

**STATE OF ILLINOIS**

Single Audit Report

For the Year Ended June 30, 2010

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

Independent Auditors' Report on the Schedule  
of Expenditures of Federal Awards

Independent Auditors' Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of the Schedule of Expenditures  
of Federal Awards Performed in Accordance with *Government Auditing Standards*

Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and Internal Control Over  
Compliance in Accordance with OMB Circular A-133

# STATE OF ILLINOIS

## Single Audit Report

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**Other Reports Issued Applicable to the Single Audit:**

The Comprehensive Annual Financial Report of the State of Illinois for the Year Ended June 30, 2010 was issued under separate cover.

The Report on Internal Control over Financial Reporting and on Compliance and Other Matters and Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* for the Year Ended June 30, 2010 was issued under separate cover by the Auditor General of the State of Illinois.

# STATE OF ILLINOIS

## Single Audit Report

### Summary

The compliance audit testing performed in this audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, Single Audit Act Amendments of 1996, and OMB Circular A-133.

### Auditors' Reports

The auditors' report on compliance and on internal control applicable to each major program contains qualifications for the following programs:

#### **Qualifications (Noncompliance):**

- Airport Improvement Program
- Weatherization Assistance for Low-Income Persons
- Title I, Part A Cluster
- Special Education Cluster
- Improving Teacher Quality State Grants
- State Fiscal Stabilization Fund Cluster
- Aging Cluster
- Public Health Emergency Preparedness
- Temporary Assistance for Needy Families Cluster
- Low Income Home Energy Assistance Program
- Foster Care – Title IV-E
- Adoption Assistance
- Children's Health Insurance Program
- Medicaid Cluster

### Summary of Audit Findings

	<u>This audit</u>	<u>Prior audit</u>
Number of audit findings:		
This audit	103	93
Repeated audit findings	64	65
Prior findings implemented or not repeated	29	32



KPMG LLP  
303 East Wacker Drive  
Chicago, IL 60601-5212

## **Independent Auditors' Report on the Schedule of Expenditures of Federal Awards**

Honorable William G. Holland  
Auditor General  
State of Illinois:

As special assistant auditors for the Auditor General, we have audited the accompanying schedule of expenditures of federal awards of the State of Illinois (the Schedule) for the year ended June 30, 2010. This Schedule is the responsibility of the State of Illinois' management. Our responsibility is to express an opinion on this Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting of the Schedule. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1 to the schedule of expenditures of federal awards, the Schedule does not include expenditures of federal awards for those agencies determined to be component units of the State of Illinois for financial statement purposes. Each of these agencies has their own independent audit in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Also as described in note 1 to the schedule of expenditures of federal awards, the Schedule does not include federal transactions related to loans held and serviced by the Illinois Designated Account Purchase Program (IDAPP), a division of the Illinois Student Assistance Commission, under the Federal Family Educational Loan program. IDAPP has elected to have a separate lender compliance audit performed in accordance with the US Department of Education's *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program Guide*.



In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards of the State of Illinois, as described above, for the year ended June 30, 2010, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2011 on our consideration of the State of Illinois' internal control over financial reporting of the Schedule and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

June 30, 2011

**STATE OF ILLINOIS**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2010**

<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<b><u>U.S. Department of Agriculture</u></b>			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 1,826	\$ 190
Wildlife Services	10.028	76	—
ARRA – Aquaculture Grants Program	10.086	77	—
Market News	10.153	7	—
Inspection Grading and Standardization	10.162	12	—
Market Protection and Promotion	10.163	99	—
Specialty Crop Block Grant Program	10.169	3	—
Specialty Crop Block Grant Program – Farm Bill	10.170	110	9
Organic Agriculture Research and Extension Initiative	10.307	313	—
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475	5,546	—
SNAP Cluster:			
Supplemental Nutrition Assistance Program (SNAP)	10.551	* \$ 2,688,293	—
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	* 115,859	10,643
ARRA – State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	* 9,958	569
Total SNAP Cluster			2,814,110
Child Nutrition Cluster:			
School Breakfast Program	10.553	* 85,868	84,960
National School Lunch Program	10.555	* 397,457	356,790
Special Milk Program for Children	10.556	* 2,730	2,727
Summer Food Service Program for Children	10.559	* 9,277	9,079
Total Child Nutrition Cluster			495,332
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	* 230,403	206,537
Child and Adult Care Food Program	10.558	* 116,208	115,422
State Administrative Expenses for Child Nutrition	10.560	6,860	404
Commodity Supplemental Food Program	10.565	3,773	3,773
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	10.568	2,822	2,421
ARRA – Emergency Food Assistance Program (Administrative Costs)	10.568	1,461	1,449
Emergency Food Assistance Program (Food Commodities)	10.569	22,991	22,991
ARRA – Emergency Food Assistance Program (Food Commodities)	10.569	1,877	1,877
Total Emergency Food Assistance Cluster			29,151
WIC Farmers' Market Nutrition Program (FMNP)	10.572	328	33
Team Nutrition Grants	10.574	282	282
Senior Farmers Market Nutrition Program	10.576	670	—
WIC Grants to States	10.578	129	—
Child Nutrition Discretionary Grants Limited Availability	10.579	3,631	3,614
Fresh Fruit and Vegetable Program	10.582	2,083	2,081
Cooperative Forestry Assistance	10.664	667	329
Schools and Roads Cluster:			
Schools and Roads Grants to States	10.665	114	114
Total Schools and Roads Cluster			114
Forest Legacy Program	10.676	3	—
Forest Stewardship Program	10.678	350	216
Forest Health Program	10.680	88	88
Wildlife Habitat Incentive Program	10.914	92	—
<b>U.S. Department of Agriculture Total</b>		<b>3,712,343</b>	<b>826,598</b>
<b><u>U.S. Department of Commerce</u></b>			
Public Works and Economic Development Cluster:			
Economic Adjustment Assistance	11.307	186	186
Total Public Works and Economic Development Cluster			186
Coastal Zone Management Administration Awards	11.419	8	—
Public Safety Interoperable Communications Grant Program	11.555	6,752	6,324
<b>U.S. Department of Commerce Total</b>		<b>6,946</b>	<b>6,510</b>
<b><u>U.S. Department of Defense</u></b>			
Procurement Technical Assistance For Business Firms	12.002	544	421
Payments to States in Lieu of Real Estate Taxes	12.112	800	800
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	1,063	—
Military Construction, National Guard	12.400	29,618	—
National Guard Military Operations and Maintenance (O&M) Projects	12.401	15,754	—
National Guard Civilian Youth Opportunities	12.404	4,644	—
Troops-to-Teachers/Spouses-to-Teachers	12.XXX	175	—
<b>U.S. Department of Defense Total</b>		<b>52,598</b>	<b>1,221</b>

**STATE OF ILLINOIS**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2010**

<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
CDBG – Entitlement Grants Cluster:			
Community Development Block Grants/Entitlement Grants	14.218	\$ 498	\$ —
Total CDBG – Entitlement Grants Cluster		\$ 498	
CDBG – State–Administered Small Cities Program Cluster:			
Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii	14.228	33,295	32,455
Community Development Block Grants, Recovery Act	14.255	1,727	1,677
Total CDBG – State–Administered Small Cities Program Cluster		35,022	
Emergency Shelter Grants Program	14.231	2,756	2,642
Supportive Housing Program	14.235	116	—
Housing Opportunities for Persons with AIDS	14.241	800	800
Homelessness Prevention and Rapid Re-Housing Program, Recovery Act	14.257	5,348	5,205
Fair Housing Assistance Program State and Local	14.401	215	—
Housing Voucher Cluster:			
Section 8 Housing Choice Vouchers	14.871	631	525
Total Housing Voucher Cluster		631	
Lead-Based Paint Hazard Control in Privately Owned Housing	14.900	1,410	1,323
<b>U.S. Department of Housing and Urban Development Total</b>		<b>46,796</b>	<b>44,627</b>
<b><u>U.S. Department of Interior</u></b>			
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250	2,533	113
Abandoned Mine Land Reclamation (AMLR) Program	15.252	9,880	368
Fish & Wildlife Cluster:			
Sport Fish Restoration	15.605	7,299	1,611
Wildlife Restoration	15.611	6,233	1,352
Total Fish & Wildlife Cluster		13,532	
Fish and Wildlife Management Assistance	15.608	423	—
Coastal Wetlands Planning, Protection and Restoration Act	15.614	105	—
Cooperative Endangered Species Conservation Fund	15.615	174	173
Clean Vessel Act	15.616	37	37
Sportfishing and Boating Safety Act	15.622	92	—
Firearm and Bow Hunter Education and Safety Program	15.626	273	—
Landowner Incentive	15.633	657	74
State Wildlife Grants	15.634	1,831	890
National Spatial Data Infrastructure Cooperative Agreements Program	15.809	7	—
Historic Preservation Fund Grants In Aid	15.904	460	113
Outdoor Recreation Acquisition, Development and Planning	15.916	476	—
State Memorandum Agreement – Crab Orchard	15.XXX	(24)	—
<b>U.S. Department of Interior Total</b>		<b>30,456</b>	<b>4,731</b>
<b><u>U.S. Department of Justice</u></b>			
Sexual Assault Services Formula Program	16.017	335	335
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	686	—
Juvenile Accountability Block Grants	16.523	1,272	1,056
Education, Training, and Enhanced Services to End Violence Against and Abuse of Women with Disabilities	16.529	351	350
Juvenile Justice and Delinquency Prevention Allocation to States	16.540	1,921	1,165
Missing Children’s Assistance	16.543	387	—
Title V Delinquency Prevention Program	16.548	47	45
State Justice Statistics Program for Statistical Analysis Centers	16.550	56	—
National Institute of Justice Research, Evaluation, and Development Projects Grants	16.560	402	—
Crime Victim Assistance	16.575	13,245	12,186
Crime Victim Compensation	16.576	8,232	—
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	365	86
Violence Against Women Formula Grants	16.588	4,934	4,053
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	16.589	331	278
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	314	18
Residential Substance Abuse Treatment for State Prisoners	16.593	578	18
Corrections Research and Evaluation and Policy Formulation	16.602	2	—
State Criminal Alien Assistance Program	16.606	6,619	—
Bulletproof Vest Partnership Program	16.607	11	—
Community Prosecution and Project Safe Neighborhoods	16.609	304	232
Closed Circuit Televising of Child Victims of Abuse	16.611	(191)	—
Public Safety Partnership and Community Policing Grants	16.710	510	—
Enforcing Underage Drinking Laws Program	16.727	413	256
Edward Byrne Memorial Justice Assistance Grant Program	16.738	11,874	8,534
Statewide Automated Victim Information Notification (SAVIN) Program	16.740	141	—



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		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<b><u>U.S. Department of Justice (Continued)</u></b>			
Forensic DNA Backlog Reduction Program	16.741	\$ 4,550	\$ —
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	558	116
Anti-Gang Initiative	16.744	247	247
Internet Crimes against Children Task Force (ICAC) Program, Recovery Act	16.800	40	—
State Victim Assistance Formula Grant Program, Recovery Act	16.801	1,253	1,243
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories, Recovery Act	16.803	13,163	3,737
Local Law Enforcement Block Grant	16.999	15	—
Equitable Sharing of Federal Forfeitures	16.XXX	46	—
<b>U.S. Department of Justice Total</b>		<b>73,011</b>	<b>33,955</b>
<b><u>U.S. Department of Labor</u></b>			
Labor Force Statistics	17.002	3,019	—
Compensation and Working Conditions	17.005	142	—
Employment Services Cluster:			
Employment Service/Wagner-Peyser Funded Activities	17.207	\$ 26,752	—
ARRA – Employment Service/Wagner-Peyser Funded Activities	17.207	5,672	—
Disabled Veterans' Outreach Program (DVOP)	17.801	3,053	—
Local Veterans' Employment Representative Program	17.804	2,455	—
Total Employment Services Cluster			37,932
Unemployment Insurance Program:			
Unemployment Insurance	17.225 *	4,859,091	—
ARRA – Unemployment Insurance	17.225 *	3,695,864	—
Total Unemployment Insurance Program			8,554,955
Senior Community Service Employment Program	17.235	3,737	3,737
ARRA – Senior Community Service Employment Program	17.235	846	846
Trade Adjustment Assistance	17.245	12,416	12,206
Workforce Investment Act Cluster:			
WIA Adult Program	17.258 *	36,593	33,846
ARRA – WIA Adult Program	17.258 *	14,241	14,099
WIA Youth Activities	17.259 *	40,514	37,471
ARRA – WIA Youth Activities	17.259 *	45,099	44,756
WIA Dislocated Workers	17.260 *	63,662	58,821
ARRA – WIA Dislocated Workers	17.260 *	31,628	31,183
Total Workforce Investment Act Cluster			231,737
Work Incentive Grants	17.266	529	529
Incentive Grants WIA Section 503	17.267	2,216	1,088
H-1B Job Training Grants	17.268	495	495
Work Opportunity Tax Credit (WOTC) Program	17.271	594	—
Temporary Labor Certification for Foreign Workers	17.273	403	—
Occupational Safety and Health State Program	17.503	423	—
Consultation Agreements	17.504	1,951	—
Mine Health and Safety Grants	17.600	161	—
Brookwood-Sago Grant	17.603	6	—
<b>U.S. Department of Labor Total</b>		<b>8,851,562</b>	<b>239,077</b>
<b><u>U.S. Department of Transportation</u></b>			
Airport Improvement Program:			
Airport Improvement Program	20.106 *	56,186	18,868
ARRA – Airport Improvement Program	20.106 *	17,365	6,490
Total Airport Improvement Program			73,551
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205 *	1,098,646	115,356
ARRA – Highway Planning and Construction	20.205 *	508,626	19,638
Recreational Trails Program	20.219 *	2,286	—
Total Highway Planning and Construction Cluster			1,609,558
National Motor Carrier Safety	20.218	7,522	—
Commercial Driver License State Programs	20.232	154	—
Railroad Safety	20.301	392	392
Federal Transit Cluster:			
Federal Transit Capital Investment Grants	20.500	2,694	1,579
Total Federal Transit Cluster			2,694
Federal Transit Metropolitan Planning Grants	20.505	7,035	266
Formula Grants for Other Than Urbanized Areas Program:			
Formula Grants for Other Than Urbanized Areas	20.509	10,244	9,648
ARRA – Formula Grants for Other Than Urbanized Areas	20.509	6,074	—
Total Formula Grants for Other Than Urbanized Areas			16,318

**STATE OF ILLINOIS**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2010**

<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<b><u>U.S. Department of Transportation (Continued)</u></b>			
Transit Services Program Cluster:			
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	\$ 7,334	\$ —
Job Access Reverse Commute	20.516	839	437
New Freedom Program	20.521	443	231
Total Transit Services Programs Cluster		\$ 8,616	
Highway Safety Cluster:			
State and Community Highway Safety	20.600	8,983	8,983
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	5,258	2,726
Occupant Protection Incentive Grants	20.602	1,079	11
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	(62)	—
Alcohol Open Container Requirements	20.607	14,682	—
Safety Belt Performance Grants	20.609	6,763	376
State Traffic Safety Information System Improvements Grants	20.610	611	147
Incentive Grant Program to Prohibit Racial Profiling	20.611	1	1
Incentive Grant Program to Increase Motorcyclist Safety	20.612	760	—
Child Safety and Child Booster Seats Incentive Grants	20.613	464	199
Total Highway Safety Cluster		38,539	
National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants	20.614	200	—
Pipeline Safety Program Base Grants	20.700	1,207	—
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	269	269
<b>U.S. Department of Transportation Total</b>		<b>1,766,055</b>	<b>185,617</b>
<b><u>U.S. Department of Treasury</u></b>			
Mortgage Foreclosure Mitigation Assistance	21.000	670	—
<b>U.S. Department of Treasury Total</b>		<b>670</b>	<b>—</b>
<b><u>Equal Employment Opportunity Commission</u></b>			
Employment Discrimination State and Local Fair Employment Practices Agency Contracts	30.002	905	—
<b>Equal Employment Opportunity Commission Total</b>		<b>905</b>	<b>—</b>
<b><u>General Services Administration</u></b>			
Election Reform Payments	39.011	46	—
<b>General Services Administration Total</b>		<b>46</b>	<b>—</b>
<b><u>National Endowment for the Arts</u></b>			
Promotion of the Arts-Grants to Organizations and Individuals	45.024	254	227
Promotion of the Arts Partnership Agreements Program:			
Promotion of the Arts Partnership Agreements	45.025	971	971
ARRA – Promotion of the Arts Partnership Agreements	45.025	362	362
Total Promotion of the Arts Partnership Agreements Program		1,333	
Promotion of the Humanities Research	45.161	29	—
Grants to States	45.310	6,109	5,223
National Leadership Grants	45.312	(14)	—
Laura Bush 21st Century Librarian Program	45.313	146	—
<b>National Endowment for the Arts Total</b>		<b>7,857</b>	<b>6,783</b>
<b><u>U.S. Small Business Administration</u></b>			
Statewide Broadband Infrastructure and Connectivity	59.000	9	—
Small Business Development Center	59.037	4,476	2,408
<b>U.S. Small Business Administration Total</b>		<b>4,485</b>	<b>2,408</b>
<b><u>U.S. Department of Veteran's Affairs</u></b>			
Grants to States for Construction of State Home Facilities	64.005	160	—
Veterans State Domiciliary Care	64.014	472	—
Veterans State Nursing Home Care	64.015	25,220	—
All Volunteer Force Educational Assistance	64.124	814	—
<b>U.S. Department of Veteran's Affairs Total</b>		<b>26,666</b>	<b>—</b>
<b><u>U.S. Environmental Agency</u></b>			
State Indoor Radon Grants	66.032	283	74
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	943	—
National Clean Diesel Funding Assistance Program:			
National Clean Diesel Funding Assistance Program	66.039	507	—
ARRA – National Clean Diesel Funding Assistance Program	66.039	2,332	—
Total National Clean Diesel Funding Assistance Program		2,839	
State Clean Diesel Grant Program:			
State Clean Diesel Grant Program	66.040	53	—
ARRA – State Clean Diesel Grant Program	66.040	538	—
Total State Clean Diesel Grant Program		591	

**STATE OF ILLINOIS**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2010**

<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<b><u>U.S. Environmental Agency (Continued)</u></b>			
State Environmental Justice Cooperative Agreement Program	66.312	\$ 36	\$ —
Water Pollution Control State, Interstate, and Tribal Program Support	66.419	127	40
State Underground Water Source Protection	66.433	202	—
Water Quality Management Planning	66.454	417	403
ARRA – Capitalization Grants for Clean Water State Revolving Funds	66.458 *	92,121	92,121
Nonpoint Source Implementation Grants	66.460	9,202	6,681
Water Quality Cooperative Agreements	66.463	21	—
Capitalization Grants for Drinking Water State Revolving Funds Program:			
Capitalization Grants for Drinking Water State Revolving Funds	66.468 * \$	12,961	11,548
ARRA – Capitalization Grants for Drinking Water State Revolving Funds	66.468 *	<u>48,868</u>	<u>48,868</u>
Total Capitalization Grants for Drinking Water State Revolving Funds		61,829	
Great Lakes Program	66.469	64	—
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	596	160
Beach Monitoring and Notification Program Implementation Grants	66.472	454	282
Water Protection Grants to the States	66.474	173	141
Performance Partnership Grants	66.605	20,591	153
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	121	5
Environmental Policy and Innovation Grants	66.611	17	—
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	257	—
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	134	—
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	455	—
Pollution Prevention Grants Program	66.708	36	—
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	8,261	—
Underground Storage Tank Prevention, Detection and Compliance Program	66.804	827	—
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	4,955	—
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	336	—
State and Tribal Response Program Grants	66.817	1,048	—
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	225	—
Environmental Education Grants	66.951	9	9
<b>U.S. Environmental Agency Total</b>		<b><u>207,170</u></b>	<b><u>160,485</u></b>
<b><u>U.S. Department of Energy</u></b>			
State Energy Program:			
State Energy Program	81.041	775	—
ARRA – State Energy Program	81.041	<u>4,577</u>	<u>4,045</u>
Total State Energy Program		5,352	
Weatherization Assistance for Low-Income Persons Program:			
Weatherization Assistance for Low-Income Persons	81.042 *	16,860	16,860
ARRA – Weatherization Assistance for Low-Income Persons	81.042 *	<u>52,266</u>	<u>51,944</u>
Total Weatherization Assistance for Low-Income Persons Program		69,126	
Transport of Transuranic Wastes to the Waste Isolation Pilot Plant:	81.106	53	—
States and Tribal Concerns, Proposed Solutions			
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	4	4
State Energy Program Special Projects Program:			
State Energy Program Special Projects	81.119	74	74
ARRA – State Energy Program Special Projects	81.119	<u>90</u>	<u>90</u>
Total State Energy Program Special Projects Program		164	
ARRA – Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122	89	—
ARRA – Energy Efficient Appliance Rebate Program (EEARP)	81.127	11,932	11,932
ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	1,098	1,098
<b>U.S. Department of Energy Total</b>		<b><u>87,818</u></b>	<b><u>86,047</u></b>
<b><u>U.S. Department of Education</u></b>			
Adult Education – Basic Grants to States	84.002	19,645	19,441
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010 *	555,470	548,660
Title I Grants to Local Educational Agencies, Recovery Act	84.389 *	<u>140,806</u>	<u>140,806</u>
Total Title I, Part A Cluster		696,276	
Migrant Education State Grant Program	84.011	1,344	1,326
Title I Program for Neglected and Delinquent Children	84.013	894	—
Special Education Cluster (IDEA):			
Special Education – Grants to States	84.027 *	498,514	484,008
Special Education – Preschool Grants	84.173 *	15,501	15,501
Special Education Grants to States, Recovery Act	84.391 *	221,043	220,935
Special Education – Preschool Grants, Recovery Act	84.392 *	<u>7,750</u>	<u>7,750</u>
Total Special Education Cluster (IDEA)		742,808	
Federal Family Education Loan Guaranty Program	84.032G *	238,016	—

**STATE OF ILLINOIS**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2010**

<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<b>U.S. Department of Education (Continued)</b>			
Career and Technical Education – Basic Grants to States	84.048	\$ 42,690	\$ 42,339
Leveraging Educational Assistance Partnership	84.069	3,863	—
Vocational Rehabilitation Cluster:			
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	* \$ 93,300	18,420
Rehabilitation Services – Vocational Rehabilitation Grants to States, Recovery Act	84.390	* 780	780
Total Vocational Rehabilitation Cluster		94,080	
Rehabilitation Services Service Projects	84.128	143	143
Migrant Education Coordination Program	84.144	79	18
Rehabilitation Services Client Assistance Program	84.161	545	—
Independent Living State Grants Cluster:			
Independent Living State Grants	84.169	766	766
Independent Living State Grants, Recovery Act	84.398	204	203
Total Independent Living State Grants Cluster		970	
Carl D. Perkins Scholarships	84.176	(1)	—
Independent Living Services for Older Individuals Who are Blind Cluster:			
Rehabilitation Services Independent Living Services for Older Individuals Who Are Blind	84.177	1,204	1,084
Independent Living Services for Older Individuals Who are Blind, Recovery Act	84.399	452	425
Total Independent Living Services for Older Individuals Who are Blind Cluster		1,656	
Early Intervention Services (IDEA) Cluster:			
Special Education Grants for Infants and Families	84.181	17,652	4,812
Special Education – Grants for Infants and Families, Recovery Act	84.393	10,630	20
Total Early Intervention Services (IDEA) Cluster		28,282	
Safe and Drug-Free Schools and Communities National Programs	84.184	11	—
Byrd Honors Scholarships	84.185	1,958	—
Safe and Drug-Free Schools and Communities State Grants	84.186	12,449	12,151
Supported Employment Services for Individuals with Significant Disabilities	84.187	1,160	1,160
Education for Homeless Children and Youth Cluster:			
Education for Homeless Children and Youth	84.196	2,830	2,470
Education for Homeless Children and Youth, Recovery Act	84.387	2,274	2,274
Total Education of Homeless Children and Youth Cluster		5,104	
Even Start State Educational Agencies	84.213	2,740	2,651
Fund for the Improvement of Education	84.215	(1)	—
Assistive Technology	84.224	580	580
Tech-Prep Education	84.243	3,971	3,651
Rehabilitation Training State Vocational Rehabilitation Unit In-Service Training	84.265	122	—
GOALS 2000 – State and Local Education Systemic Improvement Grants	84.276	(56)	—
Charter Schools	84.282	2,192	2,110
Twenty-First Century Community Learning Centers	84.287	41,474	41,474
State Grants for Innovative Programs	84.298	16	16
Education Technology State Grants Cluster:			
Education Technology State Grants	84.318	10,029	9,373
Education Technology State Grants, Recovery Act	84.386	15,461	15,461
Total Educational Technology State Grants Cluster		25,490	
Special Education State Personnel Development	84.323	1,733	1,733
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	292	292
Advanced Placement Program	84.330	1,404	1,404
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331	830	—
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	1,276	1,276
Transition to Teaching	84.350	153	133
Reading First State Grants	84.357	19,835	19,046
Rural Education	84.358	826	791
English Language Acquisition Grants	84.365	24,920	23,863
Mathematics and Science Partnerships	84.366	4,489	4,489
Improving Teacher Quality State Grants	84.367	* 106,583	105,649
Grants for Enhances Assessment Instruments	84.368	487	487
Grants for State Assessments and Related Activities	84.369	16,575	—
Striving Readers	84.371	474	435
Statewide Data Systems Cluster:			
Statewide Data Systems	84.372	105	—
Total Statewide Data Systems Cluster		105	
School Improvement Grants Cluster:			
School Improvement Grants Cluster	84.377	16,521	16,421
Total School Improvement Grants Cluster		16,521	
College Access Challenge Grant Program	84.378	2,180	—

