

REPORT DIGEST

STATE OF ILLINOIS STATEWIDE SINGLE AUDIT REPORT (excluding Component Units)

(Performed in Accordance
with the Single Audit Act and
OMB Circular A-133)

For the One Year Ended:
June 30, 2008

Summary of Findings:

Total this audit	97
Total last audit	87
Repeated from last audit	58

Release Date:
August 11, 2009



State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

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the worldwide web at
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SYNOPSIS Background

- ◆ The State expended \$17.3 billion from federal awards in FY 08.
- ◆ A total of 53 federal programs were classified and audited as major programs at seventeen (17) State agencies. These programs constituted approximately 95.1% of all federal spending, or about \$16.5 billion.
- ◆ Overall, 44 State agencies expended federal financial assistance in FY 08. Ten (10) State agencies accounted for about 97.8% of federal dollars spent.

Statewide Finding - Financial Reporting

- ◆ The State of Illinois does not have an adequate process in place to permit the timely completion of a complete and accurate schedule of expenditures of federal awards. As a result, the State has a *material weakness*² on all federal programs.

Significant Agency Findings Classified as a *Material Weakness*² Resulting in An Auditor Qualification

- ◆ The Department of Human Services (DHS) has a *material weakness*² for:
 - failing to perform redeterminations of eligibility within the time-frames prescribed by regulation for the Temporary Assistance for Needy Families, State Children's Health Insurance, and Medicaid programs.
 - weakness over maintaining and controlling beneficiary case file documents of the Food Stamps, TANF, SCHIP and Medicaid programs.
 - inadequate process to prevent individuals convicted of drug felonies from receiving benefits under the Temporary Assistance for Needy Families programs.
 - failure to obtain the required annual review of the food instruments for the entire year for the Special Supplemental Nutrition Program for Women, Infants, and Children.
 - failing to properly determine eligibility within program regulations for the Medicaid program.
- ◆ The Department of Healthcare and Family Services (HFS) has a *material weakness* for:
 - using a passive process in its eligibility redeterminations for the State Children's Health Insurance and Medicaid programs.
 - lack of documentation evidencing performance of eligibility determination of the SCHIP and Medicaid programs.
 - failure to process practitioner billings within prescribed timeframes of the SCHIP and Medicaid programs regulations.

- ◆ The Department of Children and Family Services has a *material weakness*:
 - due to missing case file documentation to support eligibility determinations for beneficiaries of both the Foster Care Title IV-E and Adoption Assistance programs.
 - due to a failure to ensure that judicial determinations were made in court rulings for the Foster Care Title IV-E program.
 - a lack of adequate documentation and process to ensure that required permanency hearings are performed within timeframes for the Foster Care Title IV-E program.
- ◆ The Department of Public Health (DPH) has a *material weakness* for:
 - failure to properly control and account for vaccine inventory and usage for the federal versus state vaccine programs of the Immunization program
 - failure to have adequate procedures to monitor the maintenance of effort requirement of the HIV Care Formula Grants program. (Auditors issued an *adverse*³ opinion)
 - inadequate procedures for determining client eligibility of the HIV Care Formula Grants program. (Auditors issued an *adverse*³ opinion)
- ◆ The State Board of Education has a *material weakness* for:
 - not sanctioning a Local Education Agency that did not meet the comparability of services requirement under the Title I Grants to Local Educational Agencies program.

Findings Involving Multiple Agencies

- ◆ The Department on Aging (DOA) and Illinois Community College Board (ICCB) have a *material weakness* due to inadequate monitoring of subrecipient audit reports for federal programs.
- ◆ The Departments of Children and Family Services (DCFS), Aging (DOA), Illinois State Board of Education (ISBE), Illinois Community College Board (ICCB), and Transportation (DOT) have a *material weakness* due to inadequate and/or lack of on-site monitoring of subrecipients of federal awards.

Notes: Summary definitions of key terms used in the findings.

¹*Significant Deficiency*: Matters that represent a significant deficiency in the design or operation of internal control. This control deficiency, or combination of control deficiencies, adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

²*Material weakness*: An internal control deficiency that is a significant deficiency. The magnitude of the condition(s) noted raises the risk that material noncompliance could occur and not be detected by the entity's internal controls.

³*Adverse*: A condition where non-compliance is so significant that the auditor concluded that the agency did not comply with requirements of the program as a whole.

{Expenditures and Activity Measures are summarized on the next page.}

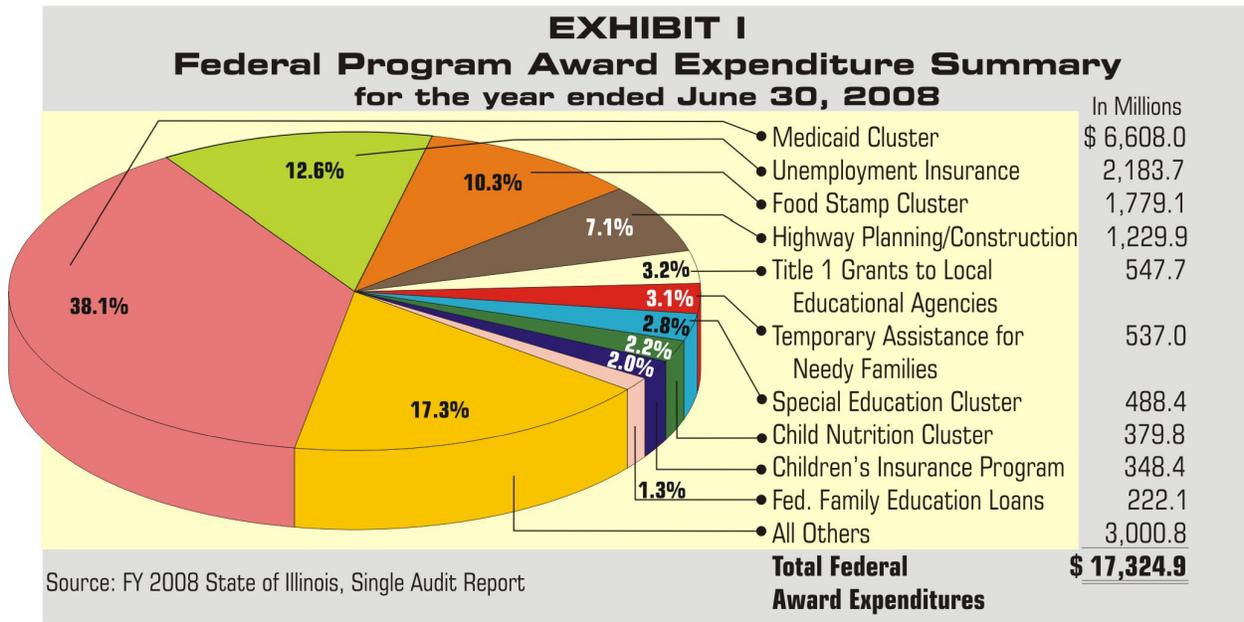
FINANCIAL ACTIVITIES	(In Thousands of Dollars)	FY 2008	
EXPENDITURES BY PROGRAM		Amount	Percent
Major Programs			
Medicaid Cluster.....		\$6,607,985	38.1%
Unemployment Insurance		2,183,718	12.6%
Food Stamp Cluster		1,779,116	10.3%
Highway Planning and Construction.....		1,229,855	7.1%
Title I Grants to Local Educational Agencies.....		547,751	3.2%
Temporary Assistance for Needy Families.....		537,011	3.1%
Special Education Cluster		488,402	2.8%
Child Nutrition Cluster.....		379,780	2.2%
State Children's Insurance Program.....		348,437	2.0%
Federal Family Education Loans		222,123	1.3%
Special Supplemental Nutrition Program for Women, Infants & Children		206,089	1.2%
Child Care Cluster		206,438	1.2%
Foster Care – Title IV-E.....		172,144	1.0%
Workforce Investment Act Cluster		144,845	0.8%
Low Income Home Energy Assistance Program		137,933	0.8%
Social Services Block Grant.....		127,372	0.7%
Child Support Enforcement.....		124,506	0.7%
Child and Adult Care Food Program		105,087	0.6%
Improving Teacher Quality State Grants		104,284	0.6%
Airport Improvement Program		90,481	0.5%
Rehabilitation Services – Vocational Rehabilitation Grants to States.....		87,562	0.5%
Adoption Assistance		87,313	0.5%
Block Grants for Prevention and Treatment of Substance Abuse.....		78,421	0.4%
Social Security Disability Insurance		66,638	0.4%
Immunization Grants		61,525	0.4%
Homeland Security Cluster		48,941	0.3%
Vocational Education - Basic Grants to States Homeland Security Cluster		44,315	0.3%
Aging Cluster		43,835	0.3%
Food Donation.....		40,426	0.2%
Twenty-First Century Community Learning Centers.....		39,613	0.2%
Employment Services Cluster		36,717	0.2%
HIV Care Formula Grants		33,924	0.2%
Reading First State Grants.....		31,809	0.2%
Community Services Block Grant		<u>31,719</u>	<u>0.2%</u>
Total Major Programs.....		\$16,476,115	95.1%
Non-Major Programs		<u>848,819</u>	<u>4.9%</u>
TOTAL EXPENDITURES		<u>\$17,324,934</u>	<u>100.0%</u>
Federal Agencies Providing Funding:		Total	Major Program Expenditures
U.S. Department of Health and Human Services.....		\$8,820,400	\$8,598,563
U.S. Department of Agriculture.....		2,541,339	2,510,498
U.S. Department of Labor		2,386,810	2,365,280
U.S. Department of Education.....		1,721,617	1,565,859
U.S. Department of Transportation		1,368,625	1,320,336
U.S. Department of Homeland Security.....		110,567	48,941
Social Security Administration.....		67,065	66,638
U.S. Department of Justice.....		74,855	0
U.S. Environmental Protection Agency		66,973	0
U.S. Department of Housing and Urban Development.....		33,981	0
All other federal agencies.....		<u>132,702</u>	<u>0</u>
		<u>\$17,324,934</u>	<u>\$16,476,115</u>
STATISTICAL INFORMATION		FY 2008	
Total Number of Programs in the Schedule of Expenditures of Federal Awards.....		347	
Number of Federal Programs Audited.....		53	
Total Number of State Agencies Spending Federal Funds.....		44	
Number of State Agencies Audited for Single Audit Requirements.....		17	

