SDU (\$1,943,091) and Medical Warehouse System (\$4,207,225). Auditors noted erroneous deletions totaling \$577,012.

Further, the SDU purchased EDP equipment in October 1999 that was not identified or recorded until August 2000, which resulted in inaccurate property reports being submitted to the Comptroller and an inaccurate GAAP report. The Department did not file an affidavit with the State Surplus Administrator stating why furniture must be purchased new instead of using surplus property.

Response: Accepted. Electronic data processing (EDP) equipment purchased through the standard IDPA/CMS procurement process is automatically entered into the IDPA Equipment

REVIEW: 4147

Inventory System (EIS). Both of these equipment issues were a result of contractual relationships as opposed to direct purchases of equipment. The Department has strengthened its controls in this area to ensure that all equipment is promptly tagged and recorded in the appropriate system. The equipment has been tagged and added to the inventory system. All of the required reports were revised and submitted. The **Accepted - concluded**

Department will also file an affidavit with the State Surplus Administrator prior to the purchase of new furniture.

4. Ensure audits of major systems at least once every two years as required by statute. (Repeated-1999)

Findings: The Bureau of Internal Audit (BIA) did not perform the scheduled audits as outlined by BIA's Audit Plan for FY2000.

Failure to audit major systems is noncompliance with FCIAA. BIA cannot assure management that reasonable controls exist if internal controls of major systems of internal accounting and administrative control are not reviewed.

Response: Accepted. Three vacant positions have been filled: two in May 2000 and one in January 2001. Currently, there are two vacant positions. BIA has completed all of the required FY'01 audits and will ensure future audits are conducted in accordance with the Fiscal Control and Internal Auditing Act.

5. Deposit cash refunds and receipts as required by statute. (Repeated-1999)

Findings: In three out of 25 cash receipts tested, receipts totaling \$1,354,214 were not paid into the State treasury within the required time frame. Twenty-one out of 25 cash refunds tested, totaling \$134,151, were not paid into the State treasury timely. The Department stated the delay in depositing the cash receipts was due to a receipt code change. The Bureau of Fiscal Operations had received an extension in writing from the Comptroller and incorrectly applied the extension to another fund.

Response: Accepted. For Cash Refunds: Measures have been taken to shorten the processing time which in turn has enabled the Department to deposit cash refunds timely. The Comptroller has granted a 30 calendar day extension for refund receipts. Also, the IV-D Accounting Unit now has responsibility for Fund 0957 cash refunds.

For Cash Receipts: A deposit extension was granted by the Comptroller on the new receipt account code for Hospital Assessments formerly deposited in the 346 Fund (15 days to get unidentified payment instruments deposited and 7 days to get identified deposited). There

REVIEW: 4147

was an unusual set of circumstances due to a fund closure. Procedures have been added to address timely deposit waiver extensions when one fund closes and receipts are incorporated into another fund. Cash receipts are being deposited timely.

6. Prepare complete, accurate and timely reconciliations of the monthly cash report to ensure accuracy of accounting records and to monitor available funds.

Findings: The Department did not perform a monthly reconciliation of its records to those of the State Comptroller for all funds. Department personnel stated the reconciliations were not performed due to a large number of reconciling items and inadequate staff resources.

Response: Accepted. The Department has allocated the necessary resources needed to reconcile these funds. The 957 and 421 funds have been reconciled and are current.

7. Perform an annual closing of Public Aid Accounting System (PAAS) balance sheet accounts.

Findings: The Department has not performed an annual closing of the Public Aid Accounting System (PAAS) balance sheet accounts since 1997.

Response: Accepted. The PAAS annual closings have been completed and are current. Procedures call for the FY'01 to be closed by April 2002, following the completion of the FY'01 financial statement audit by the OAG.

8. Continue efforts to obtain all information for the State Case Registry as required by the Illinois Public Aid Code. (Repeated-1999)

Findings: The Department's established State Case Registry did not contain the driver's license number for the custodial parent in all 81 cases selected for review, or the phone number of the non-custodial parent's employer in 54 of 70 applicable cases reviewed as required by statute.

Response: Accepted. Driver's license data provided by Custodial Parents (CP) is maintained by the Department. When it is possible to obtain driver's license information through the locate process, the data is maintained in the system. The Department is pursuing a computer system change to obtain the information for all IV-D CPs. The Department does not have the ability to require non-IV-D CPs to provide this information.

The Department also maintains the Non-Custodial Parent's (NCP) employer phone number. The Key Information Delivery System (KIDS) was revised during the Auditor General's audit

REVIEW: 4147

period to maintain this information when it is possible to obtain it.

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. 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 FY2000 the Department filed 16 affidavits for emergency purchases totaling \$4,792,820.09. Five items totaling \$483,762.00 for computer equipment and physician referral were for the KidCare program. Seven items totaling \$4,024,460.00 for computer equipment, data scrubbing, an internal audit, and transition consulting were for the SDU. Two items totaling \$207,186.80 were for the Medicaid program. The remaining two items totaling \$77,411.29 were for a mailing and a computer software upgrade within the Department.

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 on July 24, 2000 that it had 91 employees assigned to locations other than official headquarters.