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<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<b><u>U.S. Department of Education (Continued)</u></b>			
State Fiscal Stabilization Fund Cluster:			
State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act	84.394	* \$ 642,142	\$ 642,142
State Fiscal Stabilization Fund (SFSF) – Government Services, Recovery Act	84.397	* 373,085	373,085
Total State Fiscal Stabilization Fund Cluster		\$ 1,015,227	
<b>U.S. Department of Education Total</b>		<b>3,182,410</b>	<b>2,792,054</b>
<b><u>National Archives and Records Administration</u></b>			
National Historical Publications and Records Grants	89.003	31	15
<b>National Archives and Records Administration Total</b>		<b>31</b>	<b>15</b>
<b><u>Election Assistance Commission</u></b>			
Help America Vote College Program	90.400	1,158	—
Help America Vote Act Requirements Payments	90.401	2,521	366
<b>Election Assistance Commission Total</b>		<b>3,679</b>	<b>366</b>
<b><u>U.S. Department of Health and Human Services</u></b>			
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	138	136
Special Programs for the Aging Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	188	188
Special Programs for the Aging Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Individuals	93.042	1,714	675
Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services Aging Cluster:	93.043	816	816
Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	* 18,182	17,245
Special Programs for the Aging – Title III, Part C – Nutrition Services	93.045	* 22,913	22,913
Nutrition Services Incentive Program	93.053	* 7,662	7,662
ARRA – Aging Home-Delivered Nutrition Services for States	93.705	* 1,176	1,176
ARRA – Aging Congregate Nutrition Services for States	93.707	* 2,150	2,150
Total Aging Cluster			52,083
Special Programs for the Aging Title IV and Title II Discretionary Projects	93.048	562	420
Alzheimer’s Disease Demonstration Grants to States	93.051	(24)	—
National Family Caregiver Support, Title III, Part E	93.052	5,744	5,744
Public Health Emergency Preparedness	93.069	* 73,334	30,159
Environmental Public Health Emergency Response	93.070	(18)	—
Medicare Enrollment Assistance Program	93.071	391	391
Lifespan Respite Care Program	93.072	30	30
Enhance the Safety of Children Affected by Parental Methamphetamine or Other Substance Abuse	93.087	50	—
Food and Drug Administration Research	93.103	62	—
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	2,829	2,829
Maternal and Child Health Federal Consolidated Programs	93.110	360	319
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	1,395	287
Primary Care Services Resource Coordination and Development	93.130	264	141
Injury Prevention and Control Research and State and Community Based Programs	93.136	1,688	1,663
Projects for Assistance in Transition from Homelessness (PATH)	93.150	2,708	2,699
Grants to States for Loan Repayment Program	93.165	366	366
Disabilities Prevention	93.184	209	30
Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	903	—
Telehealth Network Grants	93.211	40	—
Family Planning Services	93.217	8,581	6,714
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	(6)	—
Consolidated Knowledge Development and Application (KD&A) Program	93.230	(1)	—
Traumatic Brain Injury State Demonstration Grant Program	93.234	82	—
Abstinence Education Program	93.235	379	321
State Capacity Building	93.240	503	—
State Rural Hospital Flexibility Program	93.241	631	631
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	6,648	6,385
Rural Access to Emergency Devices Grant	93.259	3	3
Immunization Cluster:			
Immunization Grants	93.268	* 87,555	871
ARRA – Immunization	93.712	* 7,382	1,855
Total Immunization Cluster			94,937
Substance Abuse and Mental Health Services Access to Recovery	93.275	6,344	6,029

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<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<b>U.S. Department of Health and Human Services (Continued)</b>			
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	\$ 13,815	\$ 7,942
Small Rural Hospital Improvement Grant Program	93.301	528	528
ARRA – State Loan Repayment Program	93.402	56	56
ARRA – State Primary Care Offices	93.414	40	—
Ruminant Feed Ban Support Project	93.449	341	—
Abandoned Infants	93.551	11	—
Promoting Safe and Stable Families	93.556	13,812	13,801
Temporary Assistance for Needy Families Cluster:			
Temporary Assistance for Needy Families	93.558	* \$ 556,621	188,869
ARRA Emergency Contingency Fund for Temporary Assistance to Needy Families (TANF) State Program	93.714	* 16,465	13,884
Total Temporary Assistance for Needy Families Cluster		573,086	
Child Support Enforcement Program:			
Child Support Enforcement	93.563	* 109,032	20,059
ARRA – Child Support Enforcement	93.563	* 32,865	—
Total Child Support Enforcement Program		141,897	
Refugee and Entrant Assistance State Administered Programs	93.566	14,785	4,682
Low-Income Home Energy Assistance	93.568	* 237,689	227,215
Community Services Block Grants Cluster:			
Community Services Block Grant	93.569	* 33,957	31,448
ARRA – Community Services Block Grant	93.710	* 27,986	27,986
Total Community Services Block Grants Cluster		61,943	
Child Care Development Funds Cluster:			
Child Care and Development Block Grant	93.575	* 81,537	76,073
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	* 129,439	82,154
ARRA Child Care and Development Block Grant	93.713	* 23,470	23,035
Total Child Care Development Funds Cluster		234,446	
Refugee and Entrant Assistance Discretionary Grants	93.576	1,091	1,091
Refugee and Entrant Assistance Targeted Assistance Grants	93.584	1,051	1,051
State Court Improvement Program	93.586	401	247
Community Based Child Abuse Prevention Grants	93.590	1,038	—
Grants to States for Access and Visitation Programs	93.597	323	287
Services to Victims of a Severe Form of Trafficking	93.598	191	—
Chafee Education and Training Vouchers Program (ETV)	93.599	4	—
Head Start Cluster:			
Head Start	93.600	3,218	2,620
ARRA – Head Start	93.708	93	93
Total Head Start Cluster		3,311	
Mentoring Children of Prisoners	93.616	49	—
Voting Access for Individuals with Disabilities Grants to States	93.617	193	193
Developmental Disabilities Basic Support and Advocacy Grants	93.630	2,892	1,664
Children’s Justice Grants to States	93.643	524	—
Child Welfare Services State Grants	93.645	8,369	—
Adoption Opportunities	93.652	1	—
Foster Care – Title IV-E Program:			
Foster Care – Title IV-E	93.658	* 190,432	—
ARRA – Foster Care – Title IV-E	93.658	* 6,851	—
Total Foster Care – Title IV-E		197,283	
Adoption Assistance Program:			
Adoption Assistance	93.659	* 96,893	—
ARRA – Adoption Assistance	93.659	* 9,532	—
Total Adoption Assistance		106,425	
Social Services Block Grant	93.667	* 109,613	32,079
Child Abuse and Neglect State Grants	93.669	948	—
Child Abuse and Neglect Discretionary Activities	93.670	1,170	—
Family Violence Prevention and Services/Grants for Battered Women’s Shelters Grants to States and Indian Tribes	93.671	3,361	3,172
Chafee Foster Care Independence Program	93.674	4,761	—
ARRA – Preventing Healthcare–Associated Infections	93.717	147	145
ARRA – State Grants to Promote Health Information Technology	93.719	154	—
ARRA – Survey and Certification Ambulatory Surgical Center Healthcare–Associated Infection (ASC-HAI) Prevention Initiative	93.720	59	—
ARRA – Prevention and Wellness – State, Territories, and Pacific Islands	93.723	30	9
ARRA – Communities Putting Prevention to Work: Chronic Disease Self–Management Program	93.725	20	—
Children’s Health Insurance Program	93.767	* 274,279	—
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	469	—

**STATE OF ILLINOIS**  
**Schedule of Expenditures of Federal Awards**  
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<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<b><u>U.S. Department of Health and Human Services (Continued)</u></b>			
Medicaid Cluster:			
State Medicaid Fraud Control Units	93.775	* \$ 6,215	\$ —
State Survey and Certification of Health Care Providers and Suppliers	93.777	* 23,953	—
Medical Assistance Program	93.778	* 7,273,630	63,312
ARRA – Medical Assistance Program	93.778	* 1,309,025	—
Total Medicaid Cluster		\$ 8,612,823	
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	1,115	135
Alternate Non-Emergency Service Providers or Networks	93.790	1,408	—
Money Follows the Person Rebalancing Demonstration	93.791	666	—
Medicaid Transformation Grants	93.793	1,371	—
National Bioterrorism Hospital Preparedness Program	93.889	14,025	12,435
Grants to States for Operation of Offices of Rural Health	93.913	204	9
HIV Care Formula Grants	93.917	39,814	7,342
Healthy Start Initiative	93.926	1,548	1,402
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	277	—
HIV Prevention Activities Health Department Based	93.940	3,888	1,694
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	(164)	—
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	1,042	150
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946	23	—
Block Grants for Community Mental Health Services	93.958	16,076	15,269
Block Grants for Prevention and Treatment of Substance Abuse	93.959	* 63,779	61,059
National All Schedules Prescription Electronic Reporting Grant	93.975	26	—
Preventive Health Services Sexually Transmitted Diseases Control Grants	93.977	2,886	362
Cooperative Agreements for State Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	229	—
Preventive Health and Health Services Block Grant	93.991	2,165	1,226
Maternal and Child Health Services Block Grant to the States	93.994	14,559	14,559
Adolescent Family Life Demonstration Projects	93.995	322	322
<b>U.S. Department of Health and Human Services Total</b>		<b>11,052,621</b>	<b>1,060,507</b>
<b><u>Corporation for National and Community Service</u></b>			
State Commissions	94.003	369	68
Learn and Serve America School and Community Based Programs	94.004	480	420
AmeriCorps	94.006	5,890	5,890
ARRA – AmeriCorps	94.006	2,247	2,217
Program Development and Innovation Grants	94.007	67	67
Training and Technical Assistance	94.009	120	—
<b>Corporation for National and Community Service Total</b>		<b>9,173</b>	<b>8,662</b>
<b><u>Social Security Administration</u></b>			
Disability Insurance/SSI Cluster:			
Social Security – Disability Insurance	96.001	* 78,512	—
Total Disability Insurance/SSI Cluster		78,512	
Social Security Work Incentives Planning and Assistance Program	96.008	382	160
<b>Social Security Administration Total</b>		<b>78,894</b>	<b>160</b>
<b><u>U.S. Department of Homeland Security</u></b>			
Urban Areas Security Initiative	97.008	2,703	2,702
Boating Safety Financial Assistance	97.012	3,542	—
Hazardous Materials Assistance Program	97.021	(2)	—
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	264	—
Disaster Grants Public Assistance (Presidentially Declared Disasters)	97.036	28,684	26,386
Hazard Mitigation Grant	97.039	325	244
National Dam Safety Program	97.041	228	—
Emergency Management Performance Grants	97.042	8,782	2,171
Cooperating Technical Partners	97.045	613	—
Pre-Disaster Mitigation	97.047	680	680
Emergency Operations Centers	97.052	1,469	1,469
Interoperable Emergency Communications	97.055	317	317
Homeland Security Cluster:			
Homeland Security Grant Program	97.067	* 84,892	81,564
Total Homeland Security Cluster		84,892	
Map Modernization Management Support	97.070	77	—
Rail and Transit Security Grant Program	97.075	2,761	2,761

**STATE OF ILLINOIS**  
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<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<b><u>U.S. Department of Homeland Security (Continued)</u></b>			
Buffer Zone Protection Program (BZPP)	97.078	\$ 2,817	\$ 2,791
Earthquake Consortium	97.082	6	—
Real ID Program	97.089	587	—
Homeland Security Biowatch Program	97.091	2,102	—
Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111	282	282
U.S. Immigration and Customs Enforcement	97.XXX	20	—
<b>U.S. Department of Homeland Security Total</b>		<b><u>141,149</u></b>	<b><u>121,367</u></b>
<b>Total expenditures of federal awards</b>		<b><u>\$ 29,343,341</u></b>	<b><u>\$ 5,581,190</u></b>

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

\*Denotes Major Program



## STATE OF ILLINOIS

### Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

#### (1) Summary of Significant Accounting Policies

##### (a) Reporting Entity

The schedule of expenditures of federal awards includes all federal award programs administered by the State of Illinois (the State) except for component units for the fiscal year ended June 30, 2010. The State's financial reporting entity is described in note 1B of the State's Comprehensive Annual Financial Report.

The entities listed below are Discretely Presented Component Units in the State's Comprehensive Annual Financial Report, which received federal financial assistance for the year ended June 30, 2010. Each of these entities is subject to separate audits in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

The federal transactions of the following entities are not reflected in this Schedule:

University of Illinois	Northeastern Illinois University
Illinois State University	Eastern Illinois University
Northern Illinois University	Illinois Finance Authority
Chicago State University	Illinois Conservation Foundation
Western Illinois University	Illinois Housing Development Authority
Southern Illinois University	Illinois Medical District Commission
Governors State University	

Additionally, the federal transactions related to loans held and serviced by the Illinois Designated Account Purchase Program (IDAPP), a division of the Illinois Student Assistance Commission, under the Federal Family Education Loan program are not reflected in the schedule of expenditures of federal awards for the year ended June 30, 2010. IDAPP has elected to have a separate lender compliance audit performed on an annual basis in accordance with the US Department of Education's *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program Guide*.

##### (b) Basis of Presentation

The schedule of expenditures of federal awards presents total federal awards expended for each individual federal program in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Federal award program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA). Federal award program titles not presented in the catalog are identified by Federal agency number followed by (.XXX).

## STATE OF ILLINOIS

### Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

#### (c) *Basis of Accounting*

The expenditures for each of the federal financial assistance programs are presented in the schedule of expenditures of federal awards on a cash basis. Under the cash basis of accounting, expenditures are reported when paid by the State.

#### (2) **Description of Major Federal Award Programs**

The following is a brief description of the major programs presented in the schedule of expenditures of federal awards:

##### **US Department of Agriculture**

SNAP Cluster: Supplemental Nutrition Assistance Program (CFDA No. 10.551) / State Administrative Matching Grants for Supplemental Nutrition Assistance Program (CFDA No. 10.561)

The objective of the Supplemental Nutrition Assistance program is to help low-income households by increasing their food purchasing ability and to provide federal financial aid to state agencies for costs incurred to operate the program. The reported expenditures under this program are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009 (ARRA). The mechanism used by the US Department of Agriculture (USDA) to make these funds available to states does not enable a state to validly disaggregate the regular and ARRA funds component of this figure. At the nation aggregate level, however, ARRA funds account for approximately 15% of USDA's total expenditures for Supplemental Nutrition Assistance program benefits in the Federal fiscal year ended September 30, 2010.

Child Nutrition Cluster: School Breakfast Program (CFDA No. 10.553) / National School Lunch Program (CFDA No. 10.555) / Special Milk Program for Children (CFDA No. 10.556) / Summer Food Service Program for Children (CFDA No. 10.559)

The purpose of these programs is to assist states in providing nutritious meals to eligible children and encouraging the domestic consumption of nutritious agricultural commodities. In addition, these programs provide subsidies to encourage the consumption of fluid milk by children. Furthermore, these programs are designed to conduct non-profit food service programs for low-income children during summer months and when schools are out of session or closed for vacation.

Special Supplemental Nutrition Program for Women, Infants and Children (CFDA No. 10.557)

The objective of this program is to provide supplemental nutritious foods, nutrition education, and referrals to healthcare for low-income persons during critical periods of growth and development.

Child and Adult Care Food Program (CFDA No. 10.558)

The purpose of this program is to assist states, through grants-in-aid and other means, to provide nutritious meals to children and elderly or impaired adults in nonresidential day care facilities and children in emergency shelters.

## STATE OF ILLINOIS

### Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

#### **US Department of Labor**

##### Unemployment Insurance (CFDA No. 17.225)

The objective of this program is to administer a program of unemployment insurance for eligible workers through Federal and state cooperation; to administer payment of trade adjustment assistance; to administer disaster unemployment assistance; and to administer unemployment compensation for Federal employees and ex-service members.

##### Workforce Investment Act Cluster: Workforce Investment Act Adult Program (CFDA No. 17.258) / Workforce Investment Act Youth Activities (CFDA No. 17.259) / Workforce Investment Act Dislocated Workers (CFDA No. 17.260)

The objective of these programs is to provide workforce investment activities that increase the employment, retention and earnings of participants, and increase occupational skill attainment by the participants in order to improve the quality of the workforce; to design, with states and local communities, a revitalized, workforce investment system that will help low income youth acquire the educational and occupational skills, training and support needed to achieve academic and employment success and successfully transition to careers and productive adulthood; and to reemploy dislocated workers, improve the quality of the workforce and enhance the productivity and competitiveness of the nation's economy.

#### **US Department of Transportation**

##### Airport Improvement Program (CFDA No. 20.106)

The objective of this program is to assist sponsors, owners, or operators of public-use airports in the development of a nationwide system of airports adequate to meet the needs of civil aeronautics.

##### Highway Planning and Construction Cluster: Highway Planning and Construction (CFDA No. 20.205) / Recreational Trails Program (CFDA No. 20.219)

The objective of this program is to assist states in planning and developing integrated, interconnecting transportation systems by constructing and rehabilitating the National Highway System, including Interstate highways; for transportation improvements to most other public roads; to provide aid in the repair of Federal-aid roads and streets following disasters; to foster safe highway design; and to replace or rehabilitate deficient or obsolete bridges. This program also provides transportation engineering services for planning; design, construction, and rehabilitation of the highways and bridges providing access to federally owned lands.

The objective of the Recreational Trails Program is to provide funds to states to develop and maintain recreational trails and trail-related facilities for both non-motorized and motorized recreational trail use.

#### **US Environmental Protection Agency**

##### Capitalization Grants for Clean Water State Revolving Funds (CFDA No. 66.458)

The purpose of this program is to provide a long term source of state financing for construction of wastewater treatment facilities and implementation of other water quality management activities.

## STATE OF ILLINOIS

### Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

#### Capitalization Grants for Drinking Water State Revolving Funds (CFDA No. 66.468)

The purpose of this program is for states to capitalize their Drinking Water State Revolving Funds which will provide a long-term source of financing for the costs of drinking water infrastructure.

#### **US Department of Energy**

#### Weatherization Assistance for Low-Income Persons (CFDA No. 81.042)

The purpose of this program is to improve home energy efficiency for low-income families through the most cost-effective measures possible.

#### **US Department of Education**

#### Title I, Part A Cluster: Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389)

The purpose of this program is to help local education agencies and schools improve the teaching and learning of children failing, or most at-risk of failing, to meet challenging state academic standards.

#### Special Education Cluster: Special Education – Grants to States (CFDA No. 84.027) / Special Education – Preschool Grants (CFDA No. 84.173) / Special Education Grants to States, Recovery Act (CFDA No. 84.391) / Special Education – Preschool Grants, Recovery Act (CFDA No. 84.392)

The objectives of these programs are to provide grants to states to assist them in providing a free appropriate public education to all children with disabilities; and to assist states in providing a free appropriate public education to preschool disabled children aged three through five years.

#### Federal Family Education Loans – Guaranty Program (CFDA No. 84.032G)

The objective of this program is to encourage lenders to make loans to students enrolled at eligible postsecondary institutions to help pay for educational expenses. The loans are insured by the State of Illinois (Illinois Student Assistance Commission) and reinsured by the Federal government.

#### Vocational Rehabilitation Cluster: Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA No. 84.126) / Rehabilitation Services – Vocational Rehabilitation Grants to States, Recovery Act (CFDA No. 84.390)

The purpose of this program is to assist states in operating a comprehensive and accountable program designed to assess, plan, develop, and provide vocational rehabilitation services for individuals with disabilities, consistent with their strengths, resources, priorities, concerns, abilities, and capabilities, so such individuals may prepare for and engage in competitive employment.

## STATE OF ILLINOIS

### Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

#### Improving Teacher Quality State Grants (CFDA No. 84.367)

The objective of this program is to provide grants to State Education Agencies on a formula basis to increase student academic achievement through strategies such as improving teacher and principal quality and increasing the number of highly qualified teachers in the classroom and highly qualified principals and assistant principals in schools and hold local educational agencies and schools accountable for improvements in student academic achievement.

#### State Fiscal Stabilization Cluster: State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (CFDA No. 84.394) / State Fiscal Stabilization Fund (SFSF) – Government Services, Recovery Act (CFDA No. 84.397)

The objective of the SFSF – Education State Grants, Recovery Act is to support and restore funding for elementary, secondary, postsecondary education, and early childhood education programs and services in states and local education agencies.

The objective of the SFSF – Government Services, Recovery Act is to support public safety and other government services, which includes assistance for modernization, renovation, and repair of public school facilities and public institutions of higher education.

#### **US Department of Health and Human Services**

#### Aging Cluster: Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers (CFDA No. 93.044) / Special Programs for the Aging – Title III, Part C – Nutrition Services (CFDA No. 93.045) / Nutrition Services Incentive Program (CFDA No. 93.053) / Aging Home-Delivered Nutrition Services for States (CFDA No. 93.705) / Aging Congregate Nutrition Services for States (CFDA No. 93.707)

The objective of the Special Programs for the Aging-Title III, Part B is to encourage state agencies on aging and area agencies on aging to concentrate resources to develop and implement comprehensive coordinated community-based systems of service for older individuals via statewide planning and area planning and provision of supportive services to maximize the informal support provided to older Americans to enable them to remain in their homes and communities.

The objective of the Special Programs for the Aging-Title III, Part C is to provide grants to states to support nutrition services including nutritious meals and nutrition education for older Americans in order to maintain health, independence and quality of life.

The objective of the Nutrition Services Incentive Program is to reward effective performance by states and tribes in the efficient delivery of nutritious meals to older adults through the use of cash or commodities.

The objective of Aging Home-Delivered Nutrition Services for States is to provide grants to states under the American Recovery and Reinvestment Act of 2009 to support nutritious meals, nutrition education and other nutrition services for older Americans in order to maintain health, independence, and quality of life.

## STATE OF ILLINOIS

### Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

The objective of the Aging Congregate Nutrition Services for States is to provide grants to states under the American Recovery and Reinvestment Act to support nutritious meals, nutrition education, and other appropriate nutrition services for older Americans in a congregate setting.

#### Public Health Emergency Preparedness (CFDA No. 93.069)

The objective of this program is to develop emergency-ready public health departments by upgrading, integrating, and evaluating state and local public health jurisdictions preparedness for and response to terrorism, pandemic influenza, and other public health emergencies with Federal, state, local, and tribal governments, the private sector, and non-governmental organizations (NGOs).

#### Immunization Grants (CFDA No. 93.268) / ARRA – Immunization (CFDA No. 93.712)

The objectives of these programs are to assist states and communities in establishing and maintaining preventive health service programs to immunize individuals against vaccine-preventable diseases.

#### Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558) / ARRA – Emergency Contingency Fund for TANF State Program (CFDA No. 93.714) / ARRA - TANF Supplemental Grants (CFDA No. 93.716)

The objective of the TANF program is to provide assistance to needy families with children so that children can be cared for in their own home; reduce dependence of needy parents on governmental benefits by promoting job preparation, work and marriage; prevent and reduce out-of-wedlock pregnancies; and encourage the formation and maintenance of two-parent families.

The objective of the ARRA – Emergency Contingency Fund for TANF State Program is to provide economic stimulus to the nation while promoting the economic and social well being of children, youth, families, and communities.

The objective of ARRA - TANF Supplemental Grants is to provide supplemental TANF funds for states with exceptionally high population growth in the early 1990s, historic welfare grants per poor person lower than 35 percent of the national average, or a combination of above average population growth and below average historic welfare grants per poor person.

#### Child Support Enforcement (CFDA No. 93.563)

The objective of this program is to enforce the support obligation owed by absent parents to their children; locate absent parents; establish paternity; and obtain child, spousal, and medical support.

#### Low-Income Home Energy Assistance Program (CFDA No. 93.568)

The objective of this program is to make Low-Income Home Energy Assistance Program (LIHEAP) grants available to states and other jurisdictions to assist eligible households to meet the cost of home energy. This program also provides training and technical assistance to states and other jurisdictions administering the LIHEAP block grant program.

## STATE OF ILLINOIS

### Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

CSBG Cluster: Community Services Block Grant (CFDA No. 93.569) / ARRA – Community Services Block Grant (CFDA No. 93.710)

The objective of these programs is to provide assistance to states and local communities, working through a network of community action agencies and other neighborhood-based organizations, for the reduction of poverty, the revitalization of low-income communities, and the empowerment of low-income families and individuals in rural and urban areas to become fully self-sufficient.

Child Care Development Funds Cluster: Child Care and Development Block Grant (CFDA No. 93.575) / Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA No. 93.596) / ARRA – Child Care and Development Block Grant (CFDA No. 93.713)

The objectives of these programs are to make grants to states for child care assistance for low-income families and to develop child care programs and policies, to promote parental choice on child care; to provide consumer education on child care; to provide child care to parents trying to achieve independence from public assistance; and, to implement health, safety, licensing, and registration standards.

Foster Care – Title IV-E (CFDA No. 93.658)

The objective of this program is to help states provide safe, appropriate, 24-hour, substitute care for children who are under the jurisdiction of the administering state agency and need temporary placement and care outside their homes.

Adoption Assistance (CFDA No. 93.659)

The objective of this program is to provide adoption subsidy costs for the adoption of children with special needs and who meet certain eligibility tests.

Social Services Block Grant (CFDA No. 93.667)

The objective of this program is to enable each state to provide services that best suit the individuals residing in that state in one or more of five specified social service areas.