INTRODUCTION

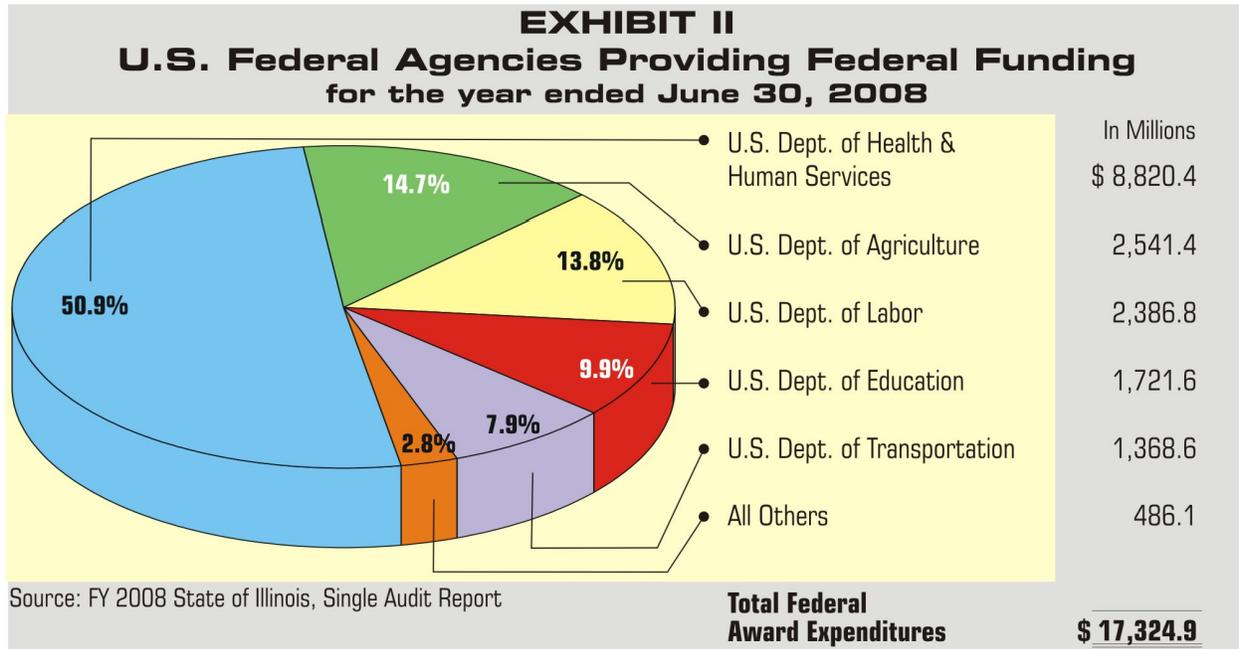
The Illinois Office of the Auditor General conducted a Statewide Single Audit of the FY 08 federal grant programs. The audit was conducted in accordance with the federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133.

The Statewide Single Audit includes State agencies that are a part of the primary government and expend federal awards. In total, 44 State agencies expended federal financial assistance in FY 08. A separate supplemental report has been compiled by the Illinois Office of the Auditor General. This report provides summary information on federal spending by State agency. The Statewide Single Audit does not include those agencies that are defined as component units such as the State universities and finance authorities. The component units continue to have separate OMB Circular A-133 audits.

The Schedule of Expenditures of Federal Awards (SEFA) reflects total expenditures of \$17.3 billion for the year ended June 30, 2008. Overall, the State participated in 347 different federal programs, however, 10 of these programs or program clusters accounted for approximately 82.7% of the total federal award expenditures. (See Exhibit I)



The funding for the 347 programs was provided by 22 different federal agencies. Exhibit II shows that five federal agencies provided Illinois with the vast majority of federal funding in FY 08.

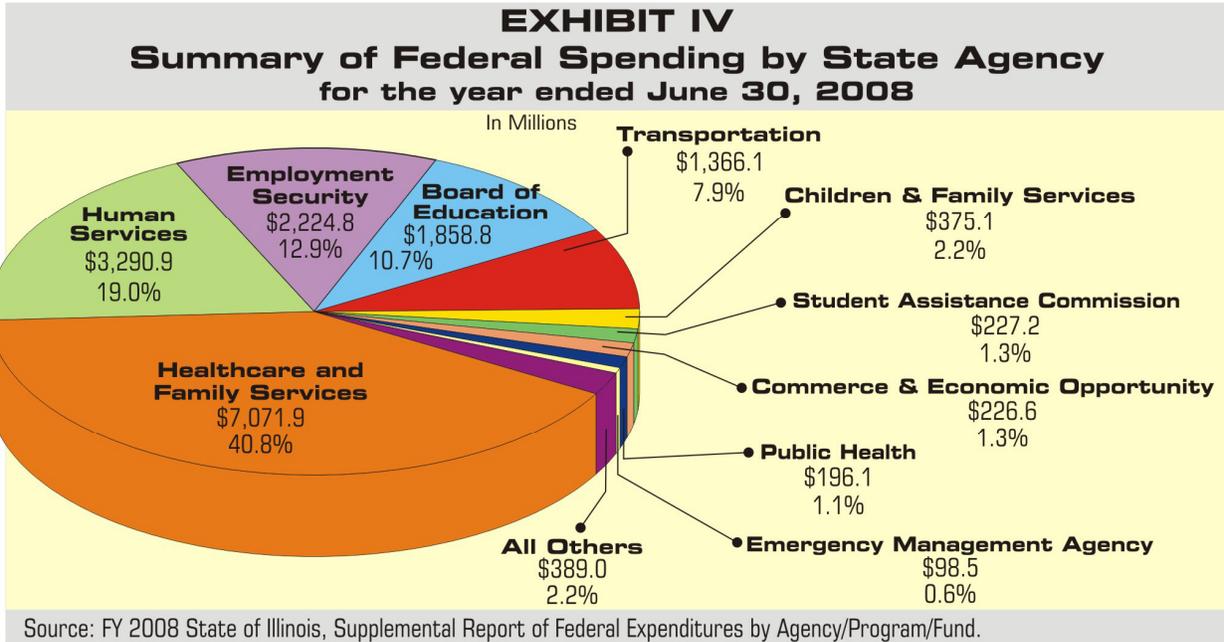


A total of 53 federal programs (or 34 programs or program clusters) were identified as major programs in FY 08. A major program was defined in accordance with Circular A-133 as any program with federal awards expended that meets certain criteria when applying the risk-based approach. Exhibit III provides a brief summary of the number of programs classified as “major” and “non-major” and related federal award expenditures.

EXHIBIT III
Classification of Federal Programs
“Major vs. Non-Major”
and Related Federal Award Expenditures
for the year ended June 30, 2008

Audit Coverage	No.	Expenditures (in millions)	%
Major Programs	53	\$16,476.1	95.1%
Non-Major Programs	294	848.8	4.9%
Total	<u>347</u>	<u>\$17,324.9</u>	<u>100.0%</u>

Ten State agencies accounted for approximately 97.8% of all federal dollars spent during FY 08 as depicted in Exhibit IV.



AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

The auditors' report contained an adverse, scope limitations and qualifications on compliance as summarized below. The complete text of the Auditors' Report may be found on pages 23-27 of the audit.