REVIEW: 4147

REVIEW: 4147
DEPARTMENT OF PUBLIC AID
YEAR ENDED JUNE 30, 2000

APPENDIX A

Summary of Appropriations and Expenditures

I. Summary of Appropriated Funds

	<u>FY2000</u>	<u>FY99</u>
TOTAL APPROPRIATIONS	<u>\$ 6,931,775,000</u>	<u>\$ 6,168,426,000</u>
<u>EXPENDITURES</u>		
General Revenue Fund		
Administrative -		
Personal Services	\$ 59,036,000	\$ 56,606,000
Retirement*	8,049,000	7,628,000
Social Security	4,198,000	4,001,000
Contractual Services	24,013,000	21,337,000
Travel	1,057,000	1,011,000
Commodities	758,000	909,000
Printing	939,000	742,000
Equipment	1,907,000	2,286,000
Telecommunications	3,029,000	2,900,000
Operate auto equipment	74,000	51,000
Medical Management Services	8,845,000	7,710,000
Information Systems (Med. Elig)	2,329,000	839,000
Deposit to Med. Res. & Dev. Fund	3,400,000	3,400,000
Deposit to the PTCSF	3,400,000	3,400,000
Med Level - Med Data Warehouse	2,715,000	2,000
Med Level- Data Warehouse Reapp.	10,017,000	-
Deposit to CSETF	74,200,000	-
	<u>207,966,000</u>	<u>112,822,000</u>
Total Administrative Expenditures		
	<u>4,694,519,000</u>	<u>4,238,711,000</u>
Total Distributive Expenditures , Medical		
	<u>6,000</u>	<u>-</u>
Kid Care Refunds		
University of Illinois Hospital Services Fund	130,314,000	137,369,000
County Hospital Services Fund	1,112,574,000	923,139,000
Provider Inquiry Trust Fund	338,000	316,000
Medicaid Developmental Disabilities Provider	109,000	97,000
Medicaid Long-Term Care Provider Participation	261,449,000	259,779,000
Hospital Services Trust Fund	-	9,639,000
Trauma Cente Fund	5,451,000	8,107,000
Public Assistance Recoveries Trust Fund	11,044,000	9,573,000
Medical Research &n Development Fund	6,800,000	6,800,000
Post-Tertiary Clinical Services Fund	6,800,000	6,800,000
Juvenile Behavior Health Services	916,000	626,000
Child Support Enforcement Trust Fund	149,171,000	117,591,000
	<u>\$ 6,587,457,000</u>	<u>\$ 5,831,369,000</u>
Total Expenditures All Funds		

REVIEW: 4147
DEPARTMENT OF PUBLIC AID
YEAR ENDED JUNE 30, 2000

APPENDIX B

Summary of Federal Assistance
Fiscal Year Ended June 30, 2000

Federal Grantor/Program Title	<u>Grant Award</u>	<u>Disbursements</u>
U.S. Department of Health & Human Services - Direct Programs:		
Medical Assistance Program	\$ 4,039,831,000	\$ 4,039,831,000
Health Services Quality Board	7,911,000	7,911,000
CHIP	6,753,000	6,753,000
Child Support Enforcement Title IV-D	99,609,000	99,609,000
Head Start Demo	113,000	113,000
Access & Visitation Grant	418,000	418,000
IV-D Improvement	<u>88,000</u>	<u>88,000</u>
Total Federal Assistance	<u>\$ 4,154,723,000</u>	<u>\$ 4,154,723,000</u>

REVIEW: 4147
DEPARTMENT OF PUBLIC AID
YEAR ENDED JUNE 30, 2000

APPENDIX C

Cash Receipts

	<u>FY2000</u>	<u>FY1999</u>
General Revenue Fund		
Federal government	\$ 2,957,836,000	\$ 2,830,390,000
Federal reimbursement portion from Public Assistance Recoveries Fund	93,948,000	85,058,000
Health Care Provider Tax	2,501,000	-
Investment Income	18,000	13,000
Local Illinois governmental units	245,116,000	217,767,000
Recipient collections	612,000	85,000
Transfers from other funds	198,010,000	161,593,000
Miscellaneous	1,000	1,000
Total General Revenue Fund	<u>3,498,042,000</u>	<u>3,294,907,000</u>
University of Illinois Hospital Services Fund	202,641,000	202,943,000
County Hospital Services Fund	1,138,440,000	937,971,000
Provider Inquiry Trust Fund	435,000	507,000
Developmentally Disabled Care Provider Fund	33,244,000	33,996,000
Long-Term Care Provider Fund	232,257,000	183,048,000
Hospital Provider Fund	378,000	6,879,000
Trauma Center Fund	3,621,000	4,195,000
Public Assistance Recoveries Trust Fund	214,274,000	186,878,000
Medical Research & Development Fund	6,800,000	6,800,000
Post Tertiary Clinical Services Fund	6,800,000	6,800,000
Electronic Benefits Transfer Fund	-	3,459,000
Juvenile Rehab Services Medicaid Fund	1,477,000	-
Illinois Child Support Enforcement Trust Fund	<u>287,132,000</u>	<u>231,112,000</u>
TOTAL CASH RECEIPTS	<u>\$ 5,625,541,000</u>	<u>\$ 5,099,495,000</u>

REVIEW: 4147
DEPARTMENT OF PUBLIC AID
YEAR ENDED JUNE 30, 2000

APPENDIX D

Summary of Property and Equipment

	<u>FY2000</u>
Beginning Balance, July 1	\$ 44,160,000
Additions	16,567,000
Deductions	(12,052,000)
Transferred to DHS	<u>1,010,000</u>
Ending Balance, June 30	<u>\$ 49,685,000</u>