Children's Health Insurance Program (CFDA No. 93.767)

The objective of this program is to initiate and expand child health assistance to uninsured, low-income children through assistance with obtaining health insurance benefits that meet federal requirements or by the expansion of the Medicaid program.

Medicaid Cluster: State Medicaid Fraud Control Units (CFDA No. 93.775) / State Survey and Certification of Healthcare Providers and Suppliers (CFDA No. 93.777) / Medical Assistance Program (CFDA No. 93.778)

The objectives of these programs are to eliminate fraud and patient abuse in the State Medicaid programs, provide financial assistance to determine that providers and suppliers of healthcare services are in compliance with Federal regulatory health and safety standards and conditions of participation, and provide payments for medical assistance on behalf of cash assistance recipients, children, pregnant women, and the aged who meet income and resource requirements.

## STATE OF ILLINOIS

### Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

#### Block Grants for Prevention and Treatment of Substance Abuse (CFDA No. 93.959)

The purpose of this program is to provide financial assistance to states and territories to support projects for the development and implementation of prevention, treatment and rehabilitation activities directed to the diseases of alcohol and drug abuse.

#### US Social Security Administration

##### Disability Insurance/SSI Cluster: Social Security – Disability Insurance (CFDA No. 96.001)

The purpose of this program is to replace part of the earnings lost because of a physical or mental impairment, or a combination of impairments, severe enough to prevent a person from working.

#### US Department of Homeland Security

##### Homeland Security Cluster: Homeland Security Grant Program (CFDA No. 97.067)

The objectives of this program is to enhance the capacity of the state and local first responders to respond to terrorism incidents involving chemical, biological, nuclear, radiological, incendiary, and explosive devices and to prevent, protect against, and recover from terrorist attacks and other disasters.

### (3) **Non-monetary Assistance Inventory**

The State reports the following non-cash federal awards on the Schedule of Expenditures of Federal Awards:

- Food Stamps (CFDA No. 10.551) – Federal expenditures for this program represent the value of food stamp coupons issued to eligible recipients and cash assistance made available to eligible recipients in lieu of food stamp coupons.
- Commodity Supplemental Food Program (CFDA No. 10.565) – Federal expenditures for this program represent the value of donated commodities received from the USDA. The commodities were valued based on USDA price lists.
- Emergency Food Assistance Program (CFDA No. 10.569) – Federal expenditures for this program represent the value of donated commodities received from the USDA. The Commodities were valued based on USDA price lists.
- Public Health Emergency Preparedness (CFDA No. 93.069) – Federal expenditures for this program represent the value of vaccine dispensed for the Pandemic H1N1 Influenza vaccination provided by the U.S. Department of Health and Human Services (DHHS). The commodities were valued based on DHHS price list.
- Immunization Grants (CFDA No. 93.268 / CFDA No. 93.712) – Federal expenditures for this program can either be in cash grants or represent the value of donated vaccine, personnel and other items “in lieu of cash” received from the US Department of Health and Human Services.



## STATE OF ILLINOIS

### Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

#### **(4) Federal Loan Guarantees**

The original principal balance of loans guaranteed by the Illinois Student Assistance Commission (ISAC) under Federal Family Education Loans Guaranty Program (CFDA No. 84.032G) was approximately \$6,945,389,000 as of June 30, 2010. Additionally, the outstanding balance of defaulted loans held by ISAC under this program was approximately \$641,532,000 as of June 30, 2010.



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**Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of the Schedule  
of Expenditures of Federal Awards Performed in Accordance  
with *Government Auditing Standards***

Honorable William G. Holland  
Auditor General  
State of Illinois:

As special assistant auditors for the Auditor General, we have audited the schedule of expenditures of federal awards (the Schedule) of the State of Illinois (the State) as of and for the year ended June 30, 2010, and have issued our report thereon dated June 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As described in note 1 to the schedule of expenditures of federal awards, the Schedule does not include expenditures of federal awards for those agencies determined to be component units of the State of Illinois for financial statement purposes. Each of these agencies has their own independent audit in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Also as described in note 1 to the schedule of expenditures of federal awards, the Schedule does not include federal transactions related to loans held and serviced by the Illinois Designated Account Purchase Program (IDAPP), a division of the Illinois Student Assistance Commission, under the Federal Family Educational Loan program. IDAPP has elected to have a separate lender compliance audit performed in accordance with the US Department of Education's *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program Guide*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the State's internal control over financial reporting of the Schedule as a basis for designing auditing procedures for the purpose of expressing an opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting of the Schedule. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting of the Schedule.

Our consideration of internal control over financial reporting of the Schedule was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.



A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's schedule of expenditures of federal awards will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the State's internal control over financial reporting of the Schedule described in the accompanying schedule of findings and questioned costs in findings 10-01, 10-03, 10-04, 10-13, and 10-14 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State's schedule of expenditures of federal awards is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the management at State agencies, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

June 30, 2011



KPMG LLP  
303 East Wacker Drive  
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**Independent Auditors' Report  
on Compliance with Requirements That Could Have a Direct and  
Material Effect on Each Major Program and Internal Control  
Over Compliance in Accordance with OMB Circular A-133**

Honorable William G. Holland  
Auditor General  
State of Illinois:

**Compliance**

We have audited the compliance of the State of Illinois (the State) with the types of compliance requirements described in the *US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

The schedule of expenditures of federal awards and our audit described below does not include expenditures of federal awards for those agencies determined to be component units of the State of Illinois for financial statement purposes. Each of these agencies has their own independent audit in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The schedule of expenditures of federal awards and our audit described below also do not include federal transactions related to loans held and serviced by the Illinois Designated Account Purchase Program (IDAPP), a division of the Illinois Student Assistance Commission, under the Federal Family Education Loan program. IDAPP has elected to have a separate lender compliance audit performed in accordance with the US Department of Education's *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program Guide*.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a



reasonable basis for our opinion. Our audit does not provide a legal determination on the State’s compliance with those requirements.

As identified below and described in the accompanying schedule of findings and questioned costs, the State did not comply with certain compliance requirements that are applicable to certain of its major federal programs as listed below. Compliance with such requirements is necessary, in our opinion, for the State of Illinois to comply with requirements applicable to the identified major federal programs.

<b>State Administering Agency</b>	<b>Federal Program</b>	<b>Compliance Requirement(s)</b>	<b>Finding Number</b>
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles and Eligibility	10-03
IL Department of Human Services	Children’s Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	10-03
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	10-03
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles and Eligibility	10-04
IL Department of Human Services	Children’s Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	10-04
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	10-04
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles and Eligibility	10-05
IL Department of Human Services	Children’s Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	10-06
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	10-06
IL Department of Healthcare and Family Services	Children’s Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	10-13
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	10-13
IL Department of Healthcare and Family Services	Children’s Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	10-14
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	10-14
IL Department of Healthcare and Family Services	Children’s Health Insurance Program	Allowable Costs/Cost Principles and Period of Availability	10-15
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Period of Availability	10-15



<b>State Administering Agency</b>	<b>Federal Program</b>	<b>Compliance Requirement(s)</b>	<b>Finding Number</b>
IL Department of Children and Family Services	Temporary Assistance for Needy Families Cluster	Subrecipient Monitoring	10-37
IL Department of Children and Family Services	Foster Care – Title IV-E	Subrecipient Monitoring	10-37
IL Department of Children and Family Services	Adoption Assistance	Subrecipient Monitoring	10-37
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	10-38
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	10-39
IL Department of Children and Family Services	Foster Care – Title IV-E	Allowable Costs/Cost Principles and Eligibility	10-40
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	10-43
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	10-44
IL Department of Public Health	Public Health Emergency Preparedness	Subrecipient Monitoring	10-48
IL State Board of Education	Title I, Part A Cluster	Allowable Costs/Cost Principles and Special Tests and Provisions	10-53
IL State Board of Education	Title I, Part A Cluster	Subrecipient Monitoring	10-54
IL State Board of Education	Special Education Cluster	Subrecipient Monitoring	10-54
IL State Board of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	10-54
IL State Board of Education	Title I, Part A Cluster	Subrecipient Monitoring	10-55
IL State Board of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	10-55
IL State Board of Education	State Fiscal Stabilization Fund Cluster	Subrecipient Monitoring	10-56
IL State Board of Education	Title I, Part A Cluster	Maintenance of Effort	10-57
IL State Board of Education	Improving Teacher Quality State Grants	Maintenance of Effort	10-57
IL State Board of Education	Title I, Part A Cluster	Cash Management	10-58
IL State Board of Education	Special Education Cluster	Cash Management	10-58
IL State Board of Education	State Fiscal Stabilization Fund Cluster	Cash Management	10-58
IL Department of Commerce and Economic Opportunity	Weatherization Assistance for Low Income Persons	Subrecipient Monitoring	10-77
IL Department of Commerce and Economic Opportunity	Low Income Home Energy Assistance Program	Subrecipient Monitoring	10-77
IL Department of Transportation	Airport Improvement Program	Subrecipient Monitoring	10-81

In our opinion, except for the noncompliance described in the preceding paragraph, the State complied, in all material respects, with the requirements referred to above that could have a direct or material effect on each of its other major federal programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the



accompanying schedule of findings and questioned costs as findings 10-04, 10-07 through 10-12, 10-16 through 10-36, 10-41, 10-42, 10-45 through 10-47, 10-49 through 10-52, 10-59 through 10-66, 10-68 through 10-71, 10-74 through 10-76, 10-78 through 10-80, 10-82 through 10-94, and 10-96 through 10-103.

### **Internal Control Over Compliance**

The management of the State is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, as findings 10-02 through 10-07, 10-12 through 10-29, 10-31 through 10-33, 10-37 through 10-40, 10-42 through 10-45, 10-48 through 10-51, 10-53 through 10-58, 10-60, 10-68, 10-69, 10-77 through 10-79, 10-81, 10-82, 10-85, 10-90 through 10-92, 10-94, 10-97 through 10-103 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weaknesses in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 10-08 through 10-11, 10-30, 10-34 through 10-36, 10-41, 10-46, 10-47, 10-52, 10-59, 10-61 through 10-67, 10-70 through 10-76, 10-80, 10-83, 10-84, 10-86 through 10-89, 10-93, 10-95, and 10-96 to be significant deficiencies.

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State's responses, and accordingly, we express no opinion on them.



This report is intended solely for the information and use of the Illinois Auditor General, the Illinois General Assembly, the Illinois Legislative Audit Commission, the Governor of Illinois, the management at Illinois State agencies, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 30, 2011



**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**(1) Summary of Auditors' Results**

- (a) The type of report issued by the Auditor General, State of Illinois, on the basic financial statements: **unqualified**
- (b)(1) Significant deficiencies in internal control were disclosed by the audit of the basic financial statements by the Auditor General, State of Illinois: **none reported**  
Material weaknesses: **yes**
- (b)(2) Significant deficiencies in internal control were disclosed by the audit of the schedule of expenditures of federal awards: **none reported** Material weaknesses: **yes**
- (c)(1) Noncompliance which is material to the basic financial statements: **yes**
- (c)(2) Noncompliance which is material to the schedule of expenditures of federal awards: **no**
- (d) Significant deficiencies in internal control over major programs: **yes**  
Material weaknesses: **yes**
- (e) The type of report issued on compliance for major programs:

**Qualified:**

- Airport Improvement Program
- Weatherization Assistance for Low-Income Persons
- Title I, Part A Cluster
- Special Education Cluster
- Improving Teacher Quality State Grants
- State Fiscal Stabilization Fund Cluster
- Aging Cluster
- Public Health Emergency Preparedness Program
- Temporary Assistance for Needy Families Cluster
- Low Income Home Energy Assistance Program
- Foster Care – Title IV-E
- Adoption Assistance
- Children's Health Insurance Program
- Medicaid Cluster

The opinions for all other major programs are unqualified.

- (f) Any audit findings which are required to be reported under section .510(a) of OMB Circular A 133: **yes**
- (g) Major programs:

**US Department of Agriculture**

- SNAP Cluster (10.551/10.561)
- Child Nutrition Cluster (10.553/10.555/10.556/10.559)
- Special Supplemental Nutrition Program for Women, Infants and Children (10.557)
- Child and Adult Care Food Program (10.558)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

#### **US Department of Labor**

- Unemployment Insurance (17.225)
- Workforce Investment Act Cluster (17.258/17.259/17.260)

#### **US Department of Transportation**

- Airport Improvement Program (20.106)
- Highway Planning and Construction Cluster (20.205/20.219)

#### **US Environmental Protection Agency**

- Capitalization Grants for Clean Water State Revolving Funds (66.458)
- Capitalization Grants for Drinking Water State Revolving Funds (66.468)

#### **US Department of Energy**

- Weatherization Assistance for Low-Income Persons (81.042)

#### **US Department of Education**

- Title I, Part A Cluster (84.010/84.389)
- Special Education Cluster (84.027/84.173/84.391/84.392)
- Federal Family Education Loans – Guaranty Program (84.032G)
- Rehabilitation Services – Vocational Rehabilitation Grants to States (84.126/84.390)
- Improving Teacher Quality State Grants (84.367)
- State Fiscal Stabilization Fund Cluster (84.394/84.397)

#### **US Department of Health and Human Services**

- Aging Cluster (93.044/93.045/93.053/93.705/93.707)
- Public Health Emergency Preparedness (93.069)
- Immunization Cluster (93.268/93.712)
- Temporary Assistance for Needy Families Cluster (93.558/93.714)
- Child Support Enforcement (93.563)
- Low-Income Home Energy Assistance (93.568)
- Community Services Block Grant Cluster (93.569/93.710)
- Child Care Development Funds Cluster (93.575/93.596/93.713)
- Foster Care – Title IV-E (93.658)
- Adoption Assistance (93.659)
- Social Services Block Grant (93.667)
- Children’s Health Insurance Program (93.767)
- Medicaid Cluster (93.775/93.777/93.778)
- Block Grants for the Prevention and Treatment of Substance Abuse (93.959)

#### **US Social Security Administration**

- Disability Insurance/SSI Cluster (96.001)

#### **US Department of Homeland Security**

- Homeland Security Cluster (97.067)

(h) Dollar threshold used to distinguish between Type A and Type B programs: **\$55,262,000**

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

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- (i) The State did not qualify as a low-risk auditee under section .530 of OMB Circular A-133.

**(2)(a) Findings related to the basic financial statements reported in accordance with *Government Auditing Standards*:**

Findings related to the basic financial statements for the year ended June 30, 2010 were reported in accordance with *Government Auditing Standards* by the Auditor General of the State of Illinois under separate cover.

**(2)(b) Findings related to the schedule of expenditures of federal awards reported in accordance with *Government Auditing Standards*:**

<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
10-01	IL Office of the Governor and IL Office of the Comptroller	Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards	Material weakness

In addition, the following findings which are reported as current findings and questioned costs relating to federal awards also meet the reporting requirements of *Government Auditing Standards* in relation to the schedule of expenditures of federal awards:

<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
10-03	IL Department of Human Services	Failure to Perform Eligibility Redeterminations within Prescribed Timeframes	Material weakness
10-04	IL Department of Human Services	Failure to Properly Maintain and Control Case File Records	Material weakness
10-13	IL Department of Healthcare and Family Services	Inadequate Procedures for Performing Eligibility Redeterminations	Material weakness
10-14	IL Department of Healthcare and Family Services	Missing Documentation in Beneficiary Eligibility Files	Material weakness

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**Agency:** Office of the Governor and Office of the State Comptroller

**Federal Agency:** All Federal Agencies

**Finding 10-01** *Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards*

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.

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 solved these problems or made 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 over financial reporting even though the Illinois Office of the Auditor General has repeatedly informed 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 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.

Certain SCO forms are used by the IOC to collect financial information utilized in the SEFA compilation and reporting process. Internal control deficiencies have been identified and reported relative to the SEFA financial reporting process in each of the past eight years as a result of errors identified during the external audits performed on State agencies. These problems significantly impact the preparation and completion of the SEFA. Errors and delays identified in the SEFA reporting process over the past eight years have included the following:

- Expenditures for the Medicaid Cluster were understated by the Illinois Department of Healthcare and Family Services in 2010.

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- Expenditures for the Homeland Security Cluster were not appropriately clustered by the Illinois Emergency Management Agency and were overstated by the Illinois Department of Transportation in 2009.
- Expenditures for the Highway Planning and Construction Cluster were overstated by the Illinois Department of Transportation in 2009.
- Expenditures for the Airport Improvement Program were improperly identified as being funded by the American Recovery and Reinvestment Act by the Illinois Department of Transportation in 2009.
- Expenditures for the Foster Care and Adoption Assistance programs were not identified as being funded by the American Recovery and Reinvestment Act by the Illinois Department of Children and Family Services in 2009.
- Expenditures for the Public Assistance Grants program were not reported in the appropriate fiscal year by the Illinois Emergency Management Agency in 2006 and 2007.
- Expenditures for the Early Intervention program were not reported in the appropriate fiscal year by the Illinois Department of Human Services in 2003, 2004, and 2005.
- Expenditures for the Highway Planning and Construction Cluster program were not recorded in the appropriate fiscal year by the Illinois Department of Transportation in 2004 and 2005.
- Other correcting entries and/or restatements were required in order to accurately state the financial information of the following agencies: Illinois Department of Healthcare and Family Services, Illinois Department of Children and Family Services, Illinois Department of Public Health, Illinois State Board of Education, Illinois Student Assistance Commission, Illinois Community College Board, Illinois Department of Commerce and Economic Opportunity, Illinois Department of Employment Security, Illinois Department of Natural Resources, Illinois Environmental Protection Agency, Illinois Department of Corrections, and Illinois Criminal Justice Information Authority.
- Major programs were not identified until six or more months subsequent to the end of the fiscal year by the following agencies: Illinois Department of Healthcare and Family Services, Illinois State Board of Education, Illinois Department of Public Health, Illinois Department of Commerce and Economic Opportunity, and Illinois Department of Employment Security.
- Preparation of the SEFA has not been completed by the State prior to March 31st in the past eight years.

Although the deficiencies relative to the CAFR and SEFA financial reporting processes 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**.

According to OMB Circular A-133 §\_\_.300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures of federal awards, and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

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In discussing these conditions with the Office of the Governor, they stated that the weakness is due to (1) lack of a statewide accounting and grants management system and (2) lack of personnel adequately trained in governmental accounting and federal grants management. The lack of a statewide accounting system is due to the State's current inability to obtain the capital funding required to acquire and implement such a system. Without adequate financial and grants management systems, agency staff are required to perform highly manual calculations of balance sheet and SEFA amounts in a short time frame which results in increased errors. The lack of adequate financial and grants management personnel is due to a failure to update the qualifications in the respective job titles to ensure that applicants have the minimum required education and skill sets to be properly trained.

In discussing these conditions with IOC personnel, they stated delays were caused, in part, by inaccurate data being submitted by some agencies. GAAP packages with inaccurate data cause delays in the audit process which in turn causes delays in releasing the final reports.

**Failure to establish effective** internal controls at all agencies regarding financial reporting for the preparation of the CAFR and the SEFA **prevents** the State from completing an audit in accordance with timelines set forth OMB Circular A-133 and may result in the suspension of federal funding. (Finding Code 10-01, 09-01, 08-01, 07-01, 06-01, 05-01, 04-01, 03-01, 02-01)

#### **Recommendation:**

We recommend the Office of the Governor 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 the SEFA.

#### **Office of the Governor's Response:**

The Governor's Office agrees with the finding. The State has been working with the Senate Committee on Governmental and Veteran Affairs to solve some of these problems. The Governor's Office, Governor's Office of Management and Budget (GOMB) and the Office of the Comptroller have developed a timeline for short term, mid-term, and long range plans. In the short term, GOMB is taking steps to assure that the agencies under the Governor provide timely financial information to the Comptroller. In addition, job descriptions are being developed by Central Management Services to allow agencies to hire employees skilled in financial statement preparation, and legislation has been proposed that will make changes in the personal policy that facilitate hiring such qualified individuals. The next phase of this process is to develop a business plan to present to the legislature. GOMB and the Governor's Office will be primarily responsible for developing such a plan, with input from a steering committee. Ideally, the business plan will be submitted to the Senate Committee on Governmental and Veterans Affairs for review during the 2011 fall legislative session. Based on the business plan, the legislature will need to provide capital funding for a new financial accounting system. Once funding is secured, an RFP will be used seeking proposals for software that meet the State's requirements. One of the requirements of the implementation process is expected to take several years. We expect this finding to continue until the implementation process is complete. Until that time we will continue working with the agencies to provide as complete information possible given the State's current capacities.

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Schedule of Findings and Questioned Costs

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**IOC's Response:**

The Office of the Comptroller will assist the Governor's Office in their efforts to increase the quality of the GAAP packages by providing training and technical assistance to State agencies.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

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**(3) Current Findings and Questioned Costs Relating to Federal Awards:**

<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
10-02	IL Department of Human Services	Inadequate Process for Monitoring Interagency Program Expenditures	Material weakness
10-03	IL Department of Human Services	Failure to Perform Eligibility Redeterminations within Prescribed Timeframes	Material noncompliance and material weakness
10-04	IL Department of Human Services	Failure to Properly Maintain and Control Case File Records	Material noncompliance and material weakness
10-05	IL Department of Human Services	Inadequate Process for Preventing Individuals Convicted of Felonies from Receiving TANF Benefits	Material noncompliance and material weakness
10-06	IL Department of Human Services	Missing Documentation in Beneficiary Eligibility Files	Material noncompliance and material weakness
10-07	IL Department of Human Services	Inadequate Procedures for Communicating Non-Cash Expenditures to Subrecipients	Noncompliance and material weakness
10-08	IL Department of Human Services	Inadequate Monitoring of Subrecipient Expenditures	Noncompliance and significant deficiency
10-09	IL Department of Human Services	Inadequate Controls Over TANF Sanction Procedures	Noncompliance and significant deficiency
10-10	IL Department of Human Services	Untimely Submission of Financial Reports	Noncompliance and significant deficiency
10-11	IL Department of Human Services	Inaccurate Reporting of the Program Cost Report	Noncompliance and significant deficiency
10-12	IL Department of Revenue	Inadequate Process for Determining the Allowability of Earned Income Tax Credits	Noncompliance and material weakness
10-13	IL Department of Healthcare and Family Services	Inadequate Procedures for Performing Eligibility Redeterminations	Material noncompliance and material weakness
10-14	IL Department of Healthcare and Family Services	Missing Documentation in Beneficiary Eligibility Files	Material noncompliance and material weakness
10-15	IL Department of Healthcare and Family Services	Failure to Pay Medical Claims within Prescribed Timeframes	Material noncompliance and material weakness
10-16	IL Department of Healthcare and Family Services	Untimely Disbursement of Hospital Assessment Payments	Noncompliance and material weakness
10-17	IL Department of Healthcare and Family Services	Failure to Initiate and Complete Provider Audits in a Timely Manner	Noncompliance and material weakness
10-18	IL Department of Healthcare and Family Services	Untimely Completion of Medicaid Eligibility Quality Control Reviews	Noncompliance and material weakness



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<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
10-19	IL Department of Healthcare and Family Services	Inadequate Procedures to Monitor and Report Overpayments	Noncompliance and material weakness
10-20	IL Department of Healthcare and Family Services	Inadequate Process to Verify Procedures Billed by Provider with Beneficiaries	Noncompliance and material weakness
10-21	IL Department of Healthcare and Family Services	Failure to Properly Reimburse a Provider For Retroactive Rate Adjustment	Noncompliance and material weakness
10-22	IL Department of Healthcare and Family Services	Failure to Identify and Recoup Ineligible Provider Reimbursement	Noncompliance and material weakness
10-23	IL Department of Healthcare and Family Services	Failure to Update and Implement Reimbursement Rate Methodology Changes for Government Owned Hospitals	Noncompliance and material weakness
10-24	IL Department of Healthcare and Family Services	Failure to Obtain Required Disclosures from Providers	Noncompliance and material weakness
10-25	IL Department of Healthcare and Family Services	Inadequate On-Site Monitoring Procedures	Noncompliance and material weakness
10-26	IL Department of Healthcare and Family Services	Failure to Issue Management Decisions on Subrecipient A-133 Findings	Noncompliance and material weakness
10-27	IL Department of Healthcare and Family Services	Failure to Communicate A-133 Requirements to Subrecipients	Noncompliance and material weakness
10-28	IL Department of Healthcare and Family Services	Inadequate On-Site Monitoring of Subrecipients	Noncompliance and material weakness
10-29	IL Department of Healthcare and Family Services	Failure to Complete Cash Management Reconciliations Timely	Noncompliance and material weakness
10-30	IL Department of Healthcare and Family Services	Inadequate Cash Management Procedures	Noncompliance and significant deficiency
10-31	IL Department of Healthcare and Family Services	Inaccurate Allocation of Costs	Noncompliance and material weakness
10-32	IL Department of Healthcare and Family Services	Failure to Obtain Suspension and Debarment Certifications from Vendors	Noncompliance and material weakness
10-33	IL Department of Healthcare and Family Services	Failure to Competitively Bid Professional Services	Noncompliance and material weakness
10-34	IL Department of Healthcare and Family Services	Untimely Enforcement of Medical Support Obligation	Noncompliance and significant deficiency

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Schedule of Findings and Questioned Costs