Adverse

The auditors' issued an adverse opinion in their report on the State's failure to comply with certain requirements that are applicable to its HIV Care Formula Grants program.

State Agency	Federal Program	Compliance Requirement	Finding Number	Page Numbers
IL Department of Public Health	HIV Care Formula Grants Program	Allowable Costs/Cost Principles/Eligibility/Maintenance of Effort	08-46 and 08-47	136-137 and 138-140

Qualifications (Scope Limitation)

The Illinois Department of Human Services and the Illinois Department of Public Health was not able to provide sufficient documentation supporting the State's program compliance with the program compliance requirements listed below nor were the auditors able to satisfy

themselves as to the State’s compliance with those requirements by other alternative auditing procedures

State Agency	Federal Program	Compliance Requirement	Finding Number	Page Numbers
IL Department of Human Services	Special Supplemental Nutrition Program for Women, Infant, and Children	Allowable Costs/Cost Principles and Special Tests and Provisions	08-06	51-52
IL Department of Public Health	Immunization Grants	Allowable Costs/Cost Principles and Special Tests and Provisions	08-45	134-135

Qualifications (Noncompliance)

The auditors qualified their report on major programs for the following noncompliance findings:

State Agency	Federal Program	Compliance Requirement	Finding Number	Page Numbers
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	08-03	43-46
IL Department of Human Services	State Children’s Insurance Program	Allowable Costs/Cost Principles and Eligibility	08-03	43-46
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	08-03	43-46
IL Department of Human Services	Food Stamp Cluster	Allowable Costs/Cost Principles and Special Tests & Provisions	08-04	47-48
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	08-04	47-48
IL Department of Human Services	State Children’s Insurance Program	Allowable Costs/Cost Principles and Eligibility	08-04	47-48
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	08-04	47-48
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	08-05	49-50
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	08-09	57-58
IL Department of Healthcare and Family Services	State Children’s Insurance Program	Allowable Costs/Cost Principles and Eligibility	08-17	74-75
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	08-17	74-75
IL Department of Healthcare and Family Services	State Children’s Insurance Program	Allowable Costs/Cost Principles and Eligibility	08-18	76-78
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	08-18	76-78
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Period of Availability	08-19	79-80

IL Department of Children and Family Services	Foster Care - Title IV-E	Allowable Costs/Cost Principles and Eligibility	08-35	113-114
IL Department of Children and Family Services	Foster Care - Title IV-E	Allowable Costs/Cost Principles and Eligibility	08-36	115-116
IL Department of Children and Family Services	Foster Care - Title IV-E	Allowable Costs/Cost Principles and Eligibility	08-37	117-118
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	08-38	119-121
IL Department of Children and Family Services	Temporary Assistance for Needy Families	Subrecipient Monitoring	08-39	122-123
IL Department of Children and Family Services	Foster Care - Title IV-E	Subrecipient Monitoring	08-39	122-123
IL Department of Children and Family Services	Adoption Assistance	Subrecipient Monitoring	08-39	122-123
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	08-42	128-129
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	08-43	130-131
IL State Board of Education	Title I Grants to Local Educational Agencies	Allowable Costs/Cost Principles and Special Tests and Provisions	08-54	154-155
IL State Board of Education	Title I Grants to Local Educational Agencies	Subrecipient Monitoring	08-55	156-158
IL State Board of Education	Special Education Cluster	Subrecipient Monitoring	08-55	156-158
IL State Board of Education	Career and Technical Education – Basic Grants to States	Subrecipient Monitoring	08-55	156-158
IL State Board of Education	Twenty-First Century Community Learning Centers	Subrecipient Monitoring	08-55	156-158
IL State Board of Education	Reading First State Grants	Subrecipient Monitoring	08-55	156-158
IL State Board of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	08-55	156-158
IL State Board of Education	Title I Grants to Local Educational Agencies	Subrecipient Monitoring	08-56	159-161
IL State Board of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	08-56	159-161
IL Community College Board	Career and Technical Education – Basic Grants to States	Subrecipient Monitoring	08-58	164-165
IL Community College Board	Career and Technical Education – Basic Grants to States	Subrecipient Monitoring	08-59	166-167
IL Department of Transportation	Airport Improvement Program	Subrecipient Monitoring	08-78	210-211

Internal Control Over Financial Reporting

We noted a matter involving internal control over financial reporting for the Schedule of Expenditures of Federal Awards (Schedule) that was considered to be a material weakness. A significant deficiency involves matters coming to our attention relating to control deficiencies, or a combination of control deficiencies, in the design or operation of internal control over financial reporting of the Schedule that, in the auditors' judgment, could adversely affect the State's

ability to record, process, summarize and report financial data consistent with the assertions of management. A material weakness rises to the magnitude of the condition(s) that results in more than a remote likelihood that a material misstatement of the Schedule of Expenditures of Federal Awards will not be prevented or detected by the entity's internal control. The auditors noted that during the past six years there have been various errors identified and reported on the audits of state agencies and the Office of the State Comptroller (IOC) in its annual data gathering on the SCO forms that is used to present the Schedule. Thus, the auditors recommended the Office of the Governor and the Illinois Office of the Comptroller to work together with the state agencies to establish a corrective action plan to address the quality and timeliness of the accounting information provided to and maintained by the IOC as it relates to year end preparation of the Comprehensive Annual Financial Report and the Schedule.

Internal Control Over Compliance

We noted certain matters involving internal control over compliance that were considered to be significant deficiencies. Significant deficiencies, or a combination of control deficiencies, involve matters coming to the auditors' attention related to the design or operation of internal control over compliance that, in the auditors' judgment, could adversely affect the State's ability to administer a major federal program in accordance with the applicable requirements. Overall, 62 of the 97 findings reported in the single audit were classified as compliance significant deficiencies.

Material weaknesses were also disclosed in our report. In general, a material weakness is a condition in which the design or operation of internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Overall, 58 of the 97 findings reported in the single audit were classified as both a material weakness and a significant deficiency.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Exhibit V summarizes the number of report findings by State agency, identifies the number of repeat findings, and references the findings to specific pages in the report.

**EXHIBIT V
Summary Schedule of Findings By Agency**

State Agency	Number of Findings	Number of Repeat Findings	Page References to Findings
State Comptroller/Office of the Governor	1	1	31-33
Human Services	14	11	40-71
Revenue	1	1	72-73
Healthcare and Family Services	18	5	74-112
Children and Family Services	7	6	113-127
Aging	3	3	128-133
Public Health	9	7	134-153
State Board of Education	4	3	154-163
Community College Board	3	1	164-169
Student Assistance Commission	4	2	170-178
Employment Security	10	4	179-201
Commerce and Economic Opportunity	3	1	202-209
Transportation	7	6	210-224
Emergency Management Agency	5	0	225-234
State Police	1	0	235
State Board of Elections	3	3	236-241
Central Management Services	<u>4</u>	<u>4</u>	242-255
Totals	<u>97</u>	<u>58</u>	

THE FINANCIAL REPORTING PROCESS FOR THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA) IS INADEQUATE TO PERMIT TIMELY AND ACCURATE REPORTING

The State of Illinois' current financial reporting process does not allow the State to prepare a complete and accurate Comprehensive Annual Financial Report (CAFR) or the Schedule of Expenditures of Federal Awards (SEFA) in a timely manner.

Inadequate process for compiling the Schedule of Expenditures of Federal Awards

Accurate and timely financial reporting problems continue to exist even though the auditors have: 1) continuously reported numerous findings on the internal controls (material weaknesses and significant deficiencies), 2) commented on the inadequacy of the financial reporting process of the State, and 3) regularly proposed adjustments to financial statements year after year. These findings have been directed primarily toward the Office of the State Comptroller (IOC) and major state agencies under the organizational structure of the Office of the Governor.

The State has not been able to solve these problems or make substantive changes to the system to effectively remediate these financial reporting weaknesses. The process is overly dependent on the post audit program being a part of the internal control for financial reporting even though the Illinois Office of the Auditor General continues to inform state agency officials that the post audit function is not and should not be an internal control mechanism for any operational activity related to financial reporting.

The State of Illinois has a highly decentralized financial reporting process. The system requires State agencies to prepare a series of complicated financial reporting forms (SCO forms) designed by the IOC to prepare the CAFR. These SCO forms are completed by accounting personnel within each State agency who have varying levels of knowledge, experience, and understanding of generally accepted accounting principles and of IOC accounting policies and procedures. Agency personnel involved with this process are not under the organizational control or jurisdiction of the IOC. Further, these agency personnel may lack the qualifications, time, support, and training necessary to timely and accurately report year end accounting information to assist the Comptroller in his

preparation of statewide financial statements in accordance with generally accepted accounting principles (GAAP).

Although these SCO forms are subject to the review by the IOC financial reporting staff during the CAFR preparation process, the current process has resulted in several restatements relative to the financial statement reporting over the past several years.