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<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
10-35	IL Department of Healthcare and Family Services	Failure to Follow Approved Allocation Methodology in the PACAP	Noncompliance and significant deficiency
10-36	IL Department of Healthcare and Family Services	Untimely Submission of Financial Reports	Noncompliance and significant deficiency
10-37	IL Department of Children and Family Services	Inadequate Monitoring of Subrecipients	Material noncompliance and material weakness
10-38	IL Department of Children and Family Services	Missing Documentation in Adoption Assistance Eligibility Files	Material noncompliance and material weakness
10-39	IL Department of Children and Family Services	Failure to Ensure that Adoption Assistance Recertifications Are Performed on a Timely Basis	Material noncompliance and material weakness
10-40	IL Department of Children and Family Services	Missing Documentation in Foster Care Eligibility Files	Material noncompliance and material weakness
10-41	IL Department of Children and Family Services	Untimely Submission of Financial Reports	Noncompliance and significant deficiency
10-42	IL Department of Children and Family Services	Failure to Ensure Timely Preparation of Initial Case Plans	Noncompliance and material weakness
10-43	IL Department on Aging	Inadequate On-Site Monitoring of Subrecipients	Material noncompliance and material weakness
10-44	IL Department on Aging	Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports	Material noncompliance and material weakness
10-45	IL Department on Aging	Inadequate Process to Monitor the Maintenance of Effort Requirement	Noncompliance and material weakness
10-46	IL Department on Aging	Inadequate Cash Management Procedures for Subrecipients	Noncompliance and significant deficiency
10-47	IL Department on Aging	Improper Reporting of Amounts in Financial Status Reports	Noncompliance and significant deficiency
10-48	IL Department of Public Health	Inadequate Monitoring of Subrecipients	Material noncompliance and material weakness
10-49	IL Department of Public Health	Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Noncompliance and material weakness
10-50	IL Department of Public Health	Inadequate On-site Monitoring of Subrecipients	Noncompliance and material weakness
10-51	IL Department of Public Health	Inadequate Process for Determining Client Eligibility	Noncompliance and material weakness

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<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
10-52	IL Department of Public Health	Failure to Investigate Provider Complaints within Required Timeframes	Noncompliance and significant deficiency
10-53	IL State Board of Education	Failure to Sanction Non-Comparable Local Education Agency (LEA) and Inadequate Documentation for Determining Comparability	Material noncompliance and material weakness
10-54	IL State Board of Education	Inadequate On-Site Fiscal Monitoring of Subrecipients	Material noncompliance and material weakness
10-55	IL State Board of Education	Inadequate On-Site Programmatic Monitoring of Subrecipients	Material noncompliance and material weakness
10-56	IL State Board of Education	Inadequate On-Site Monitoring Procedures	Material noncompliance and material weakness
10-57	IL State Board of Education	Inaccurate Monitoring of Maintenance of Effort	Material noncompliance and material weakness
10-58	IL State Board of Education	Inadequate Cash Management Procedures for Subrecipients	Material noncompliance and material weakness
10-59	IL Community College Board	Inadequate Documentation of Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Noncompliance and significant deficiency
10-60	IL Board of Higher Education	Failure to Obtain Suspension and Debarment Certifications and Communicate Program Requirements to Subrecipients	Noncompliance and material weakness
10-61	IL Student Assistance Commission	Untimely Deposits into the Federal Fund	Noncompliance and significant deficiency
10-62	IL Student Assistance Commission	Inadequate Process to Verify Unreported Loans	Noncompliance and significant deficiency
10-63	IL Student Assistance Commission	Incomplete Lender Agreements	Noncompliance and significant deficiency
10-64	IL Student Assistance Commission	Inadequate Process for Assignment of Defaulted Loans	Noncompliance and significant deficiency
10-65	IL Student Assistance Commission	Failure to Review Post Claim Data within Required Timeframes	Noncompliance and significant deficiency
10-66	IL Student Assistance Commission	Failure to Remit Payments on Defaulted Loans in a Timely Manner	Noncompliance and significant deficiency
10-67	IL Student Assistance Commission	Inadequate Documentation of Controls over Information Systems	Significant deficiency

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
10-68	IL Department of Employment Security	Failure to Obtain Refusal to Work Certifications	Noncompliance and material weakness
10-69	IL Department of Employment Security	Failure to Issue Eligibility Determinations within Prescribed Timeframes	Noncompliance and material weakness
10-70	IL Department of Employment Security	Inadequate Procedures for Follow-up of Invalid Social Security Numbers	Noncompliance and significant deficiency
10-71	IL Department of Employment Security	Incomplete Documentation in Client Eligibility Files	Noncompliance and significant deficiency
10-72	IL Department of Employment Security	Inadequate Monitoring of Unemployment Insurance Service Organization	Significant deficiency
10-73	IL Department of Employment Security	Inadequate Documentation of Resolution of Exceptions and Supervisory Review of the Claim Exception and Monitoring Reports	Significant deficiency
10-74	IL Department of Employment Security	Improper System Configuration for Offset of Overpayments	Noncompliance and significant deficiency
10-75	IL Department of Employment Security	Untimely Verification of Out-of-State Wages for EUC08 Beneficiaries	Noncompliance and significant deficiency
10-76	IL Department of Employment Security	Inaccurate Benefit Payment Calculations	Noncompliance and significant deficiency
10-77	IL Department of Commerce and Economic Opportunity	Inadequate Process for Following Up on Monitoring Findings and Failure to Document Supervisory Reviews of Monitoring Files	Material noncompliance and material weakness
10-78	IL Department of Commerce and Economic Opportunity	Failure to Communicate ARRA Information and Requirements to Subrecipients	Noncompliance and material weakness
10-79	IL Department of Commerce and Economic Opportunity	Inaccurate ARRA 1512 Reports	Noncompliance and material weakness
10-80	IL Department of Commerce and Economic Opportunity	Failure to Submit Required Financial Reports	Noncompliance and significant deficiency
10-81	IL Department of Transportation	Inadequate On-Site Monitoring of Subrecipients	Material noncompliance and material weakness
10-82	IL Department of Transportation	Failure to Retain Documentation in Accordance with Federal Regulations	Noncompliance and material weakness

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<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
10-83	IL Department of Transportation	Inadequate Contract Provisions For Projects Subject to Davis-Bacon and Department of Labor (DOL) Requirements	Noncompliance and significant deficiency
10-84	IL Department of Transportation	Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports	Noncompliance and significant deficiency
10-85	IL Department of Transportation	Failure to Communicate ARRA Information and Requirements to Subrecipients	Noncompliance and material weakness
10-86	IL Department of Transportation	Failure to Notify Subrecipients of Federal Funding	Noncompliance and significant deficiency
10-87	IL Department of Transportation	Failure to Follow Sampling and Testing Program for Construction Materials	Noncompliance and significant deficiency
10-88	IL Department of Transportation	Inadequate Cash Management Procedures	Noncompliance and significant deficiency
10-89	IL Department of Transportation	Failure to Account for and Remit Interest Earned on Advance Funding	Noncompliance and significant deficiency
10-90	IL Emergency Management Agency	Inadequate On-Site Monitoring of Subrecipients	Noncompliance and material weakness
10-91	IL Emergency Management Agency	Inadequate Review of Subrecipient OMB Circular A-133 Reports	Noncompliance and material weakness
10-92	IL Emergency Management Agency	Failure to Advance Only the Immediate Cash Needs to Subrecipients	Noncompliance and material weakness
10-93	IL Emergency Management Agency	Failure to Draw Funds Only for Immediate Cash Needs	Noncompliance and significant deficiency
10-94	IL Emergency Management Agency	Failure to Deposit Funds in an Interest-Bearing Account	Noncompliance and material weakness
10-95	IL Emergency Management Agency	Failure to Follow Established Internal Control Procedures for Equipment	Significant deficiency
10-96	IL State Police	Failure to Deposit Funds in an Interest-Bearing Account	Noncompliance and significant deficiency
10-97	IL Environmental Protection Agency	Inadequate Monitoring of Subrecipient OMB A-133 Audit Reports	Noncompliance and material weakness
10-98	IL Environmental Protection Agency	Failure to Communicate ARRA Information to Subrecipients	Noncompliance and material weakness
10-99	IL Environmental Protection Agency	Inaccurate ARRA 1512 Reports	Noncompliance and material weakness

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

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<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
10-100	IL Environmental Protection Agency	Inaccurate Federal Financial Report	Noncompliance and material weakness
10-101	IL Governor's Office of Management and Budget	Inadequate Procedures for Amending the Treasury State Agreement	Noncompliance and material weakness
10-102	IL Governor's Office of Management and Budget	Failure to Communicate ARRA Information and Program Requirements to Subrecipients	Noncompliance and material weakness
10-103	IL Department of Central Management Services	Inadequate Process for Monitoring Internal Service Fund Balances	Noncompliance and material weakness

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**State Agency:** Illinois Department of Human Services (IDHS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Temporary Assistance for Needy Families Cluster  
Child Care Development Fund Cluster

**CFDA # and Program Expenditures:** 93.558/93.714 ARRA (\$573,086,000)  
93.575/93.596/93.713 ARRA (\$234,446,000)

**Award Numbers:** G-0901ILTANF/G-0901ILTAN2ARRA/G1001ILTANFARRA (93.558/93.714ARRA)  
(CFDA Number) G-0901ILCCDF/G-0901ILCCD7ARRA/G-1001ILCCDF (93.575/93.596/93.713ARRA)

**Questioned Costs:** None

**Finding 10-02** Inadequate Process for Monitoring Interagency Program Expenditures

IDHS does not have an adequate process for monitoring interagency expenditures claimed under the Temporary Assistance for Needy Families Cluster (TANF) and the Child Care Development Fund Cluster (Child Care).

Federal and State expenditures under the TANF and Child Care programs are comprised of programs operated by various State agencies. As the State agency responsible for administering these programs, IDHS has executed interagency agreements with each of the State agencies expending federal and/or State program funds. The interagency agreements require periodic reporting of a summary of the agency's "allowable" expenditures to IDHS for preparation of the financial reports required for each program. As the State agencies expending program funds do not determine under which program IDHS reports their expenditures, IDHS is responsible for establishing procedures to ensure the expenditures reported by the expending State agencies meet the applicable federal requirements.

During the year ended June 30, 2010, IDHS used expenditures from other agencies to claim reimbursement for or satisfy maintenance of effort (MOE) requirements for the TANF and Child Care programs as follows:

<b>Program</b>	<b>Expending State Agency</b>	<b>Expenditures Claimed</b>	<b>Total Expenditures</b>
Federal TANF	Department of Children and Family Services (DCFS)	\$234,674,103	\$573,086,000
Federal TANF	Illinois Student Assistance Commission (ISAC)	\$56,564,211	\$573,086,000
Federal TANF	Illinois Department of Revenue (IDOR)	\$16,818,345	\$573,086,000
Federal TANF	Department of Healthcare and Family Services (DHFS)	\$1,421,390	\$573,086,000

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<b>Program</b>	<b>Expending State Agency</b>	<b>Expenditures Claimed</b>	<b>Total Expenditures</b>
TANF MOE	Department of Healthcare and Family Services (DHFS)	\$20,020,324	\$445,580,000
TANF MOE	Illinois State Board of Education (ISBE)	\$56,443,793	\$445,580,000
TANF MOE	Illinois Community College Board (ICCB)	\$3,171,987	\$445,580,000
Child Care MOE	Department of Children and Family Services (DCFS)	\$6,303,430	\$128,802,000

IDHS' procedures to monitor other State agencies expending program funds reported by IDHS include the following:

- Interagency agreements were reviewed and updated (where necessary) to ensure all State programs claimed under or used to meet the MOE requirement of one of IDHS' federal programs were subject to an interagency agreement.
- Program questionnaires were developed and distributed to each of the State agencies to assist in documenting the nature of the expenditures provided to IDHS and the internal controls established to ensure compliance with the applicable federal regulations.
- Quarterly certification reports were collected from each of the State agencies to support amounts reported in the federal reports required for each federal program.
- Expenditure details were obtained from each of the State agencies and were reconciled to the quarterly certifications.

However, during our testwork over the documentation of the monitoring procedures discussed above, we noted the following deficiencies:

- IDHS is not performing a detailed review of any costs claimed from expenditures reported by other State agencies.
- The interagency agreements with DHFS and DCFS are vague in nature and simply require the State agency to follow the applicable rules, regulations, and policies of the applicable federal program and provide all data, documents, reports, and information necessary for IDHS to manage the applicable federal programs. However, the specific federal regulations and requirements of the State Plan are not identified in the agreements.
- The questionnaires provided to IDHS by each of the State agencies did not include documentation of all areas applicable to the expenditures reported. Specifically, the questionnaire for DCFS did not discuss the controls or processes related to the Emergency Assistance Program claimed under the federal TANF program or the procedures in place for identifying adjustments included in the expenditure detail supporting amounts reported for each of the federal programs identified above. The questionnaire for ISBE indicated most of the compliance requirements were not applicable since the expenditures ISBE provides are used to meet the MOE requirement; however, several of the requirements including those pertaining to the allowability of costs are applicable and should have been documented.



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In each of the past eight years, we have identified several instances of noncompliance and unallowable costs claimed from expenditures reported by other State agencies, which is indicative that adequate internal control does not exist over the claiming of these expenditures and adequate monitoring of the other State agencies has not been performed. During the current fiscal year ended June 30, 2010, we identified the following instances of non-compliance in our testing of interagency expenditures which are reported as separate findings in this report for each of the respective agencies:

- Federal TANF expenditures provided by IDOR included amounts that did not qualify as allowable expenditures under the TANF regulations (see finding 10-12);
- Expenditures provided by DCFS under all programs identified above included expenditures to subrecipients for which DCFS has not established adequate monitoring procedures (see finding 10-37).

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing these conditions with IDHS officials, they stated this is due to lack of adequate staff with necessary skill set for monitoring interagency program expenditures.

Failure to properly monitor interagency expenditures may result in claiming of expenditures that are inconsistent with the objectives of the federal program. (Finding Code 10-02, 09-02, 08-02, 07-09, 06-02, 05-14, 04-13, 03-15)

#### **Recommendation:**

We recommend IDHS review its current process for identifying and reporting interagency expenditures and implement monitoring procedures to ensure that Federal and State expenditures expended by other state agencies meet the applicable program regulations and are not claimed or used to meet matching or maintenance of effort requirements under more than one federal program.

#### **IDHS Response:**

The Department agrees with the recommendation. We have enhanced our controls to ensure that federal and state expenditures expended by other state agencies meet the applicable program regulations and are not claimed or used to meet matching or maintenance of effort requirements under more than one Federal program. The Office of Contract Administration has scheduled and started conducting onsite reviews of program policy and procedures at each of the six affected agencies to be completed by June 30, 2011.

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**State Agency:** Illinois Department of Human Services (IDHS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Temporary Assistance for Needy Families  
Children’s Health Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.558/93.714ARRA (\$573,086,000)  
93.767 (\$274,279,000)  
93.775/93.777/93.778/93.778ARRA (\$8,612,823,000)

**Award Numbers:** G-0901ILTANF/G-0901ILTAN2ARRA/G1001ILTANFARRA (93.558/93.714ARRA)  
(CFDA Number) 05-1005IL5021/05-0905ILMSEA5021 (93.767)  
05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-10905IL5028/05-1005ILARRA (93.775/93.777/93.778/  
93.778 ARRA)

**Questioned Costs:** Cannot be determined

**Finding 10-03** Failure to Perform Eligibility Redeterminations within Prescribed Timeframes

IDHS is not performing “eligibility redeterminations” for individuals receiving benefits under the Temporary Assistance for Needy Families (TANF), Children’s Health Insurance Program (CHIP), and Medicaid Cluster programs in accordance with timeframes required by the respective State Plans.

Each of the State Plans for the TANF, CHIP, and Medicaid Cluster programs require the State to perform eligibility redeterminations on an annual basis. These procedures typically involve a face to face meeting with the beneficiary to verify eligibility criteria including income level and assets. During our testwork over eligibility, we noted the State was delinquent (overdue) in performing the eligibility redeterminations for individuals receiving benefits under the TANF, CHIP, and Medicaid Cluster programs. In evaluating the eligibility redetermination delinquency statistics, we noted the statistics for the CHIP and Medicaid Cluster programs do not appear to have improved as a result of implementing an inadequate passive redetermination process as reported in finding 10-13. The monthly delinquency statistics by program for State fiscal year 2010 are as follows:

<b>Program/Month</b>	<b>Number of Overdue Redeterminations</b>	<b>Total Number of Cases</b>	<b>Percentage of Overdue Cases</b>
<b>TANF</b>			
July	939	28,844	3.26%
August	944	29,007	3.25%
September	964	29,534	3.26%
October	931	30,167	3.09%

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<b>Program/Month</b>	<b>Number of Overdue Redeterminations</b>	<b>Total Number of Cases</b>	<b>Percentage of Overdue Cases</b>
<b>TANF, cont'd</b>			
November	957	30,763	3.11%
December	1,036	32,095	3.23%
January	1,219	32,217	3.78%
February	1,290	31,991	4.03%
March	1,346	32,289	4.17%
April	1,348	32,398	4.16%
May	1,336	32,731	4.08%
June	1,501	33,029	4.54%
<b>CHIP</b>			
July	21,962	698,525	3.14%
August	23,468	703,122	3.34%
September	22,516	708,069	3.18%
October	23,064	712,809	3.24%
November	23,502	716,903	3.28%
December	24,569	720,149	3.41%
January	27,187	723,782	3.76%
February	28,175	726,403	3.88%
March	30,212	729,907	4.14%
April	31,930	733,241	4.35%
May	31,394	736,923	4.26%
June	30,636	746,276	4.11%
<b>Medicaid Cluster</b>			
July	28,787	438,439	6.57%
August	32,444	439,842	7.38%
September	30,871	441,699	6.99%
October	32,595	443,852	7.34%
November	33,951	445,348	7.62%
December	35,882	447,392	8.02%
January	39,188	449,219	8.72%
February	40,828	450,261	9.07%
March	43,612	451,457	9.66%
April	47,269	452,868	10.44%
May	47,828	454,919	10.51%
June	47,729	455,965	10.47%

In addition, during our testwork of 50 TANF, 65 CHIP, and 125 Medicaid Cluster eligibility files selected for testwork, we noted redeterminations were not completed within required time frames for

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### Schedule of Findings and Questioned Costs

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one CHIP and six Medicaid Cluster cases tested. Delays in performing redeterminations ranged from two to 33 months after the required timeframe.

Beneficiary payments selected in our sample totaled \$16,587, \$168,841, and \$200,011 for the TANF, CHIP, and Medicaid Cluster programs, respectively. Payments made on behalf of beneficiaries of the TANF, CHIP, and Medicaid Cluster programs totaled \$33,482,000, \$242,508,000, and \$8,254,467,000, respectively, during the year ended June 30, 2010.

In accordance with 42 USC 602(a)(1)(B)(iii), 42 CFR 431.10, and the OMB Circular A-133 Compliance Supplement, dated June 2010, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plans for the Medicaid Cluster, CHIP, and TANF programs. The current State Plans require redeterminations of eligibility for all recipients on an annual basis.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure eligibility redeterminations are performed in accordance with program requirements.

In discussing these conditions with IDHS officials, they stated this finding has repeated due to the TANF, CHIP, and Medicaid caseload increase from 1,213,653 to 1,270,933. This represents an increase of 57,280 cases. During fiscal year 2010, casework staff decreased from 2,142 to 2,086. Given the significant increase in caseload, and the decrease in casework staff, and the speculation that casework staff will continue to decrease due to current fiscal constraints, improvements to redetermination currency will continue to be a challenge.

Failure to properly perform eligibility redetermination procedures in accordance with the State Plans may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 10-03, 09-03, 08-03, 07-10, 06-03, 05-18, 04-15, 03-17)

#### **Recommendation:**

We recommend IDHS review its current process for performing eligibility redeterminations and consider changes necessary to ensure all redeterminations are performed within the timeframes prescribed within the State Plans for each affected program.

#### **IDHS Response:**

The Department agrees with the recommendation. IDHS will continue to work with the Department of Healthcare and Family Services to review current processes for performing eligibility redeterminations and consider changes necessary to ensure all redeterminations are performed within the prescribed timeframes.

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**State Agency:** Illinois Department of Human Services (IDHS)

**Federal Agency:** US Department of Agriculture (USDA)  
US Department of Health and Human Services (USDHHS)

**Program Name:** SNAP Cluster  
Temporary Assistance for Needy Families Cluster  
Children's Health Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 10.551/10.561/10.561 ARRA (\$2,814,110,000)  
93.558/93.714 ARRA (\$573,086,000)  
93.767 (\$274,279,000)  
93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)

**Award Numbers:** 09IS2514/09IS8036/09IE2518/09IE2519/09IS2520/10IS2514/10IS8036/  
(CFDA Number) 10IE2518/10IE2519/10IS2520 (10.551/10.561/10.561 ARRA)  
G-0901ILTANF/G0901ILTAN2ARRA/G1001ILTANF (93.558/93.714ARRA)  
05-1005IL5021/05-0905ILMSEA5021 (93.767)  
05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-10905IL5028/05-1005ILARRA (93.775/93.777/  
93.778/93.778 ARRA)

**Questioned Costs:** Cannot be determined

**Finding 10-04** *Failure to Properly Maintain and Control Case File Records*

IDHS does not have appropriate controls over case file records maintained at its local offices for beneficiaries of the SNAP Cluster, Temporary Assistance for Needy Families Cluster (TANF), Children's Health Insurance Program (CHIP), and Medicaid Cluster (Medicaid) programs.

IDHS is the State agency responsible for performing eligibility determinations for the federal public welfare assistance programs. IDHS has established a series of local offices throughout the State at which eligibility determinations and redeterminations are performed and documented. The eligibility intake processes for each of the programs identified above requires case workers to obtain and review supporting documentation including signed benefits applications, copies of source documents reviewed in verifying information reported by applicants, and other information. Although most of this information is entered into the electronic case record, IDHS also maintains manual paper files which include the source documents required to determine eligibility for its federal programs.

During our testwork, 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 our review of case files at five separate local offices, we noted the areas in which case files are maintained were generally disorganized and case files were stacked on or around file cabinets. We also noted case files were generally available to all DHS personnel and that formal

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procedures have not been developed for checking case files in and out of the file rooms or for tracking their locations.

Additionally, during our testwork over 240 case files selected in our testwork relative to the TANF, CHIP, and Medicaid programs, we noted several delays in receiving case files due to the fact that case files had been transferred between local offices as the result of clients moving between service areas. We also noted one CHIP case record (out of 50 tested) could not be located for our testing. The medical payments made on behalf of this beneficiary under the CHIP programs that were selected for our testwork were \$405 (out of \$168,841 sampled). Medical payments made under the CHIP program for this beneficiary during the year ended June 30, 2010 were \$2,564.

Payments made on the behalf of beneficiaries of the SNAP Cluster, TANF, CHIP, and Medicaid programs were approximately \$2,700,489,000, \$33,482,431, \$242,508,000, and \$8,254,467,000, respectively, during the year ended June 30, 2010.

In accordance with 42 USC 1397bb, 42 CFR 435.10, and the OMB Circular A-133 Compliance Supplement, dated June 2010, the State is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plans for the Medicaid and CHIP programs.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include maintaining adequate controls over beneficiary eligibility case files and related documentation.

In discussing these conditions with IDHS officials, they stated this is due to the lack of staff and file cabinets and/or file cabinet space in which to properly store case records.

Failure to properly maintain and control beneficiary case file records may result in the loss of source documentation necessary to establish beneficiary eligibility and in unallowable costs being charged to the federal programs. (Finding Code 10-04, 09-04, 08-04, 07-11)

#### **Recommendation:**

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

#### **IDHS Response:**

The Department agrees with the recommendation. Given our current fiscal constraints and continued staffing limitations, DHS continues to place a high priority on proper case file maintenance. The Department is in the process of implementing a document management system that will capture much of the information that is currently printed and placed in a paper file, and route it to an electronic file. This will reduce the overwhelming size and amount of files in the offices, and better track the location of case file information.

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**State Agency:** Illinois Department of Human Services (IDHS)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Temporary Assistance for Needy Families Cluster  
**CFDA # and Program Expenditures:** 93.558/93.714 ARRA (\$573,086,000)  
**Award Numbers:** G-0901ILTANF/G-0901ILTAN2ARRA/G1001ILTANFARRA  
**Questioned Costs:** Cannot be determined

**Finding 10-05** *Inadequate Process for Preventing Individuals Convicted of Felonies from Receiving TANF Benefits*

IDHS does not have adequate procedures in place to ensure individuals convicted of Class 1 or Class X drug felonies, probation and parole violators, and fugitive felons do not receive benefits under the Temporary Assistance for Needy Families Cluster (TANF) program.

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 TANF State Plan. IDHS has designed its standard application for benefits to request information from applicants relative to each of the eligibility criteria.

During our testwork, we noted IDHS' process for determining whether TANF applicants have been convicted of a Class 1 or Class X felony consists of applicants answering questions on the standard application which require a yes or no response to if they have been convicted of a Class 1 or Class X felony. IDHS does not have procedures in place to corroborate the applicant's statements through cross matches with the Illinois Department of Corrections, Illinois State Police, or other mechanisms.

Payments made on behalf of beneficiaries of the TANF program totaled \$33,482,431 during the year ended June 30, 2010.

In accordance with 42 USC 602(a)(1)(B)(iii) and the OMB Circular A-133 Compliance Supplement, dated June 2010, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plans for the TANF program. Section II.G of the current State Plan states that probation and parole violators, fugitive felons, and 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 under Illinois, or comparable federal law, are ineligible to receive TANF. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include performing crossmatches of data with other State agencies to ensure only eligible beneficiaries receive benefits.

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In discussing these conditions with IDHS officials, they stated this is due to the lack of cross match with other State agencies in order to better identify convicted drug felons.