The findings have been directed primarily toward the Office of the Comptroller and major state agencies under the organizational structure of the Office of the Governor.

For example, first, expenditures of the Public Assistance Grants program (2006 and 2007), the Early Intervention Program (2003, 2004 and 2005, and the Highway Planning and Construction Cluster program 2004 and 2005) were not reported in the appropriate fiscal year. Second, other correcting entries and/or restatements were required to accurately state the financial information. Third, major programs were not identified until six months subsequent to the end of the year by several agencies. Finally, preparation of the SEFA has not been completed by the State prior to March 31st in the past six years.

Federal regulations require that a recipient of federal awards prepare appropriate financial statements, including the SEFA, and ensure that the required audits are properly performed and submitted when due. Also, the federal regulations require recipients of federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Agencies having problems in one or more of the above noted areas during the past six years were:

Agency

- (1) Healthcare and Family Services
- (2) Children and Family Services
- (3) Public Health
- (4) State Board of Education
- (5) IL Student Assistance Commission
- (6) Employment Security
- (7) IL Community College Board
- (8) Department of Commerce and Economic Opportunity
- (9) Department of Natural Resources
- (10) IL Environmental Protection Agency

Lack of accuracy in reporting results and not meeting completion due dates

Errors, deficiencies, omissions and delays in financial reporting

- (11) Department of Corrections
- (12) IL Criminal Justice Information Authority
- (13) Emergency Management Agency
- (14) Human Services
- (15) Department of Transportation

Although the deficiencies relative to the CAFR and SEFA financial reporting process have been reported by the auditors for a number of years, problems continue with the State's ability to provide accurate and timely external financial reporting. Corrective action necessary to remediate these deficiencies continues to be problematic.

As a result of the errors, deficiencies and omissions noted throughout the process used by the State in its financial reporting process, along with the inability to meet the required filing deadline of 03/31/09, the auditors identified the inadequacies as a significant deficiency for all federal programs administered by the State. (Finding 08-01, pages 31-33) **This finding was first reported in the Statewide Single Audit in 2002.**

Current process and information system should be changed to enhance timeliness of SEFA completion

We recommended the Governor's Office and the IOC work together with the state agencies to establish a corrective action plan to address the quality and timeliness of accounting information provided to and maintained by the IOC as it relates to year end preparation of the CAFR and SEFA.

State Comptroller to consult with State Agencies

The State Comptroller's Office response states it will continue to provide consultation and technical advice to state agencies in relation to financial reporting. They also will seek legislation that provides the Office with enforcement tools to compel agencies to comply with necessary reporting deadlines.

Governor to collaborate and take corrective action on quality and timeliness of accounting and reporting

The Office of the Governor's response states it will collaborate with the other agencies of state government to establish a corrective action plan to improve the quality and timeliness of accounting information provided to the Comptroller for year- end preparation of the CAFR and the SEFA.

FAILURE TO PERFORM REDETERMINATIONS OF ELIGIBILITY WITHIN PRESCRIBED TIMEFRAMES

The Department of Human Services (DHS) is not performing eligibility re-determinations in accordance with timeframes required by the respective State Plans for the Temporary Assistance for Needy Families (TANF), State Children’s Health Insurance Program (SCHIP), and Medicaid programs.

DHS delinquent in performing recipient eligibility re-determination

During our test work of required eligibility criteria, we noted the State was delinquent (overdue) in performing the eligibility re-determinations of individuals for the three programs during June 2008 as follows:

TANF	972 of 26,926 cases	3.6%
SCHIP	12,012 of 642,603 cases	1.9%
Medicaid	16,301 of 424,934 cases	3.8%

Failure to properly perform eligibility re-determination procedures in accordance with State Plans may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding 08-03, pages 43-46) **This finding was first reported in the Statewide Single Audit in 2003.**

Auditor qualification due to untimely eligibility re-determinations

As a result of DHS’s failure to perform timely re-determinations of recipient eligibility, the auditors qualified their opinion on the TANF, SCHIP, and Medicaid programs.

We recommended DHS review its current process for performing eligibility re-determinations and consider changes necessary to ensure all re-determinations are performed within the timeframes prescribed within the State Plans for each affected program.

DHS disagrees with the auditor recommendation

DHS officials did not agree with our recommendation. They state the Federal regulations require states to make every effort to complete redeterminations timely and accurately but are silent to an expected percentage of completed redeterminations. (For previous agency response, see Digest Footnote #1)

Auditors’ Comment

In an Auditors’ Comment we stated that federal regulations require eligibility redeterminations to be completed in accordance with the State Plan for each of the

programs included in this finding. The State Plans require eligibility redeterminations to be completed on **all** beneficiaries on an annual basis. There were no State Plans amended during the year under audit to perform less than 100% of program beneficiaries.

FAILURE TO PROPERLY MAINTAIN AND CONTROL CASE FILE RECORDS

The Department of Human Services (DHS) local offices do not have appropriate controls over case file records for beneficiaries of the Food Stamps, Temporary Assistance for Needy Families (TANF), State Children's Health Insurance (SCHIP), and Medicaid programs.

During our testwork at five separate local offices, we noted the procedures in place to maintain and control beneficiary case file records do not provide adequate safeguards against the potential for the loss of such records. Specifically, in the five local offices, case files were generally disorganized and stacked on and around file cabinets. We noted the case files were available to all DHS personnel and that formal procedures did not exist for checking case files in and out of the file rooms or for tracking their locations. The amount of questioned costs that may be assessed the State due to loss or misplaced beneficiary files could not be determined for these four major programs whose total beneficiary spending exceeds \$8.4 billion in the aggregate.

Failure to properly maintain and control beneficiary case file records may result in the loss of source documentation necessary to establish beneficiary eligibility and payment of unallowable costs from federal programs. (Finding 08-04, pages 47-48)

As a result of DHS's failure to properly maintain and control case file records of beneficiaries, the auditors qualified their opinion on the Food Stamp, TANF, SCHIP, and Medicaid programs.

We recommended DHS review its current process for maintaining and controlling beneficiary case records and consider changes needed to ensure case file documentation is maintained in accordance with federal regulations and the State Plans for each affected program.

Inadequate control over beneficiary records

Auditor qualification due to shortfall in control over case file records

DHS officials accepted the recommendation noting they were able to retrieve the files requested by the auditors.

Auditors' Comment

In an Auditors' Comment, we emphasized that it was evident that DHS lacked appropriate controls over case files and that safeguards against possible loss of records need to be implemented. The fact that the requested records were ultimately found does not change the emphasis of the finding of needing improved case file maintenance.

INADEQUATE PROCESS FOR PREVENTING CONVICTED FELONS TO RECEIVE TANF BENEFITS

The Department of Human Services (DHS) does not have an adequate procedure in place to ensure individuals convicted of Class 1 or Class X drug felonies do not receive benefits under the Temporary Assistance for Needy Families (TANF) program.

DHS fails to prohibit Class 1 or X felony drug conviction receiving TANF benefits

As a condition of receiving cash assistance under the TANF program, beneficiaries are required to meet certain eligibility criteria prescribed by federal regulations and the State Plan. One of the criteria is that individuals convicted of a Class 1 or Class X felony are prohibited from receiving TANF benefits.

During our test work over the TANF program, we noted DHS' process for determining whether applicants have been convicted of a Class 1 or Class X felony primarily consists of inquiries made during the application process. DHS does not have procedures in place to corroborate the applicant's statements via cross matches with the Department of Corrections, Illinois State Police, or other mechanisms.

In accordance with federal regulations, Section II.G of the current State Plan prohibits individuals convicted of a Class 1 or Class X felony for an Act occurring after August 21, 1996, involving the possession, use, or distribution of a controlled substance are ineligible to receive TANF. Additionally, IDHS policy requires crossmatches to be completed to determine whether applicants have been convicted of a Class 1 or Class X drug felonies (Finding 08-05, pages 49-50) **This finding was first reported in the**

Statewide Single Audit in 2006.

Auditor qualification

As a result of DHS' failure to ensure convicted drug felons did not receive benefits in accordance with the State Plan, the auditors qualified their report on the TANF program.

We recommended DHS review its current process for performing eligibility determinations and consider changes necessary to ensure procedures to verify whether beneficiaries have been convicted of a Class 1 or Class X felony are implemented.

DHS officials accepted the finding and state they are in the final stage of updating their policy to be more consistent with their eligibility process. (For previous agency response, see Digest Footnote #2)

Auditors' Comment

In an Auditors' Comment we noted the Department's planned corrective action is to change their current policy to eliminate the crossmatch which does not adequately address the conditions found. A crossmatch or another verification mechanism should be implemented to ensure beneficiaries that have been convicted of a Class 1 or Class X felony do not receive TANF benefits

FAILURE TO PROVIDE ADEQUATE FOOD INSTRUMENT DISPOSITION DOCUMENTATION

The Department of Human Services (DHS) could not provide documentation that food instruments issued under the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) program were properly validated and reconciled by its third party service organization during the entire State fiscal year.