Failure to ensure TANF recipients receiving benefits are not convicted of Class 1 and Class X felonies results in federal funds being awarded to ineligible beneficiaries which are unallowable costs. (Finding Code 10-05, 09-05, 08-05, 07-13, 06-04)

**Recommendation:**

We recommend IDHS 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.

**IDHS Response:**

The Department agrees with the recommendation. The Department is currently discussing the possibility of implementing a cross match with the Illinois State Police to better identify convicted Class 1 or Class X drug felons.



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**State Agency:** Illinois Department of Human Services (IDHS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Children's Health Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.767 (\$274,279,000)  
93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)

**Award Numbers:** 05-1005IL5021/05-0905ILMSEA5021 (93.767)  
(CFDA Number) 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/05-0905IL5028/  
05-10905IL5028/05-1005ILARRA (93.775/93.777/93.778/93.778 ARRA)

**Questioned Costs:** Cannot be determined

#### **Finding 10-06** Missing Documentation in Beneficiary Eligibility Files

IDHS could not locate case file documentation supporting eligibility determinations for beneficiaries of the Children's Health Insurance Program (CHIP) and the Medicaid Cluster programs.

During our test work of 65 CHIP and 125 Medicaid beneficiary payments, we selected eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits provided. We noted the following exceptions during our testwork:

- In twenty-four CHIP case files and seven Medicaid case files, IDHS could not locate the supporting documentation of the redetermination completed and signed by the beneficiary in the case file. The medical payments made on behalf of these beneficiaries which were selected for our testwork were \$34,502 and \$63,360 for the CHIP and Medicaid Cluster programs, respectively. Medical payments made on behalf of these beneficiaries during the year ended June 30, 2010 were \$329,572 and \$251,297 for the CHIP and Medicaid programs, respectively.
- In two CHIP case files, IDHS could not locate adequate documentation supporting that the required State Online Query (SOLQ) and Division of Child Support Enforcement (DCSE) cross match procedures were performed. Medical assistance payments made on behalf of these beneficiaries was \$15,536. Medical assistance payments made on behalf of these beneficiaries during the year ended June 30, 2010 was \$73,231.
- In five CHIP case files, IDHS could not locate adequate documentation supporting income verification procedures were performed. In lieu of collecting copies of pay stubs to verify income, the caseworkers verbally confirmed income information, relied on client handwritten notes, or used income verified on previous applications. The medical payments made on behalf of these beneficiaries which were selected for our testwork was \$5,818 for the CHIP program. Medical payments made on behalf of these beneficiaries during the year ended June 30, 2010 were \$215,720 for the CHIP programs.

In each of the case files missing documentation, each of the eligibility criteria was verified through additional supporting documentation in the client's paper and electronic case files. Therefore all information necessary to establish and support the client's eligibility for the period was available;

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however, the respective application and/or source documentation related to the redetermination/income verification procedures performed including evidence of case worker review and approval could not be located.

Beneficiary payments selected in our samples totaled \$168,841 and \$200,011 for the CHIP and Medicaid Cluster programs, respectively. Payments made on behalf beneficiaries of the CHIP and Medicaid Cluster programs totaled \$242,508,000 and \$8,254,467,000, respectively, during the year ended June 30, 2010.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria require, among other things, that each expenditure must be adequately documented.

In accordance with 42 USC 602(a)(1)(B)(iii), 42 CFR 431.10, and the OMB Circular A-133 Compliance Supplement, dated June 2010, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plan. The current State Plans require redeterminations of eligibility for beneficiaries on an annual basis. Additionally, 42 CFR 435.907 requires a signed application to be on file for all beneficiaries of the Medicaid and CHIP programs.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include maintaining adequate controls over beneficiary eligibility case files and related documentation.

In discussing these conditions with IDHS officials, they stated the finding is due to lack of adequate staffing and proper filing storage devices.

Failure to maintain client applications for benefits and/or source documentation for redetermination/income verification procedures performed may result in inadequate documentation of a recipient's eligibility and in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 10-06, 09-06, 08-08, 07-19, 06-16, 05-30, 04-18, 03-20, 02-26, 01-15)

#### **Recommendation:**

We recommend IDHS review its current process for maintaining documentation supporting eligibility determinations and consider changes necessary to ensure all eligibility determination documentation is properly maintained.

#### **IDHS Response:**

The Department agrees with the recommendation. We will continue to ensure that staff understands the importance of proper and accurate filing processes. A rapidly growing caseload coupled with the inability to hire additional staff to handle the caseload presents the potential for paper filing errors and

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backlog. In the fall of 2011, the Department is planning to pilot a document management system that will capture much of the information that is currently printed and placed in a paper file, and route it to an electronic file. This will reduce the overwhelming size and amount of files in the offices, and better track the location of case files and their contents.

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**State Agency:** Illinois Department of Human Services (IDHS)

**Federal Agency:** US Department of Agriculture (USDA)  
US Department of Health and Human Services (USDHHS)

**Program Name:** Special Supplemental Nutrition Program for Women, Infants, and Children  
Temporary Assistance for Needy Families Cluster  
Child Care Development Fund Cluster  
Social Services Block Grant

**CFDA # and Program Expenditures:** 10.557/10.557 ARRA (\$230,403,000)  
93.558/93.714 ARRA (\$573,086,000)  
93.575/93.596/93.713 ARRA (\$234,446,000)  
93.667 (\$109,613,000)

**Award Numbers:** 2008IW500342/2008IW1011/2009IW100342/2009IW100642/2009IW500342/  
2009IW1011/2009CK2208ARRA/2010IW100342/2010IW100642/2010IW500342  
(10.557/10.578 ARRA)  
G-0901ILTANF/G-0901ILTAN2ARRA/G-1001ILTANF (93.558/93.714 ARRA)  
G-0901ILCCDF/G-0901ILCCD7ARRA/G-1001ILCCDF (93.575/93.596/93.713ARRA)  
G-0601ILSOS2/G-0901ILSOSR/G-0901ILSOS2/G-1001ILSOSR (93.667)

**Questioned Costs:** None

**Finding 10-07** *Inadequate Procedures for Communicating Non-Cash Expenditures to Subrecipients*

IDHS does not have adequate procedures to communicate non-cash expenditures to its subrecipients.

IDHS provides vouchers for child care services to eligible State residents under the Temporary Assistance for Needy Families Cluster (TANF), Child Care Cluster (Child Care), and Social Services Block Grant (Title XX) programs. IDHS also provides food instruments to eligible State residents under the Special Supplemental Nutrition for Women, Infants, and Children (WIC). IDHS is assisted by subrecipient organizations throughout the State in performing the beneficiary eligibility determinations required for each of these programs. As a result, IDHS identifies and notifies program subrecipients of the amount of non-cash assistance (beneficiary payments) the subrecipient should report on its schedule of expenditures of federal awards (SEFA).

During our testwork over the award notification process for subrecipients of the WIC, TANF, Child Care, and Title XX programs, we noted IDHS only reports the non-cash assistance attributable to each subrecipient on an annual basis. Because IDHS does not identify the specific federal program name, award number, catalog of federal domestic assistance (CFDA) number, or amount of non-cash assistance until several months after the end of the State's fiscal year, subrecipients cannot prepare their SEFAs or have OMB Circular A-133 audits performed until the information is received from IDHS.

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In addition, we noted IDHS expended ARRA funding for certain beneficiary payments made under the Child Care program which were not separately identified as ARRA funded in the non-cash assistance notifications sent to Child Care subrecipients. Further, IDHS' grant agreements for the Child Care program did not identify the requirement for subrecipients to separately report ARRA funded non-cash program expenditures on their schedule of expenditures federal awards (SEFA) and data collection form.

IDHS reported non-cash assistance to subrecipients in the following amounts:

<b>Program Name</b>	<b>Non-Cash Assistance</b>	<b>Total Subrecipient Expenditures</b>	<b>Total Program Expenditures</b>
WIC	\$93,713,000	\$206,537,000	\$230,403,000
TANF	\$147,776,000	\$202,753,000	\$573,086,000
Child Care	\$103,755,000	\$158,227,000	\$210,976,000
Child Care ARRA	Not applicable	\$23,035,000	\$23,470,000
Title XX	\$1,200,000	\$32,079,000	\$109,613,000

According to OMB Circular A-133 \_\_.400 (d), a pass through entity is required to identify each federal award made by informing each subrecipient of the federal program's CFDA title and number. The pass through entity is also required to advise subrecipients of award value and requirements imposed on them by federal laws and regulations. In addition, according the American Recovery Reinvestment Act, Federal Agencies must require recipients to agree to: (1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal Award number, CFDA number, and the amount of ARRA funds; and (2) require their subrecipients to provide similar identification in their SEFA and data collection form.

In discussing these conditions with IDHS officials, they stated procedures for reporting non-cash assistance to providers were still being established and implemented during fiscal year 2010.

Failure to inform subrecipients of the federal award information in a timely manner and to communicate required ARRA information could result in subrecipients improperly reporting expenditures in their schedule of expenditures of federal awards, expending federal funds for unallowable purposes, not receiving a single audit in accordance with OMB Circular A-133, or otherwise not properly administering the federal programs in accordance with federal regulations. (Finding Code 10-07, 09-07)

#### **Recommendation:**

We recommend IDHS notify all subrecipients in writing of the specific federal program name, award number, CFDA number, and amount of non-cash assistance on a quarterly basis. We also recommend IDHS implement procedures to ensure ARRA information and requirements are properly communicated to its subrecipients.

#### **IDHS Response:**

The Department agrees with the recommendation. We have implemented procedures to ensure ARRA information and requirements are properly communicated to its subrecipients on quarterly basis.

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Effective November 17, 2010, the Office of Contract Administration in conjunction with the Women Infant and Children (WIC) program staff have prepared and mailed the WIC non-cash three consecutive quarterly reports for fiscal year 2011 (11/17/10, 2/9/11 and 5/16/11).

On May 3, 2011, the Office of Contract Administration in conjunction with the Bureau of Child Care Program staff and the Office of Fiscal Services staff have also prepared and mailed Child Care non-cash two consecutive quarterly reports for fiscal year 2011 (5/3/11).

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**State Agency:** Illinois Department of Human Services (IDHS)

**Federal Agency:** US Department of Agriculture (USDA)

**Program Name:** SNAP Cluster

**CFDA # and Program Expenditures:** 10.551/10.561/10.561 ARRA (\$2,814,110,000)

**Award Numbers:** 09IS2514/09IS8036/09IE2518/09IE2519/09IS2520/10IS2514/10IS8036/  
10IE2518/10IE2519/10IS2520

**Questioned Costs:** Cannot be determined

**Finding 10-08** *Inadequate Monitoring of Subrecipient Expenditures*

IDHS does not have adequate procedures in place to ensure expenditures submitted by its subrecipients are allowable under program regulations for the SNAP Cluster.

During the year ended June 30, 2010, IDHS passed through approximately \$8.3 million to a subrecipient of the SNAP Cluster to provide educational programs on nutrition to children and families in economically challenged areas throughout the State. As a condition of receiving this funding, the subrecipient is required to provide matching funds in an amount equal to the federal expenditures. The subrecipient meets its matching requirement with both self-funded expenditures and in-kind contributions received from local governments. IDHS requires the subrecipient to prepare a quarterly expenditure report identifying the expenditures incurred to date under the federal award and the amounts used to meet the matching requirement. These reports are used to compute the amount to be reimbursed to the subrecipient for the applicable reporting period and to monitor program expenditures.

During our testwork, we noted the expenditure report used by the subrecipient of the SNAP Cluster is highly summarized and does not provide sufficient information for IDHS to properly monitor the subrecipient's expenditures and matching contributions or compute the amount to be reimbursed. Specifically, the report does not separately identify in-kind contributions from other expenditures used to meet the matching requirement. As a result, the amount reimbursed by IDHS (which is computed as 50% of the combined total of the expenditures incurred to date under the federal award and the amount used to meet the matching requirement) includes in-kind contributions from local governments which are not allowed to be reimbursed from federal sources. In-kind contributions included in the expenditure reports submitted for quarters ending on or during the year ended June 30, 2010 approximated \$2.4 million.

According to OMB Circular A-133 §\_\_.400(d), 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, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Such monitoring procedures should include requiring subrecipients to report expenditure information in sufficient detail to allow the pass-through entity to appropriately

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determine the amount required to be reimbursed to the subrecipient and to meet the federal reporting requirements of the pass through entity.

In discussing these conditions with IDHS officials, they stated this is due to subrecipient expenditures and matching requirements not being properly monitored.

Failure to adequately monitor expenditures and matching contributions of program subrecipients may result in (1) unallowable costs being charged to the federal program, (2) unplanned advances of federal funding to subrecipients which are not monitored, and (3) inaccurate financial reports being prepared by IDHS and submitted to the federal government. (Finding Code 10-08, 09-11)

#### **Recommendation:**

We recommend IDHS revise the expenditure report and related instructions provided to its subrecipients to ensure an appropriate level of information is obtained by IDHS to monitor the expenditures and matching requirements of the SNAP Cluster and to properly determine amounts to be reimbursed to the subrecipients.

#### **IDHS Response:**

The Department agrees with the recommendation. Beginning Oct. 1, 2010 the SNAP-Ed program changed significantly. The program was revised by USDA to become a 100% reimbursement program. States will no longer be required to document any matching costs. As a result, the program does not need to pursue additional documentation of match. Documentation from USDA outlining the changes to the program was provided to the auditors during the exit conference.



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For Year Ended June 30, 2010

**State Agency:** Illinois Department of Human Services (IDHS)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Temporary Assistance for Needy Families Cluster  
**CFDA # and Program Expenditures:** 93.558/93.714ARRA (\$573,086,000)  
**Award Numbers:** G0901ILTANF/G0901ILTAN2ARRA/G1001ILTANF  
**Questioned Costs:** None

**Finding 10-09** *Inadequate Controls Over TANF Sanction Procedures*

IDHS does not have adequate procedures to ensure that TANF Sanction Procedures are properly followed for individuals receiving benefits under the Temporary Assistance for Needy Families (TANF) program who were the adult custodial parent of a child under six when child care was not available.

During our test work over 40 cases of single custodial parents caring for a child who is under 6 years of age whose benefits were reduced or terminated, we noted one case (3%) in which a client was sanctioned prior to failing to comply with program requirements. Upon further investigation of this case, we noted the individual ultimately failed to attend a required appointment subsequent to the sanction being applied to her case. The case record did not include and IDHS could not provide an explanation for the discrepancy in the timing of these sanctions.

In accordance with 45 CFR 261.56(a)(1), adult custodial parents of a child under six may not have their TANF cash assistance reduced or terminated based on the parent's refusal to engage in required work if he or she demonstrates an inability to obtain needed child care. However, in the event a TANF beneficiary fails to comply with program requirements without good cause, IDHS is required to reduce or deny his/her TANF benefits.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring beneficiaries are sanctioned in accordance with program requirements.

In discussing these conditions with IDHS officials, they stated the finding is due to caseworker error.

Failure to properly apply sanctions in accordance with the program requirements may result in beneficiaries not receiving awards for which they are eligible. (Finding Code 10-09)

**Recommendation:**

We recommend IDHS review its current process for sanctioning beneficiaries and consider changes necessary to ensure sanctions are only applied when appropriate.

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**IDHS Response:**

The Department agrees with the recommendation. Sanction policy and procedure are set forth in a clear, concise manner in the Cash, Medical and Food Stamp manual and staff has been reminded of the policy requirements to ensure sanctions are only applied when appropriate.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Department of Human Services (IDHS)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Vocational Rehabilitation Cluster

**CFDA # and Program Expenditures:** 84.126/84.390 ARRA (\$94,080,000)

**Award Numbers:** H126A080018/H126A090018/H390A090018ARRA/H126A100018

**Questioned Costs:** Cannot be determined

**Finding 10-10** Untimely Submission of Financial Reports

IDHS does not have a process in place to ensure financial reports are prepared and submitted within required timeframes for the Vocational Rehabilitation Cluster program.

IDHS is required to prepare various periodic financial reports relative to open awards under the Vocational Rehabilitation Cluster program. These financial reports are required to be prepared at on a quarterly and an annual basis based upon the terms and conditions of the awards.

During our testwork over financial reports required to be submitted during fiscal year 2010 for the Vocational Rehabilitation Cluster program, we selected two quarterly financial status (SF-269 and SF-425) reports for all open Vocational Rehabilitation Grants and the annual RSA-2 report submitted during the year ended June 30, 2010 to review for compliance with reporting requirements. We noted several of the reports tested were not submitted within the required timeframes. Specifically, we noted the following exceptions in our testwork:

<b>Report Type</b>	<b>Reporting Period Tested</b>	<b>Report Due Date</b>	<b>Report Submission Date</b>	<b>Number of Days Late</b>
Quarterly SF-269 Grant H126A080018	7/1/2009 – 9/30/09	10/30/2009	2/8/2010	101
Quarterly SF-269 Grant H126A090018	7/1/09 – 9/30/09	10/30/2009	4/20/2010	171
Quarterly SF-269 Grant H126A090018	1/1/10 – 3/31/10	4/30/2010	9/7/2010	130
Quarterly SF-425 Grant H125A100018	10/1/09 – 12/31/09	1/30/2010	1/28/2011	363
Quarterly SF-425 Grant H125A100018	1/1/10 – 3/31/10	4/30/2010	1/31/2011	276
Annual RSA-2 Cost Report	10/1/08 – 9/30/09	12/31/2010	3/5/2010	64

In accordance with 34 CFR 80.41(b)(3)(4), the quarterly financial status reports (SF-269 and SF-425) are required to be submitted by the grantee within thirty days of the end of each grant quarter. In accordance with the Policy Directive RSA-PD-09-04, the RSA-2 Annual Vocational Rehabilitation

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Program/Cost Report must be forwarded to the RSA Regional Office serving the State by no later than December 31<sup>st</sup> following the close of each federal fiscal year.

In discussing these conditions with IDHS officials, they stated delays in submission of the Federal reports were due to inadequate staffing and changes in the data elements required to be reported. The conversion of federal financial status reports from SF-269 forms to SF-425 forms, which required changes in data collection for particular elements, resulted in data elements from not being available in time to meet the required timeframes.

Failure to prepare and submit reports in a timely manner inhibits the ability of the federal agencies and pass through entities to properly monitor and evaluate the performance of the programs. (Finding Code 10-10)

#### **Recommendation:**

We recommend IDHS implement procedures to ensure all financial reports are submitted within the established deadlines. We also recommend IDHS implement standardized procedures to monitor reporting requirements and submissions.

#### **IDHS Response:**

The Department agrees with the recommendation. Processes are being developed to monitor reporting requirements and submissions. A staff position has been created to ensure that federal reports are submitted within the established deadlines.

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For Year Ended June 30, 2010

**State Agency:** Illinois Department of Human Services (IDHS)  
**Federal Agency:** US Department of Education  
**Program Name:** Vocational Rehabilitation Cluster  
**CFDA # and Program Expenditures:** 84.126/84.390 ARRA (\$94,080,000)  
**Award Numbers:** H126A080018/H126A090018/H390A090018ARRA/H126A100018  
**Questioned Costs:** None

**Finding 10-11** *Inaccurate Reporting of the Program Cost Report*

IDHS did not accurately report expenditures in the RSA-2 Program Cost Report (RSA-2) for the Vocational Rehabilitation Cluster program.

The RSA-2 is required to be submitted on an annual basis to report expenditure information related to the Vocational Rehabilitation Cluster program. During our testwork over the RSA-2 report for the federal fiscal year ended September 30, 2009, we noted IDHS improperly reported small business enterprises expenditures as follows:

<b>Expenditure Line Item</b>	<b>Reported Expenditures</b>	<b>Actual Expenditures</b>	<b>Difference</b>
Small Business Enterprises	\$510,910	\$384,914	\$125,996

According to 34 CFR 361.40, the State must comply with the requirements necessary to ensure the accuracy and verification of reports required to be submitted for the program. In addition, the A-102 Common Rule requires non-federal entities receiving Federal Awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure expenditures are accurately reported in the program cost report.

In discussing these conditions with IDHS officials, they stated this occurred due to a typographical error in entry into one of the worksheets used to produce the Rehabilitation Services Administration (RSA-2) report.

Failure to accurately report expenditures in the program cost report prevents the USDE from effectively monitoring the Vocational Rehabilitation Cluster program. (Finding Code 10-11)

**Recommendation:**

We recommend IDHS review the process and procedures in place to prepare the annual program cost report and implement procedures necessary to ensure this report is accurate.

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**IDHS Response:**

The Division of Rehabilitation Services staff will implement a more comprehensive review of data used in the completion of the Rehabilitation Services Administration (RSA-2) report prior to submission.

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For Year Ended June 30, 2010

**State Agency:** Illinois Department of Revenue (IDOR)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Temporary Assistance for Needy Families Cluster  
**CFDA # and Program Expenditures:** 93.558/93.714 ARRA (\$573,086,000)  
**Award Numbers:** G-0901ILTANF/G-0901ILTAN2ARRA/G1001ILTANFARRA  
**Questioned Costs:** Cannot be determined

**Finding 10-12** *Inadequate Process for Determining the Allowability of Earned Income Credits*

IDOR has not established adequate procedures to determine whether earned income tax credits claimed under the Temporary Assistance for Needy Families Cluster program (TANF) meet the federal allowability criteria.

The State of Illinois, through IDOR, has established an earned income tax credit program to provide a tax refund to low income families residing in Illinois. Certain amounts refunded to taxpayers under this program are claimed by the Illinois Department of Human Services (IDHS) under the TANF program. To be allowable for claiming under TANF, the earned income tax credit must be determined in accordance with the State's earned income tax credit regulations and must be disbursed to the taxpayer through a refund. IDHS and IDOR have executed an interagency agreement which requires IDOR to identify and periodically report to IDHS the tax credits which qualify for claiming under the federal TANF program.

During our testwork, we noted IDOR's procedures for verifying the validity of taxpayer's earned income tax credit claims with federal tax returns are not completed prior to paying refunds to taxpayers or preparing the earned income tax credit claiming report for IDHS. Without this information, IDOR relies solely on limited data edits designed to verify the mathematical accuracy of the return and to identify individuals who may not meet the earned income tax credit criteria. The data verification procedures are not performed until the middle of the following year and have historically resulted in adjustments to amounts previously claimed.

Further, we noted that IDOR's limited data edits to identify individuals who may not meet the earned income tax credit criteria do not consider all information available to IDOR when they process the taxpayer's return and pay a refund. During our testwork of earned income tax credits claimed under the TANF program, we identified:

- The population of earned income tax credits claimed under the TANF program during the year ended June 30, 2010 included 391 transactions (totaling \$31,139) that had been flagged by IDOR for having a W-2 form on file that was considered questionable and required further taxpayer correspondence or investigation to support the taxpayer's return. In discussing this issue with IDOR officials, they stated that IDOR only considers the validity of a taxpayer's

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- W-2 in determining whether to claim State withholding credits, but not to determine whether the taxpayer had earned income during the tax year.
- The population of earned income tax credits claimed under the TANF program during the year ended June 30, 2010 included 3,591 transactions (totaling \$354,775) refunded to a taxpayer with an address outside of the State of Illinois who was not serving in the military. IDOR's practice is to process returns showing out-of-State addresses as Illinois residents, unless the filer checks a box indicating that they are a part-year resident or non-resident. As a result, IDOR had not determined whether or not the earned income tax credits for these taxpayers were allowable under the TANF program. In discussing this issue with IDOR officials, they stated that IDOR does not use the taxpayer's address or compare to other State databases to determine that a TANF claim was a resident of the State.

Earned income tax credits claimed under the TANF program were \$16,818,345 during the year ended June 30, 2010.

According to 45 CFR 260.33(b), only the refundable portion of a State or local tax credit is considered to be an allowable expenditure. The refundable portion that may be counted as expenditure is the amount that exceeds a family's State income tax liability prior to the application of the earned income tax credit. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure expenditures meet the applicable program allowability criteria prior to claiming.

In discussing these conditions with IDOR officials, they stated they disagree with the finding and believe their process is adequate.

Failure to establish effective procedures to ensure expenditures claimed under federal programs meet allowability requirements results in unallowable costs. (Finding Code 10-12, 09-14, 08-16, 07-24, 06-20, 05-31)

#### **Recommendation:**

We recommend IDOR review the process and procedures in place to identify earned income tax credit expenditures claimed under the TANF program and implement changes necessary to ensure only amounts eligible for claiming are reported to IDHS.

#### **IDOR Response:**

The Department of Revenue disagrees with the finding. The underlying issue is twofold:

- (1) The Department pays the refundable earned income credit before it is possible to verify that the federal Earned Income Credit (EIC) has been paid by the IRS.
- (2) The Department requests the draw-down of TANF match for the refundable portion of the tax refund before it is possible to verify that the federal Earned Income Credit has been paid.



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Federal Health and Human Services (HHS) policy administrators in Washington D.C. validated the Department's process in 2006. The communication, which was approved by the Director of State TANF Policy, states: "The State has a reasonable verification process in place. Tax claims are checked against tax returns. Then reconciliation/validation of the tax claim occurs subsequent to actual payment of the refundable portion of the credit – the usual and customary method of reconciliation of tax issues."

The Department pays the Illinois EIC based on the information reported on the taxpayer's Illinois 1040 filing (as required by Illinois Statute, the Illinois EIC is 5% of the federal EIC), before the IRS has shared the federal EIC information, and works with the Illinois Department of Human Services to periodically draw-down federal funds to replenish the Refund fund. The Department does not receive the IRS report on federal EICs paid to Illinois taxpayers until October or November. Based on this report, when the IRS has made changes to what the taxpayer originally claimed, the Department bills the taxpayer and adjusts the draw-down accordingly. As a result, at the conclusion of the process, no TANF funds were utilized for ineligible EIC payments.