DHS' service organization fails to validate and reconcile food instruments during four month period

DHS issues food instruments to beneficiaries of the WIC program to purchase supplemental food (typically infant formula) from approved vendors. The vendor deposits the food instruments into their bank accounts. The bank will route the instruments to DHS third party service organization. The service organization has the responsibility to (1) validate each food instrument by comparing information provided by DHS to the information on the presented instrument, and (2) paying the vendor if the instrument is proper. The service organization forwards monthly reports to the DHS to

complete monthly reconciliations as required by federal regulations.

In ensuring the service organization is processing food instruments properly, the State requires the service organization to have an annual independent examination of the design and operating effectiveness of the internal controls in place relative to the food instrument processing and reporting. When examining the service organization's annual report for the period ending June 30, 2008, we noted the report did not cover the four month period of September through December, 2007. Accordingly, the auditors were unable to obtain sufficient and appropriate audit evidence that food instruments were properly validated and reconciled in accordance with federal regulations during the year ended June 30, 2008.

Failure to ensure food instruments are properly validated and reconciled may result in the improper payment of food instruments which are unallowable costs. (Finding 08-06, pages 51-52)

Failure to obtain annual audit results in auditor qualification due to scope limitation

As a result, DHS' failure to obtain an annual audit report that covered the validation and reconciliation of food instruments for the entire period, the auditors issued a scope limitation on WIC program.

We recommended DHS properly monitor its service organizations and obtain a SAS 70 report covering the entire report year.

DHS partially agrees with auditor recommendation

DHS officials partially agreed with the recommendation, stating that internal reviews of transactions by DHS were in place during the entire year.

Auditors' Comment

The auditors stated in an Auditors' Comment that without a complete period of coverage of a SAS 70 report, we were unable to obtain sufficient and appropriate audit evidence that food instruments were properly validated and reconciled in accordance with federal regulations.

FAILURE TO DETERMINE ELIGIBILITY IN ACCORDANCE WITH PROGRAM REGULATIONS

The Department of Human Services (DHS) failed to determine eligibility of beneficiaries under the Medicaid program in accordance with the federal regulations.

DHS failed to perform timely review of final assessment of Medicaid eligibility

During our testwork of 125 Medicaid beneficiary payments, we noted one case for which DHS had not completed the eligibility determination within required timeframes and improperly made medical assistance payments on behalf of an individual beneficiary. Specifically, the case identified was granted temporary medical benefits on November 26, 2007. The DHS Client Assessment Unit made their final determination on October 29, 2008 at which time the beneficiary was determined to be ineligible for medical benefits. This one case of untimely final determination resulted in an overpayment to this beneficiary of \$2,257.

The State Plan and federal requirements define the requirements in determining client eligibility for the Medicaid program benefits. Payments made to all beneficiaries from the Medicaid program totaled \$6.3 billion in FY2008.

Failure to properly and timely perform eligibility determinations may result in expenditures being made to ineligible beneficiaries, which are unallowable costs. (Finding 08-09, pages 57-58)

Failure to timely make final determinations of eligibility results in auditor qualification

As a result of DHS' failure to properly determine the eligibility of Medicaid program beneficiaries, the auditors qualified their opinion on the Medicaid program.

We recommended DHS review its current process for performing eligibility determinations and consider the changes necessary to ensure all eligibility determinations are performed in accordance with federal and the Medical State plan

DHS officials accepted the recommendation and will review workflow processes to identify areas that need improved efficiency.

INADEQUATE PROCEDURES FOR PERFORMING ELIGIBILITY REDETERMINATIONS

Eligibility redeterminations of the Department of Healthcare and Family Services (HFS) for the Medicaid and State Children's Insurance Program (SCHIP) are not adequate.

HFS eligibility determinations are inadequate

Effective February 2006, HFS revised its procedures for performing eligibility redeterminations for children receiving services under the Medicaid and SCHIP programs to a “passive” procedure. The passive redetermination procedure includes the following:

- Beneficiary renewal form is sent via mail to the beneficiary. This form contains key eligibility criteria for completion;
- Beneficiary (or beneficiary’s guardian) is requested to review the form; and
- The beneficiary is to report any changes to the key eligibility criteria.

However, in the event there are no changes to the information, and there are only children on the case, a response is not required.

Redeterminations do not require positive confirmation of current beneficiary requirements

Upon further review, we noted neither HFS nor the Department of Human Services, which performs eligibility determinations for these programs, maintains a formal record of the cases subject to the passive redetermination procedures. As a result, we were unable to quantify the number of cases subject to the passive redetermination policy. Payments made on behalf of beneficiaries of the Medicaid and SCHIP programs totaled \$6.7 billion in FY2008.

State Plan requires annual eligibility determinations

Federal regulations require redetermination of client eligibility as defined in the State Plans. The State Plans require an annual eligibility redetermination. In addition, federal regulations require the State to have procedures designed to ensure that recipients make timely and accurate reports of any change in circumstances that may affect their eligibility. (Finding 08-17, pages 74-75)

Auditors qualified their report on Medicaid and SCHIP programs

As a result of HFS’ inadequate procedures for performing eligibility redeterminations of beneficiaries of the Medicaid and SCHIP programs in accordance with the federal regulations and the State Plans, the auditors qualified their report on Medicaid and SCHIP programs.

We recommended HFS review its current process for performing eligibility redeterminations and consider changes necessary to ensure redeterminations are performed in accordance with federal regulations and the State Plans for each affected program.

HFS disagrees with auditors

HFS officials did not agree with the finding. The Department states they believe the current passive renewal process is fully compliant with the federal guidance. The officials also cite FY2009 federal activity that is supportive of their position. HFS will work with the Department of Human Services to determine the feasibility for revising their data systems to identify cases that are redetermined using this policy to support quality control review activity.

Auditors' Comment

In an Auditors' Comment we stated that the current State Plans require redeterminations of eligibility for all recipients on an annual basis, along with the federal requirements for the State to have procedures designed to ensure that recipients make timely and accurate reports of any change in circumstances that may affect their eligibility. HFS officials have stated that they do not use passive redetermination process under the *All Kids* program due to concerns that beneficiaries may not report changes in key eligibility factors in a timely manner. We believe those same concerns are applicable to the federally funded programs. As a result, we do not believe the passive redetermination process meets the eligibility redetermination requirements of the Medicaid and SCHIP programs.

FAILURE TO DETERMINE ELIGIBILITY IN ACCORDANCE WITH PROGRAM REGULATIONS

Eligibility Determination do not meet federal requirements

Eligibility redeterminations of the Department of Healthcare and Family Services (HFS) for the Medicaid and State Children's Insurance Program (SCHIP) are not in accordance with federal regulations.

During our testwork of 60 SCHIP and 125 Medicaid eligibility case files reviewed for compliance with the applicable program eligibility requirements, we noted the following:

- In one SCHIP case, the eligibility file did not contain supporting documentation evidencing an eligibility determination had been performed in accordance with the State Plan. Although a caseworker notes and the electronic case record indicated that an eligibility determination may have been performed in July, 2007, the case record did not contain any documentation that a full eligibility determination had been performed until February 2008. Medical assistance payments made on behalf of this beneficiary during the period of ineligibility were \$1,707.

HFS case files lacked supporting documentation if determination was performed

Tested files lacked supporting documentation on payments of \$11,193 and \$13,485

- In three SCHIP and one Medicaid cases, HFS could not provide documentation supporting eligibility redetermination procedures were performed in accordance with the State Plan. Medical assistance payments on behalf of these beneficiaries during the period of ineligibility were \$11,193 and \$13,485, respectively. Payments made on behalf of beneficiaries of the SCHIP and Medicaid Cluster programs were \$337,976,000 and \$6,313,321,000, respectively.

Federal regulations require the State to determine client eligibility in accordance with eligibility requirements defined in the State Plan for the SCHIP and Medicaid Cluster programs. (Finding 08-18, pages 76-78)

Auditor qualification for failure to determine eligibility in accordance with State Plans

As a result of HFS's failure to determine eligibility determinations in accordance with the State Plan, the auditors qualified their report on the SCHIP and Medicaid Cluster programs.

We recommended HFS review its current process for performing eligibility determination and consider the changes necessary to ensure all eligibility determinations are performed in accordance with the federal regulations and the State Plans.

HFS disagrees with finding

HFS officials did not agree with the finding. HFS indicated that they had documentation that a DHS staff person signed off as receiving the information. The two agencies (HFS and DHS) have started a joint project to create a shared electronic image document which would preclude the loss of files in the future.

Auditors' Comment

In an Auditors' Comment we stated that neither agency was able to provide documentation supporting an eligibility determination having been performed for the case identified in the first case noted above. HFS provided case notes stating the file had been transferred to DHS; but DHS had no record of receiving the file. Also, the State Plans require annual redeterminations of eligibility and federal regulations require the State to have procedures designed to ensure recipients make timely and accurate reports of any changes that may affect their eligibility. The passive redetermination process is not used in the State's similar program (All Kids) to the SCHIP and Medicaid, due to concerns that beneficiaries may not report changes in key eligibility factors in a timely manner. As a result, we do

not believe the passive redetermination process meets the federal programs eligibility redetermination requirements. Finally, neither state agency could provide documentation that passive determination process was used for the other three cases noted above.

FAILURE TO PROCESS MEDICAL CLAIMS WITHIN PRESCRIBED TIMEFRAMES

HFS makes untimely payment of practitioner claims

The Department of Healthcare and Family Services (HFS) is not processing medical claims for individuals receiving benefits under the State Children’s Insurance Program (SCHIP) and Medicaid programs in accordance with timeframes required by federal regulations.

Federal regulations require medical providers to submit all medical claims within twelve months of the date of service and require the State to pay practitioner claims within specific time frames. Once the State processes a claim is validated as an “allowable” claim, it is voucher and submitted to the Office of the Comptroller for payment.

HFS monitors compliance with medical payments timeframe

During our audit, we noted HFS performs periodic analysis to monitor compliance with medical payment timeframe requirements. In reviewing the analysis covering practitioner payments in FY2008, we noted HFS had not met the 30 day payment timeframe as required by federal regulations. HFS analysis identified that of the 22,170,000 claims paid, only 51% (12,372,000) were paid within the 30 days of receipt. In addition, in our test work of 10 SCHIP and 17 Medicaid practitioner medical payments, we noted 3 SCHIP (30%) and 7 Medicaid (41%) payments were paid (based on warrant issuance date) more than 30 days after they were received. Delays in paying these medical claims ranged from 2 to 33 days after the required timeframe.

Audit test finds payment delays of 2 to 33 days

Federal regulations require the State to pay 90% of all claims within 30 days of receipt and 99% of all clean claims within 90 days of the date of receipt. (Finding 08-19, Pages 79-80)

Auditor qualification

As a result of HFS' failure to pay within the timeframes as prescribed in program regulations, the auditors qualified their report on the Medicaid Cluster program.

We recommended HFS review its process for

processing and paying medical payments and consider changes necessary to ensure medical payments are made within the timeframes prescribed within federal regulations.

HFS officials agreed with the finding and state that they have requested sufficient appropriations to allow payments in a timeframe consistent with federal regulations.

MISSING DOCUMENTATION IN ELIGIBILITY AND CASE FILES FOR ADOPTION ASSISTANCE AND FOSTER CARE PROGRAMS

Adoption Assistance and Foster Care Client files missing certain documentation

The Department of Children and Family Services (DCFS) could not locate case file documentation supporting eligibility determinations for beneficiaries of the Adoption Assistance and Foster Care - Title IV-E programs.

The Adoption Assistance program provides funds to States for adoption assistance agreements with parents who adopt eligible children with special needs. The Foster Care Title IV-E program provides funds based on certain financial and non-financial criteria, e.g. the child meets the criteria of the prior Aid to Families with Dependent Children (AFDC).

During our testwork of 50 case files for eligibility requirements and allowability for each of the programs, we noted the following:

Foster Care - Title IV-E

- In two cases, DCFS could not locate the child's birth certificate evidencing the child met the age requirements.
- In two cases, DCFS could not locate the child's "Order Appointing Private Guardian." DCFS claimed on behalf of these children \$5,338 during FY2008.
- In one case, DCFS could not provide the initial court order removing the child from the relative's home. DCFS claimed on behalf of the child \$1,300 during FY2008.

Adoption Assistance

- In two cases, DCFS could not locate the initial judicial determination indicating that the child's continuation in the residence would be contrary to the welfare of the child, or placement would be in the child's best interest. DCFS claimed on behalf of these children \$7,120 during FY2008.
- In two cases, DCFS could not locate the birth certificate

Case file documentation missing for Foster Care Program

Case file documentation missing for Adoption Assistance Program

evidencing the child met the age requirements. DCFS claimed on behalf of these children \$10,478 during FY2008.

- In one case, DCFS could not locate the petition to terminate, or surrender of parental rights. DCFS claimed on behalf of this child \$2,460 during FY2008.
- In one case, DCFS could not locate the final adoption decree. DCFS claimed on behalf of the child \$2,669 during FY2008.

Federal regulations of the Foster Care - Title IV-E require that the expenditures must be necessary, reasonable, and supported by adequate documentation.

Federal regulations of the Adoption Assistance program provide a child must have been removed from a home pursuant to a voluntary placement agreement or a judicial determination that remaining in such home would be contrary to the child's welfare. Also, benefits are discontinued when the child reaches the age of 18 years unless the child has a physical or mental handicap which permits coverage until reaching the age of 21.

Audit qualification due to missing eligibility documentation

As a result of DCFS' missing eligibility documentation, the auditors qualified their report for the Foster Care - Title IV-E and Adoption Assistance programs. (Findings 08-35 and 08-38, pages 113-114 and 119-121, respectively). **These findings were reported in the Statewide Single Audit in 2006 and 2005, respectively.**

We recommended DCFS review its procedures for retaining and documenting how beneficiaries have met eligibility requirements and implement changes necessary to ensure judicial determinations, relevant court orders, birth certificates, and adequate documentation of special needs exists for all children for whom adoption subsidy payments, nonrecurring cost expenditure and/or benefit claims are made.

DCFS officials agreed with finding

DCFS officials agreed with the findings and stated that they will review procedures for obtaining and retaining documents. DCFS indicated that they would be obtaining the missing documents noted in the above findings. If documentation is not available or obtainable, the Department will make appropriate claiming adjustments. (For previous agency response, see Digest Footnotes 3 and 5.)

FAILURE TO ENSURE THAT REQUIRED JUDICIAL DETERMINATIONS WERE MADE

DCFS did not ensure language in court rulings was complete

The Department of Children and Family Services (DCFS) did not ensure that required judicial determinations were made in applicable court rulings, including those pertaining to “Reasonable Efforts” and “Contrary to the Welfare.”

The Foster Care Program provides funds to States for the purpose of providing safe, appropriate, 24-hour substitute care for children who are under the jurisdiction of the DCFS and need temporary placement and care outside of their home. To be eligible for reimbursement under the Foster Care program, DCFS is required to receive a judicial determination (court ruling) within 60 days as to what living arrangement is in the child’s best interest and whether or not DCFS has made reasonable efforts to prevent removal by following the proper investigative procedures prior to removing the child from the home.

During our testwork over Foster Care beneficiary payments, we selected 50 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits. We noted in one case DCFS could not provide a judicial determination.

DCFS claimed reimbursement for foster care maintenance payments made on behalf of this beneficiary totaling \$1,300 during the year ended June 30, 2008. (Finding 08-36, pages 115-116) **This finding was first reported in the Statewide Single Audit in 2005.**

Auditor qualification due to failure to ensure judicial determinations

As a result of DCFS failing to ensure that appropriate judicial determinations are made, the auditors qualified their report on the Foster Care - Title IV-E program.

We recommended DCFS review its procedures for obtaining and documenting whether judicial determinations have been made for all beneficiaries. Such procedures should include identifying children who are not eligible for assistance under the Foster Care program as a result of the required judicial determinations not being made.

DCFS officials agreed with the finding and stated they will continue to review procedures for obtaining and retaining documents pertaining to judicial determinations.

Changes will be made if necessary to ensure determinations are made within the required timelines and that required language is included in the agreements. (For previous agency response, see Digest Footnote #4.)

FAILURE TO ENSURE THAT FOSTER CARE PERMANENCY HEARINGS ARE PERFORMED WITHIN REQUIRED TIMEFRAMES

Payments made that were not properly supported by agreements

The Department of Children and Family Services (DCFS) did not ensure that foster care permanency hearings were performed within the federally prescribed timeframes.

Auditors' testwork identifies ineligible costs

During the review of 50 Foster Care Title IV-E program files, the auditors noted in one case, DCFS could not provide documentation to substantiate that a permanency hearing had been performed. The lack of supporting documentation rendered the foster care maintenance payments paid on behalf of this child totaling \$1,300 during the year ended June 30, 2008 as a questioned cost.

Also, DCFS does not have a process in place to ensure permanency hearings are completed within the required timeframes nor do they have a list of beneficiaries where permanency hearings are not completed.

Each foster child's permanency hearing is critical to the finalization of a "permanency plan." It is the permanency plan that establishes goals for placement of the child in a permanent living arrangement, which may include reunification, adoption, legal guardianship, etc. The permanency hearing serves as the judicial determination that reasonable efforts have been made by DCFS to finalize the permanency plans.