In addition, it should be noted that the two bullet points referenced by the auditor only identified "population of transactions" and the auditor did not perform procedures to verify if these transactions were invalid TANF EIC payments.

The Department does not believe it is reasonable to require taxpayers to wait for federal data to be available in order to receive the TANF portion of their refund; the Department believes that splitting a tax refund into two payments would be inefficient use of State resources and confusing to the taxpayer.

#### **Auditors' Comment:**

As stated in the finding above, the verification procedures are not performed by IDOR until several months after IDHS has claimed the tax credits reported by IDOR. The State's current procedures allow unallowable costs to be claimed to the TANF program. Our finding and recommendation pertain solely to the timing of the claiming of TANF expenditures, not how IDOR chooses to process refunds or operate the Illinois Earned Income Tax Credit program.

Additionally, the populations of transactions identified in the finding are transactions which may not be eligible for claiming and should be evaluated by IDOR prior to claiming under the TANF Cluster.

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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Children's Health Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.767 (\$274,279,000)  
93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)

**Award Numbers:** 05-1005IL5021/05-0905ILMSEA5021 (93.767)  
(CFDA Number) 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-10905IL5028/05-1005ILARRA (93.775/93.777/  
93.778/93.778 ARRA)

**Questioned Costs:** Cannot be determined

**Finding 10-13** *Inadequate Procedures for Performing Eligibility Redeterminations*

Eligibility redetermination procedures implemented by DHFS for the Children's Health Insurance Program (CHIP) and Medicaid Cluster (Medicaid) are not adequate.

Effective in February 2006, DHFS revised its procedures for performing eligibility redeterminations for children receiving services under the CHIP and Medicaid programs. As part of the passive redetermination procedures, a renewal form which contains key eligibility criteria is sent through the mail to the beneficiary. The beneficiary (or the beneficiary's guardian) is required to review the renewal form and report any changes to eligibility information; however, in the event there are no changes to the information and there are only children on the case, a response is not required.

Upon further review of the passive redetermination process, we noted neither DHFS, nor the Illinois Department of Human Services (IDHS) which performs most eligibility determinations for these programs, maintains a formal record of the cases subject to passive redetermination procedures. As a result, we were unable to quantify the number of cases subject to the passive redetermination policy.

Payments made on the behalf of beneficiaries of the CHIP and Medicaid programs were \$242,508,000 and \$8,254,467,000 during the year ended June 30, 2010.

In accordance with 42 USC 1397bb, 42 CFR 435.10, and the OMB Circular A-133 Compliance Supplement, dated June 2010, the State is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plans for the Medicaid and CHIP programs. The current State Plans require redeterminations of eligibility for all recipients on an annual basis. According to 42 CFR 435.916(b) the State is required to implement procedures designed to ensure that recipients make timely and accurate reports of any change in circumstances that may affect their eligibility. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include

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establishing procedures to ensure eligibility redeterminations are performed in accordance with the State Plan and federal regulations.

In discussing these conditions with DHFS officials, they stated the inadequate procedures identified during the audit are the Department's passive redetermination procedures. As to quantifying the number of cases subject to the passive redetermination policy, DHFS stated they are working with DHS to obtain a listing of the cases subject to the passive redetermination procedures.

Failure to implement appropriate eligibility redetermination procedures in accordance with the State Plans may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 10-13, 09-15, 08-17, 07-25)

**Recommendation:**

We recommend DHFS 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.

**DHFS Response:**

The Department accepts the finding. The Medicaid Reform Act (Public Act 096-1501 Section 30) requires the Department to verify one month's income at renewal in order for children to remain enrolled in the program. However, the Department has submitted clarification to the federal government regarding implementation of the reform legislation. This is anticipated to be implemented unless denial is received from the federal government. This requirement is to be implemented no later than October 1, 2011.

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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Children's Health Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.767 (\$274,279,000)  
93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)

**Award Numbers:** 05-1005IL5021/05-0905ILMSEA5021 (93.767)  
(CFDA Number) 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-10905IL5028/05-1005ILARRA (93.775/93.777/  
93.778/93.778 ARRA)

**Questioned Costs:** \$65,253

**Finding 10-14** *Missing Documentation in Beneficiary Eligibility Files*

DHFS could not locate case file documentation supporting eligibility determinations for beneficiaries of the Children's Health Insurance Program (CHIP) and the Medicaid Cluster programs.

During our testwork of 65 CHIP and 125 Medicaid beneficiary payments totaling \$168,841 and \$200,011, respectively, we selected eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits provided. We noted the following exceptions:

- In one CHIP case file (with medical payments sampled of \$80), DHFS could not locate adequate documentation supporting income verification procedures were performed. In lieu of collecting copies of pay stubs to verify income, the caseworkers verbally confirmed income information, relied on client handwritten notes, or used income verified on previous applications. Medical payments made on behalf of this beneficiary of the CHIP program were \$2,864.
- In ten CHIP case files (with medical payments sampled of \$3,297), DHFS could not locate the supporting documentation of the redetermination completed and signed by the beneficiary in the case file. Medical payments made on behalf of these beneficiaries for the CHIP program were \$62,389 during the year ended June 30, 2010.

Payments made on behalf of beneficiaries of the CHIP and Medicaid Cluster programs totaled \$242,508,000, and \$8,254,467,000, respectively, during the year ended June 30, 2010.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria require, among other things, that each expenditure must be adequately documented.

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In accordance with 42 USC 602(a)(1)(B)(iii), 42 CFR 431.10, and the OMB Circular A-133 Compliance Supplement, dated June 2010, DHFS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plan. The current State Plans require redeterminations of eligibility for beneficiaries on an annual basis. Additionally, 42 CFR 435.907 requires a signed application to be on file for all beneficiaries of the Medicaid and CHIP programs.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include maintaining adequate controls over beneficiary eligibility case files and related documentation.

In discussing these conditions with DHFS officials, they stated the cases identified as exceptions were subject to the Department's passive redetermination process.

Failure to maintain client applications for benefits and/or source documentation for redetermination/income verification procedures performed may result in inadequate documentation of a recipient's eligibility and in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 10-14, 09-16)

#### **Recommendation:**

We recommend DHFS review its current process for maintaining documentation supporting eligibility determinations and consider changes necessary to ensure all eligibility determination documentation is properly maintained.

#### **DHFS Response:**

The Department accepts the finding. The Medicaid Reform Act (Public Act 096-1501 Section 30) requires the Department to verify one month's income at renewal in order for children to remain enrolled in the program. However, the Department has submitted clarification to the federal government regarding implementation of the reform legislation. This is anticipated to be implemented unless denial is received from the federal government. This requirement is to be implemented no later than October 1, 2011.

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For Year Ended June 30, 2010

**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Children's Health Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.767 (\$274,279,000)  
93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)

**Award Numbers:** 05-1005IL5021/05-0905ILMSEA5021 (93.767)  
(CFDA Number) 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-10905IL5028/05-1005ILARRA (93.775/93.777/  
93.778/93.778 ARRA)

**Questioned Costs:** \$2,586,522

**Finding 10-15** *Failure to Pay Medical Claims within Prescribed Timeframes*

DHFS is not paying practitioner medical claims for individuals receiving benefits under the Children's Health Insurance Program (CHIP) and Medicaid Cluster programs in accordance with timeframes required by federal regulations.

Federal regulations require the medical providers to submit all medical claims within twelve months of the date of service and require the State to pay 90% of all clean claims within 30 days of the date of receipt and 99% of all clean claims within 90 days of the date of receipt. Further, under the American Reinvestment and Recovery Act (ARRA) signed into law on February 17, 2009, states must comply with these claims processing requirements or lose their eligibility for the increased Federal medical assistance percentage (FMAP) for certain expenditures. Subsequent to February 17, 2009, any practitioner claim received on a day in which the State was not in compliance with the claims processing requirements is ineligible to receive the increased FMAP rate.

The processing of medical claims for payment involves a series of electronic MMIS edits to verify all applicable data is provided, verify recipient eligibility, verify expenditure allowability, and calculate the provider reimbursement. Once a medical payment has been approved for payment, it is adjudicated, vouchered and submitted to the Office of the Comptroller for payment. Beginning with the enactment of ARRA, DHFS began monitoring the State's compliance with these claims processing requirements on a daily basis in order to calculate the amount of increased FMAP the State would lose as a result of not being in compliance. Prior to the enactment of ARRA, DHFS performed a periodic analysis to monitor compliance with the claims processing requirements.

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During our review of the analysis covering practitioner medical payments during State fiscal year 2010, we noted medical payments were not made within the payment timeframes required by federal regulations. Management's daily analysis of claims processed after the enactment of ARRA identified 24 days in which the State was not in compliance with the claims processing requirements. The State received claims totaling \$353,022,405 on those days, resulting in \$41,048,595 of lost federal reimbursement.

In addition, during our review of a USDHHS audit and procedures performed we noted the following:

- The agency improperly calculated the prompt payment compliance based on 31 day and 91 day thresholds instead of the required 30 day and 90 day thresholds, and consequently, incorrectly determined some days were eligible for the increase FMAP rate.
- The agency incorrectly excluded categories of claims from its initial prompt payment calculations including zero paid claims with no warrants, denied clean claims, and dental claims previously excluded.
- The agency improperly included certain nonmatchable claims in its initial prompt payment calculations.
- The agency did not adjust the financial expenditure report for the quarter ending June 30, 2009 for expenditures not eligible for the increased FMAP rate that were previously claimed on the March 31, 2009 financial expenditure report, and consequently, the agency inappropriately received increased FMAP related to the ineligible expenditures.

As a result of the deficiencies noted above, DHFS was not eligible for \$2,586,522 of increased FMAP previously received on \$22,262,056 of claims received on days when it did not comply with the prompt payment requirements.

In accordance with 42 CFR 447.45(d) and Section 5001(f)(2) of the American Recovery and Reinvestment Act, the State is required to pay 90% of all clean claims within 30 days of the date of receipt and 99% of all clean claims within 90 days of the date of receipt. The State must pay all other claims within twelve months of the date of receipt. In addition, the increased FMAP rate is not available for any practitioner claim received by the State on a day in which the State failed to pay claims in accordance with the timely processing of claims requirements

In discussing these conditions with DHFS officials, they acknowledged that in some cases timely payment did not occur but that it was a function of available cash, and a part of a larger State issue.

Failure to pay medical claims in accordance with the required timeframes may result in unallowable costs being charged to the program. (Finding Code 10-15, 09-17, 08- 19)

#### **Recommendation:**

We recommend DHFS review its current process for processing and paying medical payments and consider changes necessary to ensure medical payments are made within the timeframes prescribed within the federal regulations.

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**DHFS Response:**

The Department accepts the finding. During the ARRA period, DHFS prioritized Medicaid claims to assure compliance with the regulations to the degree that cash allowed. In the scope of the entire Medical assistance budget, the number of instances where timely payment did not occur was not considered significant. The errors identified in the USDHHS audit had already been corrected by the Department on the Quarter Ending December 2009 CMS 64 quarterly report. The Department will continue to process medical claims within the timeframe required under federal regulations, although they may be held for payment until cash is available.



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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Medicaid Cluster

**CFDA # and Program Expenditures:** 93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)

**Award Numbers:** 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-1005IL5028/05-1005ILARRA

**Questioned Costs:** None

**Finding 10-16** *Untimely Disbursement of Hospital Assessment Payments*

DHFS did not disburse monthly hospital assessment payments within the required timeframes for the Medicaid Cluster.

The Hospital Assessment Program was approved by the Federal Centers for Medicare and Medicaid Services (CMS) to provide approximately \$900 million a year in new federal funding to strengthen Illinois' health care system over five years. The State's Hospital Assessment plan was designed to help hospitals continue to recruit and retain doctors, provide advanced medical care, and serve Medicaid recipients. The program makes use of a provision in federal law that allows states to claim federal financial participation on payments for services that are funded from the receipts of eligible healthcare provider taxes. Under the program, each year each participating hospital receives a hospital assessment award calculated using hospital specific inpatient utilization data. Annual awards are paid out in equal monthly installments throughout the year due on the seventh business day of each month.

During our testwork over monthly hospital assessment payments, we noted payments made in July 2009 totaling \$77,352,213 that were not paid by the seventh business day of the month. Delays in making these disbursements ranged from 18 to 39 days after the required timeframe. Total payments made to providers for the hospital assessment program of the Medicaid Cluster totaled \$922,738,292 during the year ended June 30, 2010.

In accordance with the approved Medicaid State Plan, the annual amount of each hospital assessment payment for which a hospital qualifies shall be made in 12 equal installments on or before the seventh State business day of each month. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure monthly hospital assessment payments are disbursed within required timeframes.

In discussing these conditions with DHFS officials, they stated this was a one-time error that occurred as part of an electronic file submission that resulted in a rejected file. As soon as the rejection was acknowledged, a corrected file was submitted resulting in the late payment. All subsequent months were processed in a timely manner, resulting in no financial impact to either DHFS or the providers.

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Failure to disbursement monthly hospital assessment payments within the required timeframes results in noncompliance with the federal regulations. (Finding Code 10-16)

**Recommendation:**

We recommend DHFS implement procedures to ensure all hospital assessment payments are disbursed within the required timeframes.

**DHFS Response:**

The Department accepts the finding. The Department will continue to review the documents prior to submittal to ensure that the error causing the rejection does not occur in the future.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Children's Health Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.767 (\$274,279,000)  
93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)

**Award Numbers:** 05-1005IL5021/05-0905ILMSEA5021 (93.767)  
(CFDA Number) 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-10905IL5028/05-1005ILARRA (93.775/93.777/  
93.778/93.778 ARRA)

**Questioned Costs:** None

**Finding 10-17** *Failure to Initiate and Complete Provider Audits in a Timely Manner*

DHFS did not initiate and complete audits of providers of the Children's Health Insurance Program (CHIP) and Medicaid Cluster programs in a timely manner.

The DHFS Office of Inspector General (OIG) conducts several types of audits and reviews of healthcare providers to monitor the integrity of payments made to providers of the CHIP and Medicaid Cluster programs. Specifically, the OIG performed post-payment compliance audits to identify improper payments which may have been made to providers and quality of care reviews to assess whether healthcare providers are giving proper care and services to CHIP and Medicaid beneficiaries. These audits may lead to sanctions against providers, recoveries of overpayments from providers, and/or criminal prosecution of providers. The OIG reports the results of these audits, as well as its other activities, to the Center for Medicare and Medicaid Services on an annual basis.

During our testwork over 50 providers recommended by the OIG for audit, we noted there were significant time delays between the date DHFS determined a provider audit should be performed and the start date of the audit. Specifically, we noted nine of the 50 provider audits tested had not been started as of the date of our testwork. The number of days that had elapsed between the date the provider was recommended for audit and the date of our testwork (November 4, 2010) ranged from 191 to 798 days. For the 41 provider audits completed, we noted the number of days that had elapsed between the dates the provider was recommended for audit and the audit start date ranged from six to 1,121 days.

In addition, we noted provider audits were not completed in a timely manner. Specifically, the length of time to perform the 41 completed provider audits selected in our testwork ranged from 6 to 683 days. The provider audits were completed as follows:

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<b>Timeframe</b>	<b>Number of Provider Reviews</b>
0-44 days after audit start date	2
45-90 days after audit start date	12
91-120 days after audit start date	17
121-150 days after audit start date	5
151-180 days after audit start date	2
180 + days after audit start date	3

According to 42 CFR 455.17, the OIG is required to report on the results of its activities and investigations periodically. The OIG has a responsibility to investigate violations of the applicable laws, follow up on complaints, and perform provider audits. Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include procedures to ensure provider analysis and audits are performed and completed in a timely manner.

In discussing these conditions with DHFS officials, they stated that one audit was not completed timely due to staff turnover. The second audit was not completed timely because a customized audit protocol was utilized, which required significant manual data entry to determine discrepancies. The last audit noted as untimely was delayed due to availability of information to be audited.

Failure to initiate and perform provider audits in a timely manner may result in federal funds being expended for unallowable purposes and may prevent the State from adequately monitoring payments to providers. (Finding Code 10-17, 09-18, 08-20)

**Recommendation:**

We recommend DHFS implement procedures to ensure provider audits are performed and completed in a timely manner.

**DHFS Response:**

The Department accepts the finding. It should be noted that there is no federally prescribed timeframe for completion of provider audits; however, the OIG strives to complete all audits in a timely manner. As with the nature of the audit profession, situations occur that may extend the time necessary to complete the audit such as the type and volume of documentation to be audited (hospital records vs. individual practitioner records) the type of audit (i.e. pharmacy script audit vs. pharmacy inventory audit) or the availability of the information to be audited. There are also delays due to external entities such as the Federal Bureau of Investigation or Illinois State Police performing investigations on the same auditee. As agreed to in the exit interview with KPMG, these types of extenuating circumstances must be and will be considered during the assessment of an audit being completed timely.

The timeframes listed above are indicative of OIG's efforts to reduce the length of time to complete any audit. The OIG will further enhance the controls in place to improve the process for completing audits within 180 days. The OIG will also ensure adequate documentation is maintained to support any extenuating circumstances that cause audits to surpass the 180 day timeframe.

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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Children's Health Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.767 (\$274,279,000)  
93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)

**Award Numbers:** 05-1005IL5021/05-0905ILMSEA5021 (93.767)  
(CFDA Number) 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-10905IL5028/05-1005ILARRA (93.775/93.777/  
93.778/93.778 ARRA)

**Questioned Costs:** None

**Finding 10-18** *Untimely Completion of Medicaid Eligibility Quality Control Reviews*

DHFS did not complete Medicaid Eligibility Quality Control (MEQC) reviews in a timely manner.

The DHFS Office of the Inspector General (OIG) is responsible for performing and reporting the results of quality control reviews of beneficiary eligibility determinations performed by the State for the Medicaid and CHIP programs. In place of the traditional MEQC program, the OIG participates in various MEQC pilot programs which target specific eligibility risk areas. Those pilot programs include an Illinois Healthy Women Review, Health Benefits for Workers with Disabilities Review, and Passive Redeterminations. The reviews are performed on a federal fiscal year basis for a sample of cases selected from a population of all active beneficiary cases of the Medicaid Cluster. These reviews are designed to assist the State in monitoring the accuracy of eligibility determinations and the appropriateness of medical payments made on the behalf of beneficiaries. The results of these reviews are required to be reported to the Center for Medicare and Medicaid Services (CMS) within ten months of the end of the applicable fiscal year.

During our review of the 1,177 pilot program reviews completed in fiscal year 2010, we noted reviews were not completed within a reasonable timeframe. Specifically, we noted the reviews were completed as follows:

<b>Timeframe</b>	<b>Number of Reviews</b>
0-60 days	490
61-120 days	512
121-180 days	155
181-240 days	17
240 + days	3

The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure MEQC reviews are completed in a timely manner.

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In discussing these conditions with DHFS officials, they stated the reviews were not completed timely due to staff turnovers and delayed receipt of information from 3<sup>rd</sup> party resources.

Failure to complete MEQC reviews in a timely manner may prevent the State from identifying unallowable beneficiary payments and from adequately monitoring the accuracy of eligibility determinations and redeterminations. (Finding Code 10-18, 09-19, 08-21)

#### **Recommendation:**

We recommend DHFS review its current process for performing MEQC reviews and consider changes necessary to ensure reviews are completed in a timely manner and summary reports are submitted within the timeframes required by CMS.

#### **DHFS Response:**

The Department accepts the finding. It should be noted that the only federally prescribed timeframe for completing MEQC reviews is the submission of the summary of findings by August 1 for the previous year's review; however, the OIG strives to complete MEQC reviews in a timely manner. There are circumstances, such as the delay in receiving information back from a critical 3<sup>rd</sup> party resource, that may extend the time to complete a review.

The OIG is implementing controls to improve the process for ensuring the MEQC reviews are completed within 180 days. These controls include improving monitoring reports and higher level management approvals for exceptions to completion target dates.

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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Medicaid Cluster  
**CFDA # and Program Expenditures:** 93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)  
**Award Numbers:** 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-1005IL5028/05-1005ILARRA  
**Questioned Costs:** Cannot be determined

**Finding 10-19** *Inadequate Procedures to Monitor and Report Overpayments*

DHFS does not have an adequate process to monitor and report overpayments identified with providers of the Home and Community Based Services Waiver programs administered by the Illinois Department of Human Services (IDHS).

DHFS executed an intergovernmental agreement with IDHS whereby the Division of Rehabilitation Services (DRS) administers three Home and Community Based Services Waiver programs. As part of its responsibilities, IDHS enrolls and reimburses providers for claimed waiver services, and subsequently, submits claims for Medicaid reimbursement to DHFS. The DRS State Benefits Fraud Unit (Fraud Unit), on a post-payment basis, identifies overpayments made to these providers. The Fraud Unit documents the overpayments, contacts the provider that received the overpayment, verifies the overpayment amount with the provider, and sets up a system to track and recoup the identified overpayments.

Based on information provided by a USDHHS audit and procedures performed during our audit, we noted DHFS does not have an adequate process to ensure overpayments identified by the Fraud Unit are reported on the quarterly financial expenditure reports and returned to the federal government. Specifically, DHFS did not report Medicaid overpayments identified by the Fraud Unit for services provided from December 1, 1999 through December 31, 2008 on quarterly financial expenditure reports in accordance with federal requirements. 75 overpayments (totaling \$26,383) out of 100 overpayments tested (totaling \$134,449) were not reported on quarterly financial expenditure reports and, consequently, were not returned to the federal government. Overpayments identified by the Fraud Unit from December 1, 1999 through June 30, 2009 totaled \$3,874,265.

During our audit procedures, we noted DHFS has not modified its process for reporting these overpayments since receiving the federal audit report. Overpayments identified by the federal audit were \$940,704 for the year ended June 30, 2010.

In accordance with Section 1903(d) (2) of the Social Security Act, States are required to refund the Federal share of a Medicaid overpayment. Further, 42 CFR 433.312 require the State Medicaid agency to refund the Federal share of an overpayment to a provider at the end of the 60-day period following the date of discovery, whether or not the State Medicaid agency has recovered the

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overpayment. Because the Medicaid quarterly financial expenditure report is due on a quarterly basis, the *State Medicaid Manual* requires the Federal share of overpayments be reported no later than the quarter in which the 60-day period ends. Additionally, the A-102 Common Rule Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Effective internal controls should include procedures to ensure overpayments are reported on the quarterly financial expenditure reports and returned to the federal government.

In discussing these conditions with DHFS officials, they stated that they did not report the overpayments as they had not developed and implemented internal controls to ensure overpayments identified by the Fraud Unit were reported on the CMS-64.

Failure to properly monitor and report overpayments may result in the agency failing to ensure overpayments are reported on the quarterly financial expenditure reports and returned to the federal government. (Finding Code 10-19)

#### **Recommendation:**

We recommend DHFS review its current process for monitoring and reporting overpayments and implement any changes necessary to ensure such overpayment are reported on the quarterly financial expenditure reports and returned to the federal government.

#### **DHFS Response:**

The Department accepts the finding. The Department has refunded the amount identified. The Department will work with DHS to assure that it is aware of the requirement to inform us when Medicaid overpayments are identified. Furthermore, the Department will perform routine follow up to verify that DHS complies with this requirement.



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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Medicaid Cluster  
**CFDA # and Program Expenditures:** 93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)  
**Award Numbers:** 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-1005IL5028/05-1005ILARRA  
**Questioned Costs:** None

**Finding 10-20** *Inadequate Process to Verify Procedures Billed by Provider with Beneficiaries*

DHFS does not have adequate procedures in place to verify with beneficiaries of the Medicaid Cluster program whether services billed by providers were actually received.

During our testwork, we noted DHFS procedures for verifying with beneficiaries whether services billed by providers were actually received by Medicaid Cluster Beneficiaries consisted of special projects performed by the DHFS Office of Inspector General and Bureau of Comprehensive Health Services. However, the current projects only cover procedures billed by non-emergency transportation providers, optometric providers, and dental providers which only account for 2% of total provider reimbursements. Further, DHFS does not perform any verification procedures for services billed by the following provider types:

- Hospitals
- Mental Health Facilities
- Nursing Facilities
- Intermediate Care Facilities
- Physicians
- Other Practitioners
- Managed Care Organizations
- Home and Community-Based Service Providers
- Physical Therapy Providers
- Occupational Therapy Providers

Payments made to non-emergency transportation providers, optometric providers, and dental providers totaled \$172,582,000 during the year ended June 30, 2010. Payments made to providers on behalf of all beneficiaries of the Medicaid Cluster totaled \$8,254,467,000 during the year ended June 30, 2010.

According to 42 CFR 455.20(a), the State must have a method for verifying with recipients whether services billed by providers were received. Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to

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reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include procedures to verify with recipients whether services billed by providers were received.

In discussing these conditions with DHFS officials, they stated that processes utilized by DHFS, IDHS and IDPH appeared to meet the requirement of 42 CFR 455.20(a), which was supported by no exceptions noted during the recently completed federal Program Integrity audit.

Failure to verify with recipients whether services billed by providers were received may result in expenditures being made for services not actually provided to beneficiaries, which are unallowable costs. (Finding Code 10-20)

#### **Recommendation:**

We recommend DHFS implement procedures to verify with recipients whether services billed by providers were received.

#### **DHFS Response:**

The Department accepts the finding. There are various recipient verification processes employed by DHFS, in conjunction with DHS and IDPH. DHFS also incorporated the requirement for the Medicaid MCO's to perform recipient verification in the current MCO contracts and the MCO's began conducting these verifications during fiscal year 2010. The Department will develop a risk-based methodology to perform recipient verification for the remaining high risk provider types that are not covered by other processes.