In order to obtain reimbursement for foster care maintenance costs, DCFS must obtain a judicial determination that it has made reasonable efforts to finalize the permanency plan that is to be in effect within 12 months from the time a child enters foster care status. Also, each foster child must have an annual renewal of the permanency plan thereafter. (Finding 08-37, pages 117-118)

Auditors qualified program due to ineligible costs

As a result of DCFS' failure to ensure timely permanency hearings of each child placed in foster care, the auditors qualified their report on the Foster Care Title IV-E program.

We recommended DCFS implement procedures to monitor each foster child's permanency hearing to ensure all hearings are held within the federally prescribed timeframes.

DCFS officials accepted the recommendation and stated they have developed and implemented a procedure for identifying and notifying foster and adoptive caretakers of permanency hearings and reviews.

INADEQUATE CONTROL AND ACCOUNTABILITY FOR VACCINES

The Department of Public Health (DPH) did not adequately control and account for vaccines distributed under its Immunization Grants program.

DPH had inadequate control and accounting for vaccines

During the period July 1, 2007 through May 13, 2008, DPH received the majority of its federal Immunization Grants program funding in the form of vaccines which are distributed to medical providers throughout the State. In addition to the federal program, DPH operates a state funded program to provide vaccines to individuals who are not eligible under the federal program. The vaccines for both the federal and state funded programs are accounted for using the same software (VACMAN). DPH does not distinguish between the federally and state funded programs when recording disbursements in VACMAN. As a result, DPH was not able to identify the amount of the federally funded vaccines disbursed during the period July 1, 2007 through May 13, 2008. Federal regulations require grantees maintain records which adequately identify the source and application of funds provided for financially assisted activities. Subsequent to May 13, 2008 Illinois transitioned to a 3rd party distributor contracted by the Centers for Disease Control.

DPH records did not identify federal vaccines disbursed or inform subrecipients of the dollar amount of federal vaccines provided

During our testwork, we were not able to obtain a complete population of federal expenditures to verify

vaccines were used for activities allowed under the Immunization Grants program or that subrecipients were monitored for compliance with the applicable program regulations. In addition, we noted DPH had not properly notified subrecipients of the amount of federally funded vaccines disbursed during the year. Accordingly, we were unable to conclude on DPH's compliance with regulations applicable to the Immunization Grants program. (Finding 08-45, pages 134-135) **This finding was first reported in the Statewide Single Audit in 2006.**

As a result of DPH's failure to adequately control and account for vaccines, the auditors issued a qualification due to a scope limitation on the Immunization Grants program.

We recommend DPH review its process for identifying vaccines disbursed under its federal Immunization Grants program and implement the changes needed to ensure federal vaccine disbursements are identified and accounted for in accordance with the applicable program regulations.

Department of Public Health officials concurred with the finding and recommendation. Given the transition to a 3rd party distributor contracted by the Centers for Disease Control, the Department no longer maintains physical vaccine inventories and all reporting is performed by the distributor. (For previous agency response, see Digest Footnote #9.)

FAILURE TO MONITOR MAINTENANCE OF EFFORT AND INADEQUATE PROCESS FOR DETERMINING CLIENT ELIGIBILITY

The Department of Public Health (DPH) did not monitor the maintenance of effort requirements (MOE) and did not have an adequate process for performing client eligibility determinations for its HIV Care Formula Grant (HIV) program.

Maintenance of Effort

As a condition of receiving federal HIV funds, the State is required to maintain a level of "qualified" state funded expenditures for HIV related activities that is equal to or greater than the prior year. The DPH's MOE expenditures have historically been comprised of state funded programs administered by DPH, as well as programs administered by the Department of Human Services and the Department of

Auditors qualify on immunization grants program due to scope limitation

Changes needed in Maintenance of Effort and performing eligibility determination

Changes needed in monitoring Maintenance of Effort for HIV Grants Program

Children and Family Services.

At the time of our testwork in October 2008, we noted that DPH had not calculated the amount of qualifying MOE expenditures for the grant year ended March 31, 2008, nor had they determined whether they equaled or exceeded the MOE expenditures for the prior year grant period year ended March 31, 2007.

In December, 2008, DPH provided a schedule of what they believed was the qualifying State MOE for March 31, 2008. However, due to the delay in receiving the calculation and the numerous errors identified in the prior year amounts, we were unable to obtain sufficient and competent audit evidence to allow us to ascertain whether DPH had complied with the MOE requirement, including reporting expenditures from the other agencies in the proper period.

Failure to properly monitor the MOE requirement may result in claiming expenditures that are inconsistent with the objective of the federal programs and the State not meeting the HIV MOE requirement.

Client Eligibility

The HIV program administered by DPH includes an AIDS Drug Assistance Program (ADAP) under which beneficiaries who meet certain eligibility criteria are provided drugs to treat HIV/AIDS. The eligibility criteria require that the beneficiary: (1) has been diagnosed with HIV/AIDS; (2) is at an income level at or below 400% of the federal poverty level; (3) is not eligible for 80% or greater coverage of drugs through a third party payer; (4) is ineligible for medical assistance through Medicaid; and (5) is an Illinois resident. DPH's current process for determining eligibility requires completing an application and submitting it either by mail or in person to a member of the HIV Consortium (DPH subrecipients of the HIV program). The application requires submission of proof of income, insurance, residency, and documentation of a medical diagnosis of HIV/AIDS. DPH confirms with the Department of Healthcare and Family Services (HFS) that the individual is not receiving benefits under Medicaid.

During our testwork of 60 case files for eligibility requirements and allowability for each of the HIV program, we noted the following:

Eligibility support missing from HIV client files

- In seventeen cases, the beneficiary application indicated the beneficiary had no income and since DPH confirmed the individual was not receiving Medicaid benefits, a determination of Medicaid eligibility had not been performed. As a result, no income verification procedures were performed to determine whether the income reported (or lack thereof) was accurate.
- In one case, no recertification (redetermination) of eligibility was performed during the year.
- In one case, the beneficiary file was destroyed prior to the audit. The Department verified it was their procedure to destroy files for deceased beneficiaries at the time of termination of services.

Additionally, we noted the Department recertifies eligibility of beneficiaries on an annual basis rather than every six months as required by program requirements. As a result, no income verification procedures were performed to verify the income reported was accurate.

Failure to adequately establish a beneficiary's eligibility may result in expenditures being made to or on behalf of ineligible beneficiaries, which are unallowable costs. (Finding08-46, pages 136-138 and 08-47, pages 139-140.) **Finding 08-47 was first reported in the Statewide Single Audit in 2004.**

Auditor issues adverse opinion due to lack of monitoring maintenance of effort expenditures and verification of eligibility of HIV clients

As a result of DPH's failure to monitor the maintenance of effort, maintain adequate documentation for the support of the eligibility determinations, perform recertification of eligibility every six months, and maintain records in accordance with federal regulations, the auditors issued an adverse opinion on the HIV Care Formula Grants program.

We recommended DPH (1) establish procedures to identify and report MOE expenditures timely and ensure federal and state expenditures incurred by other state agencies meet the matching or MOE requirements and not used in more than one federal program; and (2) review its current process for determining eligibility to include ensuring adequate documentation exists to support determinations, verification of income and insurance with third party sources and other State agencies, and perform recertifications every six month as required by federal regulations.

DPH officials concurred and agreed with the findings and recommendations. They state (1) in future grant cycles

DPH will ensure a more intense oversight of interagency reporting and establish a more effective internal control for the MOE requirement; and (2) the DPH will conduct monthly Medicaid enrollment verification meetings with HFS when performing recertification so that these beneficiaries will not be dually enrolled. Also, DPH states the recertification will be performed every six months rather than annually. (For previous agency response, see Digest Footnote #10)

FAILURE TO SANCTION NON-COMPARABLE LOCAL EDUCATION AGENCY (LEA) AND INADEQUATE DOCUMENTATION FOR DETERMINING COMPARABILITY

ISBE Failed to sanction local education agency for noncompliance with non-comparability requirement

The State Board of Education (ISBE) failed to sanction a LEA that did not meet the requirement under the Title I Grants to Local Educational Agencies (Title I) program.

LEAs must provide educational services for schools receiving Title I funds that are comparable to those that are not receiving Title I funds within the same school district (“comparability of services”).

Based on information provided by a US Department of Education (USDE) audit and procedures performed during our audit in FY 2006, we noted one LEA was not in compliance with the comparability of services requirement. Specifically, this LEA has 16 schools that receive Title I funds that provide educational services (based on a teacher to pupil and expenditure to pupil ratios) that are less than schools not receiving Title I funding. Furthermore, based on a FY2008 review by the USDE of the ISBE’s administration of Title 1, they concluded that the ISBE had not ensured LEAs had properly calculate comparability ratios.