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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Medicaid Cluster  
**CFDA # and Program Expenditures:** 93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)  
**Award Numbers:** 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-1005IL5028/05-1005ILARRA  
**Questioned Costs:** \$20,021

**Finding 10-21** *Failure to Properly Reimburse a Provider For Retroactive Rate Adjustment*

DHFS did not properly reimburse a provider of the Medicaid Cluster program in accordance with its established reimbursement methodology.

During our testwork of Medicaid Cluster program beneficiary payments, we selected a sample of 125 beneficiary payments (totaling \$200,011) to review for compliance with eligibility requirements and for the allowability of the related benefits. In our review of a provider reimbursement for one Medicaid beneficiary payment selected for testwork, we noted that DHFS erroneously calculated a reimbursement using a provider rate of \$1,151 for a claim where actual charges totaled \$957. Upon further review of this beneficiary payment, we noted the charge related to a provider who had a retroactive rate adjustment processed as a result of a revision to their negotiated rate; however, since actual charges were less than the negotiated rate, the provider received an overpayment of \$194 relative to the payment tested. Upon review of all charges included in the retroactive rate adjustment calculation, DHFS identified the provider received overpayments of \$20,021 relative to 33 claims in which actual charges were less than the negotiated rate.

Payments made to providers on behalf of beneficiaries of the Medicaid Cluster totaled \$8,254,467,000 during the year ended June 30, 2010.

In accordance with 42 CFR 447.15 and the approved Medicaid State Plan, DHFS is required to limit participation in the Medicaid program to providers who accept, as payment in full, the amounts paid by the agency for services rendered to beneficiaries. Further, Section H-260.3 of the DHFS *Handbook for Hospital Services* requires payments made by the State for allowable services be the lesser of either the State's calculated payment or the provider's covered (actual) charges. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure providers are paid in full and payments are made based on the lesser of the agreed upon rates or actual charges.

In discussing these conditions with DHFS officials, they stated claims were adjusted due to being incorrectly priced as Per Diem, instead of DRG.

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Failure to properly ensure retroactive rate adjustments are reflected in subsequent provider reimbursements may result in inaccurate provider reimbursements, inaccurate financial reporting of expenditures, and provider overpayments, which are unallowable costs. (Finding Code 10-21, 09-25)

**Recommendation:**

We recommend DHFS review its current process for calculating provider reimbursements and consider the changes necessary to ensure provider payments are properly calculated and paid.

**DHFS Response:**

The Department accepts the finding. The new enrollment for the one provider noted was added on 7/21/08, with a begin date of 2/21/08. An incorrect DRG exclusion code of "06" was entered which caused claims to price as Per Diem. The enrollment error was corrected 8/26/08. The incorrectly priced claims were identified and were repriced as DRG, however, some of the adjustments processed exceeded Charge amounts. This has been recalculated and 33 claims, including this particular claim, were determined as affected, and have been correctly adjusted. Repricing logic will include an additional step to ensure future adjustments do not exceed the provider's billed charges.

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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Medicaid Cluster  
**CFDA # and Program Expenditures:** 93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)  
**Award Numbers:** 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-1005IL5028/05-1005ILARRA  
**Questioned Costs:** \$3,910

**Finding 10-22** *Failure to Identify and Recoup Ineligible Provider Reimbursement*

DHFS did not identify and recoup an ineligible reimbursement for a beneficiary of the Medicaid Cluster participating in the Managed Care program.

DHFS participates in the Managed Care program by contracting with three licensed health maintenance organizations who are responsible for the healthcare needs for specific beneficiary groups located in certain service areas within the State of Illinois. Total payments to these providers on behalf of beneficiaries of the Medicaid Cluster program totaled \$149,298,000 during the year ended June 30, 2010. During our testwork of Medicaid Cluster program beneficiary payments, we selected a sample of 125 Medicaid beneficiary payments (totaling \$200,011) to review for compliance with eligibility requirements and for the allowability of the related benefits. In our review of a Managed Care provider reimbursement for one Medicaid beneficiary for \$1,780 selected for testwork, we noted a recipient continued to receive benefits under the Managed Care program despite moving to an address outside the service area of the specific health plan participating in the Managed Care program. Despite notifying the Illinois Department of Human Service (IDHS) of the move on December 2, 2009, eligibility for the health plan for the recipient was not terminated until the physical case file was transferred to the IDHS local office responsible for maintaining the case file under the new service area on January 31, 2010. Ineligible Managed Care program reimbursements for this beneficiary that occurred from December 2, 2009 through January 31, 2010 totaled \$3,910.

Payments made to providers on behalf of beneficiaries of the Medicaid Cluster program totaled \$8,254,467,000 during the year ended June 30, 2010.

In accordance with 42 CFR 405.371(2), DHFS is required to offset or recoup in whole or in part, an overpayment by an intermediary or a carrier if the intermediary, carrier, or CMS has determined that the provider or supplier to whom payments are to be made has been overpaid. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure provider overpayments are identified and proper adjustments or recoupments are made in a timely manner.

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In discussing these conditions with DHFS officials, they stated that when the enrollee moved out of the Managed Care Organization (MCO) contracting area, DHS did not take action to transfer the case in a timely manner, thereby not closing out the MCO. The MCO continued to receive the capitation payment until DHS took action to update the case to show the client had moved. At that point, DHFS completed a disenrollment form and initiated recoupment of the capitation payment back to the beginning of the month the client moved out of the contracting area.

Failure to identify and recoup ineligible reimbursements made to providers results in provider overpayments, which are unallowable costs. (Finding Code 10-22)

**Recommendation:**

We recommend DHFS review its current process identifying and recouping ineligible reimbursements and consider any changes necessary to ensure provider recoupments are identified and made in a timely manner.

**DHFS Response:**

The Department accepts the finding. The Department will notify DHS that action to transfer cases needs to be completed in a timely manner. The Department will continue to ensure provider recoupments are processed as required.

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For Year Ended June 30, 2010

**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Children's Health Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.767 (\$274,279,000)  
93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)

**Award Numbers:** 05-1005IL5021/05-0905ILMSEA5021 (93.767)  
(CFDA Number) 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-10905IL5028/05-1005ILARRA (93.775/93.777/  
93.778/93.778 ARRA)

**Questioned Costs:** None

**Finding 10-23** *Failure to Update and Implement Reimbursement Rate Methodology Changes for Government Owned Hospitals*

DHFS did not update and make disproportionate share hospital payments in a timely manner to government owned hospitals participating in the Medicaid Cluster.

On December 4, 2008, the Department received approval from the Centers for Medicare and Medicaid Services (CMS) for an amendment to the Medicaid State Plan, which changed the methodology for reimbursing government owned hospitals participating in the Medicaid Cluster and was retro-active as of July 1, 2008. According to the amendment, DHFS was to reimburse the government owned hospitals a total per diem rate which is the sum of a calculated inpatient per diem, a calculated disproportionate share adjustment and a calculated supplemental disproportionate share adjustment less the amount of expenditures certified by the respective hospitals. The total per diem rates for these two hospitals are recalculated on an annual basis, with State statute requiring the government owned hospital per diem be set by October 1<sup>st</sup> of each year. Further, each government owned hospital receives an annual disproportionate share hospital award which is required to be paid out in twelve equal monthly installments throughout the year.

During our testwork of 65 CHIP and 125 Medicaid beneficiary payments, we reviewed provider reimbursements for accuracy and the allowability of the related benefits provided. During those procedures, we noted the following exceptions related the provider reimbursements and disproportionate share hospital payments:

- For one of the government owned hospitals, an updated interagency agreement reflecting the changes made by the Medicaid State Plan amendment to the methodology for calculating reimbursement rates was not executed until March 9, 2010, 460 days after the State Plan was amended and 616 days after the methodology was implemented. The methodology used to reimburse the hospital was not updated to agree with the changes made by the Medicaid State Plan amendment until July 7, 2009, 217 days after the State Plan was amended.

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- The agency did not set the per diem rates for the two providers until September 20, 2010 and June 29, 2010, respectively.
- Because the agency did not set the provider per diem rates for 2009 until July 7, 2009 and May 20, 2009, these hospitals' previous reimbursements were subsequently adjusted by \$31,602,000 and \$10,359,157, respectively, during the year ended June 30, 2010.
- For one provider, the disproportionate share hospital payments of \$123,006,230 for the period October 2007 through September 2008 were not made until November 9, 2009.
- For the second provider, the disproportionate share hospital payments of \$29,187,500 for the period July 2008 through July 2009 were not made until September 11, 2009.

Total medical reimbursements and disproportionate share hospital payments made to these two providers of the Medicaid Cluster and CHIP program totaled \$847,519,000 and \$479,711,000, respectively, during the year ended June 30, 2010. Payments made on behalf of beneficiaries of the CHIP and Medicaid Cluster programs totaled \$242,508,000, and \$8,254,467,000, respectively, during the year ended June 30, 2010.

In accordance with 42 CFR 447.15 and the approved Medicaid State Plan, DHFS is required to limit participation in the Medicaid program to providers who accept, as payment in full, the amounts paid by the agency for services rendered to beneficiaries. Further, the approved Medicaid State Plan requires the annual amount of each disproportionate share hospital payment for which a government owned hospital qualifies to be made in 12 equal installments throughout the fiscal year. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure hospital reimbursement rates are updated in a timely manner and disproportionate share hospital payments are made within the required timeframes.

In discussing these conditions with DHFS officials, they stated this was an isolated incident that occurred as a result of transitioning the rate methodology for two government providers.

Failure to ensure hospital reimbursement rates are updated and disproportionate share hospital payments are made in a timely manner may result in inaccurate provider reimbursements, inaccurate financial reporting of expenditures, and provider overpayments, which are unallowable costs. (Finding Code 10-23)

#### **Recommendation:**

We recommend DHFS implement procedures to ensure all disproportionate share hospital payments are updated and made in a timely manner to government owned hospitals.

#### **DHFS Response:**

The Department accepts the finding. The Department has streamlined the process which was agreed to between the Department and the providers, resulting in a timelier implementation of rates. A limited amount of lag is expected to be an option, as the initial rates are considered interim until final data is received, reviewed and agreed to between the State and the Local Government providers.



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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Children's Health Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.767 (\$274,279,000)  
93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)

**Award Numbers:** 05-1005IL5021/05-0905ILMSEA5021 (93.767)  
(CFDA Number) 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-10905IL5028/05-1005ILARRA (93.775/93.777/  
93.778/93.778 ARRA)

**Questioned Costs:** None

**Finding 10-24** Failure to Obtain Required Disclosures from Providers

DHFS did not require medical providers enrolled between June 2007 and December 2009 to provide specific information related to all required disclosures about ownership and control, business transactions, and criminal convictions.

During our testwork of Children's Health Insurance Program (CHIP) and Medicaid Cluster programs, we noted the DHFS standard provider applications and agreements used from June 2007 through December 2009 (during which 734 new providers were enrolled) did not address all elements of the required disclosures about ownership and control, business transactions, and criminal convictions. Further, no procedures have been performed to obtain the missing information from these 734 providers as of the date of our report. Although the standard provider applications and enrollment agreements used during that time required providers to comply with all applicable Federal laws and regulations, they did not specifically require providers to disclose and certify the following information:

- each subcontractor in which the provider has an ownership interest of five percent or more;
- the address of each person with an ownership or controlling interest;
- business or familial relationships among the owners and subcontractors disclosed;
- past criminal convictions related to Medicare, Medicaid, or Title XX programs;
- ownership of any subcontractor with whom the provider had business transactions totaling more than \$25,000 during the previous 12-month period if requested by DHFS; and
- significant business transactions between the provider and any wholly owned supplier, or between the provider and any subcontractor, during the previous 5-year period if requested by DHFS.

In accordance with 42 CFR 455 Subpart B, and the approved Medicaid State Plan, providers are required to disclose specific information about ownership and control, business transactions, and criminal convictions. Additionally, the A-102 Common Rule requires non-Federal entities receiving

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Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure the standard provider applications and enrollment agreements address or capture specific information related to disclosures required by federal regulations.

In discussing these conditions with DHFS officials, they stated that there has always been a requirement on the Provider Enrollment Application that providers comply with 42 CFR 455 Subpart B. The Department used the federal disclosure statement (CMS-1513) to gather the required ownership disclosure until discontinuance of the form in June of 2003. In June 2006, CMS redesigned the CMS-1513, which the Department instituted in June of 2009 for all newly enrolled providers.

Failure to ensure providers of the CHIP and Medicaid Cluster programs provide required disclosures about ownership and control, business transactions, and criminal convictions may inhibit the State's ability to determine provider eligibility and could result in payments being made to ineligible providers, which are unallowable. (Finding Code 10-24, 09-26)

#### **Recommendation:**

We recommend DHFS update the provider agreements for the 734 providers enrolled between June 2007 and December 2009 and obtain the required information about ownership and control, business transactions, and criminal convictions.

#### **DHFS Response:**

The Department accepts the finding. As a result of the provider enrollment, ownership disclosure and other mandates contained in the Affordable Care Act, the Department is developing a process to re-enroll all providers on a recurring basis. During this re-enrollment process, the providers identified in this finding will be prioritized in obtaining the required disclosures. The process will result in the development of new enrollment application forms, new payee forms and ownership disclosure forms to be in compliance with federal requirements. Estimated completion date at this time has not been established.

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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Child Support Enforcement

**CFDA # and Program Expenditures:** 93.563/93.563 ARRA (\$141,897,000)

**Award Numbers:** 0804IL4004/0904IL4004/1004IL4002/1004IL4002

**Questioned Costs:** None

**Finding 10-25** *Inadequate On-Site Monitoring Procedures*

DHFS did not perform adequate on-site monitoring procedures for subrecipients of the Child Support Enforcement (Child Support) program.

DHFS passes through Child Support program funding to various local governments within the State to administer particular aspects of operating the program, including locating absent parents, assisting in establishing paternity, obtaining child support obligations, and enforcing support obligations owed by non-custodial parents. DHFS' subrecipient monitoring process includes: (1) providing subrecipients with technical guidance through training sessions and handbooks; (2) performing reviews of monthly expenditure claims documentation; (3) performing physical inventories of equipment purchased with federal funds; (4) performing reviews of monthly programmatic monitoring reports; and (5) performing desk reviews of single audit reports.

During our review of the on-site monitoring procedures performed by DHFS for a sample of 16 subrecipients of the Child Support program with expenditures of \$17,502,630 during the year ended June 30, 2010, we noted DHFS has not developed adequate procedures to monitor all relevant fiscal and administrative processes and controls of its subrecipients. Specifically, on-site monitoring procedures are not performed to determine whether subrecipients are documenting administrative expenditures in accordance with the applicable cost principles or whether subrecipients are following appropriate procurement procedures. The on-site monitoring procedures performed by DHFS primarily focus on verifying information reported by the subrecipient relative to locating absent parents, assisting in establishing paternity, obtaining child support obligations, and enforcing support obligations owed by non-custodial parents and performing physical inventory procedures for Child Support equipment purchases. Although DHFS collects a monthly expenditure claim along with documentation supporting the expenditures reported by the subrecipient, the documentation collected does not provide sufficient detail to allow DHFS to evaluate whether the costs meet the allowable costs criteria in OMB Circular A-87 or whether procurements were performed in accordance with the Illinois Procurement Code.

According to OMB Circular A-133 §\_\_.400(d), 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, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

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In discussing these conditions with DHFS officials, they stated they believed their procedures were sufficient to allow reasonable evaluation and assurance that the costs met the allowable cost criteria.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 10-25, 09-20, 08-23)

**Recommendation:**

We recommend DHFS review its on-site monitoring procedures for subrecipients of its Child Support program and implement changes necessary to ensure procedures performed adequately address all compliance requirements that are direct and material to subrecipients.

**DHFS Response:**

The Department agrees with this finding. The Department is developing a monitoring tool to ensure compliance with the Circular A-87 requirements.

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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Child Support Enforcement  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.563/93.563 ARRA (\$141,897,000)  
93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)

**Award Numbers:** 0804IL4004/0904IL4004/1004IL4002/1004IL4002 (93.563)  
(CFDA Number) 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-10905IL5028/05-1005ILARRA (93.775/93.777/  
93.778/93.778 ARRA)

**Questioned Costs:** None

**Finding 10-26** *Failure to Issue Management Decisions on Subrecipient A-133 Findings*

DHFS did not issue management decisions on OMB Circular A-133 findings for subrecipients of its Child Support Enforcement (Child Support) program and Medicaid Cluster program.

DHFS requires subrecipients expending more than \$500,000 in federal awards during their fiscal year to submit OMB Circular A-133 audit reports. DHFS program staff are responsible for reviewing the audit 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 DHFS records; and (3) type A programs (as defined by OMB Circular A-133) are being audited at least every three years. Additionally, DHFS 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 (i.e. six months).

During our testwork over OMB Circular A-133 audit reports for sixteen subrecipients of the Child Support program with expenditures of \$17,502,630 during the year ended June 30, 2010, we noted the following:

- The A-133 audit report for a subrecipient of the Child Support program reported three separate instances of noncompliance which were considered material weaknesses to the program. DHFS did not issue a management decision relative to these findings or follow up on the conditions identified in the findings. Amounts passed through to this subrecipient were \$55,459 for the Child Support program during the year ended June 30, 2010. We also noted DHFS passed through \$313,783 under the Medicaid Cluster for the year ended June 30, 2010.
- The A-133 audit report for a subrecipient of the Child Support program reported three separate instances of noncompliance which were considered material weaknesses to the program. Although DHFS performed procedures to follow up on this finding with the subrecipient, DHFS did not issue a management decision relative to these findings. Amounts passed through to this subrecipient were \$24,416 for the Child Support program during the year ended June 30, 2010.

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We also noted DHFS passed through \$223,276 under the Medicaid Cluster for the year ended June 30, 2010.

- The A-133 audit report for one subrecipient of the Child Support program reported the subrecipient did not have a general ledger system that specifically identified individual federal receipts and disbursements for each federal program, which was considered a material weakness for all federal programs. Although DHFS performed procedures to follow up on this finding with the subrecipient, DHFS did not issue a management decision relative to this finding. Amounts passed through to this subrecipient were \$211,619 for the Child Support program during the year ended June 30, 2010.
- The A-133 audit report for a subrecipient of the Child Support program reported two separate instances of noncompliance. One instance of noncompliance was considered a material weakness for the Child Support program and one instance of noncompliance was considered a significant deficiency for all federal programs. Although DHFS performed procedures to follow up on this finding with the subrecipient, DHFS did not issue a management decision relative to these findings. Amounts passed through to this subrecipient were \$682,660 for the Child Support program during the year ended June 30, 2010. We also noted that this subrecipient received Medicaid funding of \$1,200,005 for the year ended June 30, 2010.
- The A-133 audit reports of two subrecipients of the Child Support program were not reviewed within the required six months after receiving the reports. Delays in completing the desk reviews were 175 and 212 days after the required timeframe.

Total federal awards passed through to subrecipients of the Child Support program were \$19,923,000 for the year ended June 30, 2010. Total federal awards passed through to subrecipients of the Medicaid Cluster were \$63,312,000.

According to OMB Circular A-133 §\_\_.400(d)(3), 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, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to OMB Circular A-133 §\_\_.400(d)(5), a pass-through entity is required to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to findings are followed up on and management decisions are issued within required timeframes.

In discussing these conditions with DHFS officials, they believed adequate procedures were performed when conducting the reviews. The A-133 checklist was utilized as a guide during the review of the findings affecting federal programs related to DHFS, and discussions were held with the applicable program areas regarding the findings prior to issuing a management decision letter to the subrecipient.

Failure to follow up and issue management decisions on subrecipient findings may result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 10-26, 09-21, 08-24)

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**Recommendation:**

We recommend DHFS establish procedures to ensure management decisions are issued for all findings affecting its federal programs in accordance with OMB Circular A-133.

**DHFS Response:**

The Department accepts the finding. The Department continues to follow procedures previously implemented to ensure management decisions are issued for all findings affecting federal programs in accordance with OMB Circular A-133. The Department will strengthen its documentation to support management decisions and ensure findings affecting federal programs related to DHFS are adequately reviewed and addressed in the management decision letter to the subrecipient.

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For Year Ended June 30, 2010

**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Child Support Enforcement

**CFDA # and Program Expenditures:** 93.563/93.563 ARRA (\$141,897,000)

**Award Numbers:** 0804IL4004/0904IL4004/1004IL4002/1004IL4002

**Questioned Costs:** Cannot be determined

**Finding 10-27** *Failure to Communicate A-133 Requirements to Subrecipients*

DHFS did not communicate the requirement to have an audit in accordance with OMB Circular A-133 in grant agreements for subrecipients of the Child Support Enforcement (Child Support) program.

DHFS passes through Child Support program funding to various local governments within the State to administer particular aspects of operating the program, including locating absent parents, assisting in establishing paternity, obtaining child support obligations, and enforcing support obligations owed by non-custodial parents. Subrecipient grant award document communication includes: (1) CFDA title and number; (2) Award name; (3) Name of Federal agency; (4) Requirements imposed by laws, regulations and the provisions of contract or grant agreements; (5) Allowable activities approved in the award documents; (6) Requirements to have an audit made in accordance with OMB Circular A-133; and (7) Certification of suspension and debarment.

During the review of subrecipient award notifications for a sample of 16 subrecipients of the Child Support program with expenditures of \$17,502,630 during the year ended June 30, 2010, we noted DHFS did not communicate in the grant award documents or in funding notification letters to two subrecipients the need for an audit in accordance with OMB Circular A-133. The requirement to have an OMB Circular A-133 audit is required to be clearly communicated in grant award documentation. Amounts passed through to these two subrecipients were \$72,227 and \$126,422 during the year ended June 30, 2010.

According to the OMB Circular A-133 Compliance Supplement, dated June 2010, at the time of the award, a pass through entity is required to identify to the subrecipient the Federal award information, such as CFDA title and number, award name, name of the Federal agency, as well as applicable compliance requirements.

In discussing these conditions with DHFS officials, they stated the grant award documents should have included the OMB Circular A-133 language.

Failure to inform subrecipients of the need to have an audit in accordance with OMB Circular A-133 could result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 10-27)



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**Recommendation:**

We recommend DHFS review its procedures for ensuring the need to have an audit in accordance with OMB Circular A-133 and consider any changes necessary to ensure this requirement is properly included in grant agreements for subrecipients of the Child Support program.

**DHFS Response:**

The Department agrees with the finding. The Department is updating the language in the new agreements to include the language referencing the A-133 audit requirement.

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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Medicaid Cluster

**CFDA # and Program Expenditures:** 93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)

**Award Numbers:** 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-1005IL5028/05-1005ILARRA

**Questioned Costs:** None

**Finding 10-28** *Inadequate On-Site Monitoring of Subrecipients*

DHFS is not adequately performing on-site monitoring for subrecipients of the Medicaid Cluster.

DHFS passed through approximately \$11,889,778 in Medicaid funding to the County Health Departments (CHDs) during the year ended June 30, 2010 to assist DHFS in identifying students whose families may need Medicaid assistance and to monitor the coordination of the student's medical care. DHFS' subrecipient monitoring process includes: (1) providing subrecipients with technical guidance through training sessions, provider notices, and handbooks; (2) performing data analysis of electronic claims data; (3) performing desk reviews of quarterly administrative claims documentation; (4) performing desk reviews of single audit reports; and (5) performing on-site reviews of subrecipient operations.

During our review of the monitoring procedures performed by DHFS, we noted DHFS has not established measurable selection criteria for determining which subrecipients will be subject to on-site monitoring procedures on an annual basis. Although DHFS has established a risk based approach to selecting subrecipients for desk reviews of administrative claims, DHFS was unable to adequately demonstrate the correlation between subrecipients identified as high risk for desk reviews and those selected for on-site reviews. We noted no CHDs were subject to on-site reviews out of approximately 72 CHDs that received Medicaid funding during the year ended June 30, 2010.

According to OMB Circular A-133 §\_\_\_400(d)(3), 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, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures for identifying which subrecipients will be subject to on-site monitoring review procedures.

In discussing these conditions with DHFS officials, they stated that budget constraints required the Department to limit on-site reviews to larger subrecipient groups, such as Local Education Agencies.

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Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 10-28, 09-23, 08-31)

**Recommendation:**

We recommend DHFS develop comprehensive written procedures for determining which subrecipients should be selected for on-site reviews.

**DHFS Response:**

The Department accepts the finding, however, regrets additional resources will not be available in the immediate future to perform on-site reviews due to budget constraints. The Department will explore the possibility of utilizing on-site reviews of County Health Departments performed by the Department of Human Services to satisfy on-site monitoring requirements.

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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Child Support Enforcement  
Children's Health Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.563/93.563 ARRA (\$141,897,000)  
93.767 (\$274,279,000)  
93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)

**Award Numbers:** 0704IL4004/0804IL4004/0904IL4002/0904IL4002 (93.563)  
(CFDA Number) 05-1005IL5021/05-0905ILMSEA5021 (93.767)  
05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-10905IL5028/05-1005ILARRA (93.775/93.777/  
93.778/93.778 ARRA)

**Questioned Costs:** None

**Finding 10-29** Failure to Complete Cash Management Reconciliations Timely

DHFS did not complete quarterly cash management reconciliations of cash draws to actual expenditures for assistance payments made under the Medicaid Cluster, the Children's Health Insurance Program (CHIP), and Child Support Enforcement (CSE) programs or make adjustments identified as a result of these reconciliations in a timely manner.