ISBE aware of local education agency noncompliance but fails to sanction and did not properly calculate comparability ratios

Federal regulations state that the State Educational Agency (ISBE) is ultimately responsible for ensuring that all subrecipients remain in compliance with the comparability of services requirements. (Finding 08-54, pages 154-155) **This finding was first reported in the Statewide Single Audit in 2006.**

Auditors qualify program

As a result of ISBE not sanctioning the LEA for the comparability of service requirements, the auditors qualified the Title I Grants to Local Educational Agencies program.

We recommended ISBE implement procedures to appropriately monitor and sanction LEAs not meeting the comparability of services requirement.

ISBE officials agreed with the finding and are waiting for guidance from the USDE in determining what sanction would be appropriate to impose. (For previous agency response, see Digest Footnote #11)

ISSUES INVOLVING MULTIPLE STATE AGENCIES

INADEQUATE MONITORING OF SUBRECIPIENT OMB CIRCULAR A-133 AUDIT REPORTS

We noted weaknesses in reviews of subrecipient audit reports for the following agencies:

Agency	Program	Finding
Aging (DOA)	Aging Cluster	08-43 pages 130-131
IL Community College Board (ICCB)	Career and Technical Ed – Basic Grants to States	08-59 pages 166-167

Multiple subrecipient monitoring deficiencies were noted

Pass through entities are required to monitor their subrecipients expending more than \$500,000 in federal awards during their fiscal year to include the submission of OMB Circular A-133 reports upon completion of an audit. Program staff for each of the agencies are responsible for reviewing the reports and determining whether: (1) the audit reports meet the audit requirements of OMB Circular A-133; (2) federal funds reported in the schedule of expenditures of federal awards reconcile to their records; and (3) Type A programs are being audited at least every three years. Additionally, program staff are responsible for evaluating the type of audit opinion issued (i.e. unqualified, qualified, and adverse) and issuing management decisions on findings reported within required timeframes. **This finding was first reported for Aging and ICCB in the 2006 Statewide Single Audit.**

Auditor qualification pertaining to subrecipient monitoring

As a result of the agencies’ failure to adequately monitor subrecipients, the auditors qualified their report for the two federal programs listed in the above table.

We recommended both agencies establish procedures to ensure all subrecipients receiving federal awards have audits performed in accordance with OMB Circular A-133. In addition, we made other specific recommendations for each of the two agencies.

Aging and ICCB officials accepted our findings and recommendations. (For previous Aging and ICCB responses, see Digest footnote #8 and #14, respectively).

INADEQUATE ON-SITE MONITORING OF SUBRECIPIENTS

We noted weaknesses in on-site monitoring of subrecipients for the following agencies:

Lack of on-site monitoring of subrecipients

Children & Family Services (DCFS)	TANF Foster Care Title IV-E Adoption Assistance Social Services Block Grant	08-39 pages 122-123
Aging (DOA)	Aging Cluster	08-42 pages 128-129
IL State Board of Education (ISBE)	Title I Grants to Local Ed Agencies Special Education Cluster Career and Technical Ed – Basic Grants to States Twenty-First Century Community Learning Centers Reading First State Grants Improving Teacher Quality State Grants	08-55 pages 156-158 08-56 pages 159-161
IL Community College Board (ICCB)	Career and Technical Ed – Basic Grants to States	08-58 pages 164-165
Transportation (DOT)	Airport Improvement Program	08-78 pages 210-211

These agencies pass-through federal funding to subrecipients for the purpose(s) established by federal regulations. As pass-through entities, these agencies monitor subrecipients primarily by reviewing grant applications, receiving periodic financial and programmatic reports, reviewing invoices, establishing policies and procedures, providing training and guidance, performing

informal evaluations (on-site reviews) and receiving OMB Circular A-133 audit reports.

According to federal regulations, a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws and regulations. Also, effective internal controls should include ensuring documentation of on-site review procedures adequately supports procedures performed and the results obtained. **This finding for DCFS, DOA, ISBE, ICCB and DOT was first reported in the Statewide Single Audit in 2000, 2003 2007, 2006 and 2005, respectively.**

Auditor qualification pertaining to subrecipient monitoring

As a result of these agencies' failure to adequately monitor subrecipients, the auditors qualified their report for 13 programs listed in the above table.

We recommended the agencies: (1) develop formal policies and procedures for all compliance requirements that are considered to be direct and material, (2) perform periodic on-site reviews which include reviewing financial and programmatic records, observation of operations, and/or processes, and (3) evaluate current monitoring staffing to ensure adequacy to complete monitoring within prescribed timeframes to ensure subrecipients are administering the federal programs in accordance with the applicable laws and regulations.

DCFS, DOA, ISBE, ICCB and DOT accepted our findings and recommendations. (For previous DCFS, DOA, ISBE and DOT responses, see Digest Footnotes #6, #7, #12, #13 #14 and #15.)

OTHER FINDINGS

The remaining findings pertain to other compliance and internal control matters. We will follow up on the status of corrective action on all findings in our next Statewide Single Audit for the year ended June 30, 2009.

AUDITORS' OPINION

The auditors state the Schedule of Expenditures of Federal Awards for the State of Illinois as of and for the year ended June 30, 2008 is presented fairly in all material respects.



WILLIAM G. HOLLAND, Auditor General

WGH:SES:pp

SPECIAL ASSISTANT AUDITORS

KPMG LLP was our special assistant auditor for this audit.

DIGEST FOOTNOTES

Previous responses by the Department of Human Services

#1 Failure to Perform Eligibility Redeterminations within Prescribed Timeframes (DHS)

2007: Recommendation not accepted. Federal regulations are silent as to a percentage of timely redeterminations.

#2 Inadequate Process for Preventing Individuals Convicted of Drug Felonies from Receiving TANF Benefits (DHS)

2007: Recommendation accepted. The Department stated the exception noted was attributed to caseworker oversight. The Department will review their process of verifying the presence of class 1 or X felony based on federal regulations.

Previous responses by Department of Children and Family Services

#3 Missing Documentation in Case Files – Foster Care Title IV-E(DCFS)

2007: Recommendation accepted. Department developed new checklist which must be complete prior to acceptance. The Department will reduce claims questioned by auditor.

#4 Failure To Ensure Required Judicial Determinations Were Made (DCFS)

2007: Recommendation accepted. The Department will review and make necessary changes to procedures for obtaining, retaining, making timely determination and language in agreements.

#5 Missing Documentation in Adoption Assistance Eligibility Files (DCFS)

2007: Recommendation accepted. The Department will review and make necessary changes to procedures for obtaining, retaining, making timely determination and language in agreements

#6 Inadequate and Untimely Monitoring of Subrecipients (DCFS)

2007: Recommendation accepted. The Department has developed and implemented a procedure to track the receipt of reports and follow-up on all audits not received within required timeframe

Previous responses by Department on Aging

#7 Inadequate On-Site Monitoring of Subrecipients (Aging)

2007: Recommendation accepted. The completed an on-site review of one Area Agency on Aging and have scheduled additional on-site-programmatic and fiscal reviews in FY2008.

#8 Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports (Aging)

2007: Recommendation accepted. The Department has added staff to the fiscal unit and their responsibilities included creating a tracking report to monitor the receipt of OMB Circular A-133 reports, adding a supervisory review signature line on the desk review check list schedule, and reconciling the expenditures reported by the subrecipient.

Previous responses by the Department of Public Health

#9 Inadequate Control and Accountability for Vaccines (DPH)

2007: Recommendation accepted. As a back-up to the federal inventory system, the DPH has routinely maintained daily inventory tracking sheets that are reconciled each day with the actual physical inventory at the warehouse.

#10 Inadequate Process for Determining Client Eligibility (DPH)

2007: Recommendation accepted. The Department will revise the Aids Drug Assistance Program eligibility standards related to Medicaid eligibility.

Previous responses by the Illinois State Board of Education (ISBE)

#11 Failure to Sanction Non-Comparable Local Education Agency (LEA) (DPH)

2007: Recommendation accepted. ISBE is waiting the determination of the USDE for the appropriate corrective action to be taken to sanction the LEA.

#12 Inadequate On-Site Fiscal Monitoring of Subrecipients (ISBE)

2007: Recommendation accepted. The agency is working to fill vacancies and seeking additional staff for the External Assurance monitoring function.

#13 Inadequate On-Site Programmatic Monitoring of Subrecipients (ISBE)

2007: Recommendation accepted. The agency is working to fill vacancies and seeking additional staff for the External Assurance monitoring function.

Previous responses by the Illinois Community College Board

#14 Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports (ICCB)

2007: Recommendation accepted. ICCB will implement the auditor's recommendations.

Previous responses by the Department of Transportation

#15 Inadequate On-Site Monitoring of Subrecipients (DOT)

2007: Recommendation accepted. The Department is to develop an on-site monitoring policy and procedure process to ensure that all projects not let by DOT will have random visits for the Airport Improvement program.