The cash management process for the Medicaid Cluster and CHIP includes making assistance cash draws on a daily basis based on actual warrants issued the previous day, an estimate of the agency's overall federal participation rate, and any expected refunds. At the end of each quarter, DHFS reports actual assistance expenditures of the Medicaid Cluster and CHIP to USDHHS through the claim reporting process. At the end of the quarter, DHFS reconciles the actual expenditures of these programs to the amount drawn. The cash management process of CSE includes making administrative cash draws on the same day payroll is paid. Prior to the start of each quarter, DHFS prepares an estimate of CSE federal administrative expenditures based upon a combination of historical data in CSE administrative costs. At the end of the quarter, DHFS reconciles all actual expenditures of the CSE program to the amount drawn.

Since cash draws are based on estimated expenditures for each quarter, the reconciliations identify the difference between the actual program expenditures and those estimates. The net cash position identified for each program in the quarterly reconciliation process is used to estimate the expenditures to be used for the next quarter's draws and to adjust future draws to ensure amounts drawn equal actual program expenditures.

During our testwork, we noted the reconciliations were not performed for all three programs and that draws for the CHIP and Medicaid Cluster programs were not adjusted for the quarterly net cash

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position identified in the reconciliations in a timely manner. We noted the following differences in our review of the quarterly reconciliations of the CSE, CHIP, and Medicaid Cluster programs:

Quarter	Medicaid		CHIP		CSE
	Over/(Under) Drawn Position	Date Reconciliation Completed	Over/(Under) Drawn Position	Date Reconciliation Completed	Date Reconciliation Completed
September 30, 2009	\$98,743,182	6/14/10	(\$32,908,425)	1/29/10	3/25/10
December 31, 2009	(\$62,109,109)	6/16/10	(\$15,528,339)	4/29/10	6/24/10
March 31, 2010	(\$118,704,577)	6/16/10	(\$2,535,098)	6/18/10	11/29/10
June 30, 2010	(\$133,118,764)	8/30/10	(\$22,518,322)	8/27/10	11/29/10

According to 31 CFR 205.11(b), a State must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the cash draw reconciliations are performed timely to ensure funds requested meet actual cash needs and reconciling items can be resolved in a timely manner.

In discussing these conditions with DHFS officials, they stated that the quarterly reconciliations were not completed as timely as usual due to on-going discussions with federal CMS central office staff regarding the proper handling (claiming, offsets, negative grant awards and reconciliation) of Medicare A and B premiums. This required research by the Department and on-going discussions with federal CMS central office staff. Due to concerns regarding the appropriate handling of these transactions, the reconciliations and adjustments were not completed as timely as usual.

Failure to complete reconciliations of cash draws to actual expenditures in a timely manner may result in the State requesting funds in excess of actual and immediate cash needs. (Finding Code 10-29, 09-30)

**Recommendation:**

We recommend DHFS implement procedures to ensure quarterly expenditure reconciliations are performed and completed in a timely manner and adjustments identified in the reconciliation process are made in a timely manner.

**DHFS Response:**

The Department accepts the finding. A full-time staff person has been assigned to complete the reconciliations each quarter. The Department will also utilize additional staff in the preparation and review of the quarterly reconciliations to increase timeliness as needed.

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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Medicaid Cluster

**CFDA # and Program Expenditures:** 93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)

**Award Numbers:** 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-1005IL5028/05-1005ILARRA

**Questioned Costs:** None

**Finding 10-30** *Inadequate Cash Management Procedures*

DHFS does not have adequate procedures in place to ensure Medicaid Cluster program cash draws are performed in accordance with the Treasury-State Agreement (TSA).

Annually, the State of Illinois negotiates the Treasury-State Agreement with the US Department of the Treasury which details the funding techniques to be used for the draw down of federal funds. The TSA requires DHFS to draw Medical Cluster program funds passed through to Local Education Agencies (LEA) using the direct administrative costs – drawdowns at fixed intervals method. This funding technique requires DHFS to request funds based on actual cash outlays for direct administrative costs during the month. Because the funding technique is on a reimbursement basis, it is interest neutral.

During follow-up on prior year findings relating to subrecipients of the Medicaid Cluster program, we noted the State's cash draws for payments to LEAs were performed on an advance basis (prior to paying the LEAs). Upon review of all cash draws for payments to LEAs during the year ended June 30, 2010, we noted the number of days cash was drawn in advance of actual cash outlays ranged from one to 14 days.

According to 31 CFR 205.11(b), a State must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the cash draws are performed in accordance with the TSA.

In discussing these conditions with DHFS officials, they stated they believed that the funding technique included in the TSA for payments to LEAs was appropriately being utilized.

Failure to draw funds in accordance with the US Treasury Regulations could result in an interest liability to the Federal government. (Finding Code 10-30, 09-28, 08-33)

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**Recommendation:**

We recommend DHFS implement procedures to ensure cash draws are performed in accordance with the Treasury State Agreement.

**DHFS Response:**

The Department accepts the finding. The Department will request an amendment to the Treasury State Agreement to appropriately reflect the funding technique used in making payments to Local Education Agencies.

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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Medicaid Cluster

**CFDA # and Program Expenditures:** 93.775/93.777/93.778/93.778 ARRA (\$8,612,823000)

**Award Numbers:** 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-1005IL5028/05-1005ILARRA

**Questioned Costs:** None

**Finding 10-31** *Inaccurate Allocation of Costs*

DHFS did not accurately allocate costs to its federal programs in accordance with the Public Assistance Cost Allocation Plan (PACAP).

DHFS administers federal and state programs to provide healthcare coverage for Illinois adults and children. In administering these programs, DHFS incurs significant expenditures, which are directly and indirectly attributable to the administration of its programs. In order to allocate costs to the programs to which they are attributable, DHFS has prepared a PACAP describing its overall organizational structure, the federal programs it administers, and the methodologies it has developed to allocate administrative expenditures to its federal programs.

During the review of costs allocated to federal programs during the quarter ended December 31, 2009, we noted DHFS allocated overhead costs to the "Special Assistance for Health Insurance Portability and Accountability and Computers Security Programs" cost center rather than directly charging these costs to the Medicaid Infrastructure Grant in accordance with PACAP. As a result, DHFS under reported Medicaid claimable expenditures for indirect costs for the quarter ended December 31, 2009 by \$904.

According to 45 CFR 95.517, a State must claim costs associated with a program in accordance with its approved cost allocation plan. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure costs allocated to the federal program are accurate and consistent with the approved cost allocation plan.

In discussing these conditions with DHFS officials, they stated that the condition occurred as the result of a data entry error. The data entry error caused the Medicaid claimable expenditures for indirect costs to be over reported. A prior period adjustment correcting the error was completed on the QE 9/30/10 CMS 64 and CMS 21.



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Failure to allocate costs in accordance with the PACAP may result in unallowable costs being charged to the federal programs or federal expenditures not being claimed. (Finding Code 10-31, 09-22, 08-27)

**Recommendation:**

We recommend DHFS develop procedures to ensure indirect costs are coded to the correct cost centers and claimed at the proper reimbursement rate.

**DHFS Response:**

The Department accepts the finding. The Department will continue its procedure of supervisory review of claim work papers in an effort to detect and eliminate errors in the future.

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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Child Support Enforcement  
Children's Health Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.563/93.563 ARRA (\$141,897,000)  
93.767 (\$274,279,000)  
93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)

**Award Numbers:** 0704IL4004/0804IL4004/0904IL4002/0904IL4002 (93.563)  
(CFDA Number) 05-1005IL5021/05-0905ILMSEA5021 (93.767)  
05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-10905IL5028/05-1005ILARRA (93.775/93.777/  
93.778/93.778 ARRA)

**Questioned Costs:** None

**Finding 10-32** Failure to Obtain Suspension and Debarment Certifications from Vendors

DHFS did not obtain required certifications that vendors were not suspended or debarred from participation in Federal assistance programs for the Child Support Enforcement, Children's Health Insurance Program, and Medicaid Cluster Programs.

During our review of twenty vendors of the Child Support Enforcement program and 20 vendors allocated to all federal programs, we noted DHFS did not include a suspension and debarment certification in 16 of its vendor agreements. As a result, DHFS did not obtain a certification that these vendors were not suspended or debarred from participation in Federal assistance programs. Additionally, DHFS did not perform a verification check with the "Excluded Parties List System" (EPLS) maintained by the General Services Administration for vendors.

Payments to vendors allocated to the Child Support Enforcement, Children's Health Insurance Program, and Medicaid Cluster Programs totaled \$20,737,000, \$3,610,000, and \$237,124,000, respectively, during the year ended June 30, 2010.

According to 45 CFR 74.13, subawards and contracts with parties that are debarred, suspended or otherwise excluded from or ineligible for participation in the Federal assistance programs or activities under Executive Order 12549 and 12689, "Debarment and Suspension" are prohibited. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required certifications for covered contracts and subawards are received, documented, and not made with a debarred or suspended party.

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In discussing these conditions with DHFS officials, they stated 15 of the 16 contracts identified are master contracts entered into between the vendor and the Illinois Department of Central Management Services (CMS). The remaining contract was executed prior to the CMS boilerplate being updated by CMS to include the required disclosures and certifications for suspension and debarment.

Failure to perform verification procedures with the EPLS could result in the awarding of Federal funds to vendors that are suspended or debarred from participation in Federal assistance programs. (Finding Code 10-32, 09-24)

**Recommendation:**

We recommend DHFS establish procedures to ensure that vendors contracting with DHFS are not suspended or debarred or otherwise excluded from participation in Federal assistance programs.

**DHFS Response:**

The Department accepts the finding. The solicitation and contract documents provided by CMS and utilized by the Department have been updated to include the required disclosures and certifications for suspension and debarment. In addition, DHFS staff has access to the Excluded Parties List System (EPLS) to confirm that vendors contracting with DHFS are not suspended or debarred or otherwise excluded from participation in Federal assistance programs. The Department will issue an updated procurement policy to staff to ensure they are securing the required disclosures and certifications for suspension and debarment in the contracts and to perform a verification check with EPLS to confirm that vendors contracting with DHFS are not suspended or debarred or otherwise excluded from participation in Federal assistance programs.

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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Child Support Enforcement

**CFDA # and Program Expenditures:** 93.563/93.563 ARRA (\$141,897,000)

**Award Numbers:** 0704IL4004/0804IL4004/0904IL4002/0904IL4002 (93.563)

**Questioned Costs:** \$35,100

**Finding 10-33** Failure to Competitively Bid Professional Services

DHFS did not competitively bid professional services purchased as required by the Illinois Procurement Code for the Child Support Enforcement (Child Support) program.

During our review of 40 vendors of the Child Support program, we noted DHFS did not competitively bid a professional service contract for \$31,200 purchased for the administration of the Child Support program. Specifically, DHFS entered into an agreement with a professional service firm to produce, distribute, and track public service announcements for the agency. In this capacity, the professional services firm was responsible for producing and broadcasting two public service announcements each month. Total fees paid to this professional services firm by DHFS as of the date of our testing for these and similar services were approximately \$35,100 since July 1, 2008.

In accordance with 29 CFR 97.36(a), a State must follow the same policies and procedures it uses for procurements for its non-Federal funds. Sections 1-15.60 and 35-35(a) of the Illinois Procurement Code (30 ILCS 500/1-15.60 and 35-35(a)) requires contracts for professional and artistic services of \$20,000 or more to be awarded by competitive proposals. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Effective internal controls should include procedures to ensure appropriate procurement rules are followed for contracts awarded under federal programs.

In discussing these conditions with DHFS officials, they stated that the procurement did not qualify as a Professional & Artistic contract per DHFS Office of General Counsel (OGC) and the Office of State Procurement Officer (OSPO) and, therefore, was not bid out.

Failure to follow the Illinois Procurement Code violates federal procurement regulations and could result in unallowable costs charged to federal program. (Finding Code 10-33)

**Recommendation:**

We recommend DHFS implement procedures to ensure that all procurements are performed in accordance with the applicable rules and regulations.

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**DHFS Response:**

The Department accepts the finding. The contract was not bid out based on guidance received from the Department's Office of General Counsel and the Office of State Procurement Officer. As such, the Department originally believed that the contract was not required to be bid out. The Department will continue to review all contracts and ensure contracts classified as Professional & Artistic are bid out as required.

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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Child Support Enforcement

**CFDA # and Program Expenditures:** 93.563/93.563 ARRA (\$141,897,000)

**Award Numbers:** 0804IL4004/0904IL4004/1004IL4002/1004IL4002

**Questioned Costs:** None

**Finding 10-34** *Untimely Enforcement of Medical Support Obligation*

DHFS did not adequately enforce a medical support obligation in a timely manner.

DHFS is responsible for administering the Child Support Enforcement Program. The objectives of this program are to enforce support obligations owed by non-custodial parent, to locate absent parents, establish paternity, and obtain child and spousal support. During our testwork of 40 child support cases, we noted one case (2.5%) for which DHFS did not make timely attempts to enforce and obtain medical insurance of the absent parent. We noted that attempts were made to serve the court order in October 2006 with no subsequent attempts made to add the insurance. The insurance was subsequently added in November 2010 after our testwork.

According to 45 CFR 303.31(b), the State IV-D agency must petition the court or administrative authority to include private health insurance that is accessible to the child(ren). Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure support orders are established and enforced within required timeframes.

In discussing these conditions with DHFS officials, they stated they believe that the case has documented Medical Support Obligation. As the KIDS system did not have an updated address for Aetna at the time of receiving notification of insurance, the worker was unable to enter the data on the NMSN Select/Create Update Ins. Policy/FDN Screen. Therefore, the worker entered the data on the Notes screen to show compliance. According to Department records, the insurance was placed and enforced on our system, and verified with Aetna.

Failure to properly establish a support order or document unsuccessful attempts to establish the support order could result in child support payments not being collected and remitted to the custodial parent. (Finding Code 10-34)

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**Recommendation:**

We recommend DHFS follow procedures established to ensure support orders are established within the required timeframes and ensure failed attempts to establish support orders are adequately documented.

**DHFS Response:**

The Department accepts this finding. The Department considers this a one time incident, however, they will continue to obtain and enforce medical insurance of the absent parent as required.

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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Children's Health Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.767 (\$274,279,000)  
93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)

**Award Numbers:** 05-1005IL5021/05-0905ILMSEA5021 (93.767)  
(CFDA Number) 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-10905IL5028/05-1005ILARRA (93.775/93.777/  
93.778/93.778 ARRA)

**Questioned Costs:** None

**Finding 10-35** *Failure to Follow Approved Allocation Methodology in the PACAP*

DHFS did not follow the approved allocation methodology in the Public Assistance Cost Allocation Plan (PACAP) to allocate certain cost centers to the Children's Health Insurance Program (CHIP) and Medicaid Cluster programs.

DHFS administers federal and state programs to provide healthcare coverage for Illinois adults and children. In administering these programs, DHFS incurs significant expenditures, which are directly and indirectly attributable to the administration of its programs. In order to allocate costs to the programs to which they are attributable, DHFS has prepared a PACAP describing its overall organizational structure, the federal programs it administers, and the methodologies it has developed to allocate administrative expenditures to its federal programs. The PACAP is submitted to USDHHS periodically for review and approval of the allocation methodologies used by DHFS. DHFS has developed the methodologies for allocating costs to its programs, which DHFS believes best represent the actual costs associated with the program.

During our review of costs allocated to federal programs during the quarter ended December 31, 2009, we noted the PACAP prescribed that expenditures from a specific cost center be allocated to the "Bureau of All Kids". However, based on payroll records and time certifications, expenditures totaling \$146,490 from the cost center were allocated using the "Supportive Medical" allocation methodology. As a result, costs of \$146,490 were allocated to the Medicaid Cluster instead of CHIP and State funded programs.

According to 45 CFR 95.507(b), a cost allocation plan must include all organizational units, a description of the activities performed by each organizational unit and the procedures used to allocate all costs from each organizational unit to the benefiting programs. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance



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requirements. Effective internal controls should include procedures to ensure all allocation methodologies used are appropriately defined in the PACAP.

In discussing these conditions with DHFS officials, the Department agreed that the costs were not being allocated to the cost pool indicated on the December 2009 PACAP. This is due to the fact that the PACAP did not accurately reflect the correct cost pool for these costs. Based upon the duties being performed, the costs were being allocated to the correct cost pool. The US DHHS Department Appeals Board rulings have stated that costs must be allocated consistent with actual duties performed regardless of the methodologies in the PACAP. The expenditures were allocated appropriately.

Failure to follow the approved cost allocation methodologies in the PACAP may result in disallowances of costs. (Finding Code 10-35)

**Recommendation:**

We recommend DHFS implement procedures to ensure that approved cost allocations included in the PACAP are followed.

**DHFS Response:**

The Department accepts the finding. The Department submitted an amendment to the PACAP on March 18, 2011 with an effective date of January 1, 2011 seeking a revision to the designated cost pool for the Bureau of All Kids. The amendment is still under federal review.

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**State Agency:** Illinois Department of Healthcare and Family Services (DHFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Child Support Enforcement  
Children's Health Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.563/93.563 ARRA (\$141,897,000)  
93.767 (\$274,279,000)  
93.775/93.777/93.778/93.778 ARRA (\$8,612,823,000)

**Award Numbers:** 0704IL4004/0804IL4004/0904IL4002/0904IL4002 (93.563)  
(CFDA Number) 05-1005IL5021/05-0905ILMSEA5021 (93.767)  
05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-10905IL5028/05-1005ILARRA (93.775/93.777/  
93.778/93.778 ARRA)

**Questioned Costs:** None

**Finding 10-36** Untimely Submission of Financial Reports

DHFS does not have a process in place to ensure financial reports are prepared and submitted within required timeframes.

DHFS is required to prepare various quarterly financial reports relative to awards under the Child Support Enforcement, Children's Health Insurance Program (CHIP), and Medicaid Cluster programs. During our testwork over the financial reports required to be submitted during fiscal year 2010, we noted the following:

- Six quarterly reports (out of eight tested) related to the Child Support Enforcement program were not submitted by the reporting deadline. Delays in the submission of these reports ranged from three to 24 days.
- One quarterly report (out of four tested) related to the CHIP program was not submitted by the reporting deadline. The delay in submitting this report was 31 days.
- One quarterly report (out of four tested) related to the Medicaid Cluster was not submitted by the reporting deadline. The delay in submitting this report was 31 days.

In accordance with 45 CFR 74.51(b), when financial reports are required on a quarterly basis they will be due 30 days after the reporting period. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure financial reports are submitted within required timeframes.

In discussing these conditions with DHFS officials, they stated that there were several reasons for the lateness of the reports, including: an error that occurred during programming changes required to

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accommodate changing FMAP rates and subsequent communication with federal CMS Chicago regional office to remedy; needing additional time to accurately prepare and certify the claims; requests received from federal staff to make an adjustment to costs claimed; time required to research and calculate the appropriate adjustment amount; receipt of federal guidance regarding the proper reporting of estimated administrative expenditures; and time required to determine the effect of the guidance on the budget estimate.

Failure to prepare reports in a timely manner inhibits the ability of the federal agencies to properly monitor and evaluate the performance of the programs. (Finding Code 10-36)

**Recommendation:**

We recommend DHFS implement procedures to ensure all financial reports are submitted within the established deadlines.

**DHFS Response:**

The Department accepts the finding. The Department will continue to work with the Office of Information Systems to ensure claiming reports and programming changes are accurate.

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**State Agency:** Illinois Department of Children and Family Services (DCFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** TANF Cluster  
Foster Care – Title IV-E  
Adoption Assistance

**CFDA # and Program Expenditures:** 93.558/93.714 ARRA (\$573,086,000)  
93.658/93.658 ARRA (\$197,283,000)  
93.659/93.659 ARRA (\$106,425,000)

**Award Numbers:** G-1001ILTANF/G-0901ILTANF/G-0901ILTAN2ARRA (93.558/93.714 ARRA)  
(CFDA Number) 1001IL1401/0901IL1401/0801IL1401 (93.658/93.658 ARRA)  
1001IL1407/ 0901IL1407/0801IL1407 (93.659/93.659 ARRA)

**Questioned Costs:** None

#### **Finding 10-37** *Inadequate Monitoring of Subrecipients*

DCFS did not perform fiscal and administrative on-site monitoring procedures for subrecipients who receive awards under the TANF Cluster, Foster Care – Title IV-E (Foster Care), and Adoption Assistance programs.

DCFS passes through federal funding under the Foster Care and Adoption Assistance programs to not-for-profit organizations which assist the State in carrying out the State's responsibilities under these programs. Specifically, these organizations assist the State by: (1) performing and documenting on-going casework for children who are wards of the State, (2) providing training, licensing, and other supportive services for foster and adoptive parents, and (3) performing foster care and adoption placement services. The services provided by these organizations assist the State in determining the continuing allowability of maintenance and subsidy payments made to foster and adoptive families on the behalf of eligible children. Certain of these costs which are not claimed under or used as match for the Foster Care and Adoption Assistance programs are claimed for reimbursement under the TANF Cluster.

During our testwork over the subrecipient monitoring compliance requirement for these programs, we noted DCFS determined that organizations previously considered subrecipients should be considered vendors because the initial eligibility determinations for children served under these programs are performed by the State. As a result, DCFS ceased all subrecipient monitoring activities and reported the amounts passed through to these organizations as contractual service expenditures. However, the nature of the services provided by these organizations goes beyond those provided in a vendor relationship. These organizations assist the State in complying with program requirements relative to the allowability of costs and the continuing eligibility of program beneficiaries.

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Amounts passed through to subrecipients of the TANF Cluster, Foster Care, and Adoption Assistance programs which were improperly reported as contractual services during the year ended June 30, 2010 were \$165,874,103, \$53,561,591, and \$2,072,782, respectively.

According to OMB Circular A-133 section .210(b), characteristics indicative of a federal award received by a subrecipient are when the organization, among other things, has responsibility for programmatic decision making and uses the federal funds to carry out a program of the organization as compared to providing goods and services for a program of the pass-through entity. Additionally, according to OMB Circular A-133 section .210(c), characteristics indicative of a payment for goods and services received by a vendor are when the organization, among other things, provides goods or services that are ancillary to the operations of the program and are not subject to the compliance requirements of the federal program.

According to the OMB Circular A-133 Compliance Supplement, dated June 2010, a pass-through entity is required to monitor its subrecipients' activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements, to ensure required audits are performed, to require the subrecipient to take prompt corrective action on any audit findings, and to evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

In discussing these conditions with DCFS officials, they stated the definition of a subrecipient was revisited in fiscal year 2010 and organizations previously considered subrecipients are now classified as vendors.

Failure to properly report subrecipient expenditures and monitor subrecipients results in noncompliance with OMB Circular A-133 and could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 10-37, 09-36, 08-39, 07-36, 06-34, 05-47, 04-36, 03-34, 02-30, 01-18, 00-18, DCFS 99-6, DCFS 99-9)

#### **Recommendation:**

We recommend DCFS properly report federal awards passed through to subrecipients and implement on-site monitoring procedures to review compliance requirements administered by subrecipients of its federal programs.

#### **DCFS Response:**

The Department disagrees with the finding. The Department's policy is that on-site fiscal and administrative reviews should include procedures that consider all compliance requirements direct and material to the programs funded by the Department and to ensure compliance with contract program plan requirements established for the services approved and being obtained for children. The Department has developed and implemented procedures to address A-133 findings noted in the subrecipients' OMB Circular A-133 reports and to address findings and management letter comments noted in purchase of care vendor audit reports. Additional follow up is conducted for each financial

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finding, programmatic findings are referred to the appropriate division for follow up, and a Decision Memo is issued.

The desk review, which is the annual review of audited financial statements, OMB A-133 audits, and related reports from the provider's independent CPA's (annual audit package), is the principle basis for the fiscal monitoring of sub-recipients and purchase of care vendors. The annual audit package contains reports and findings issued by licensed accountants with professional credentials to review recipients of funding provided by DCFS. Audit packages are received from all agencies that receive over \$150,000 during the State's fiscal year. Over 200 agencies are required to submit the annual audit package, and a desk review is performed on all annual audit packages required to be submitted. The desk review program is the most effective and cost efficient method for DCFS to monitor sub-recipients' and purchase of care provider activities, and provide reasonable assurance that the provider administers programs in compliance with State and federal requirements as well as the Plan of Care which is a part of the Department's contract with the provider.

On-site reviews are also used when the assessment of risk so indicates the necessity, and staff resources are available. The majority of reports received do not contain major issues and DCFS case management providers do not make client or service eligibility determinations which if they did would be the primary cause for ineligible services. Further, the DCFS foster care and adoption programs are state programs, some of which may qualify for federal reimbursement. DCFS foster care and adoption providers serve all clients referred by DCFS without regard or knowledge of federal program eligibility. Those providers selected for field visits are generated from the desk reviews completed in the prior year that have notable negative issues. Auditors contact the Department's programmatic monitors and the licensing representatives to discuss and share any potential problems at providers to aid in the scheduling of on-site visits, and prioritize on-site audit activities.

Future schedules for on-site reviews will prioritize visits to new providers, providers not previously visited, or providers visited years ago. The ability of DCFS to conduct more on-site visits each year is dependent upon the Department's ability to hire additional staff, and implement improvements in efficiency. Staff size is dependent on the State's financial position. Proposals for improvements in efficiency must be developed, and evaluated in the field. Therefore, specific projections of the number of on-site fiscal reviews that will be conducted in the future cannot be made at this time.

The Department has also begun initiatives to increase productivity by improving efficiency of its staff and seek other resources to obtain increased coverage. The efforts are on-going, but the resources to implement the changes required are not currently available, therefore, efforts to increase the scope of the Department's mission, improve efficiency, improve on-site monitoring tools, and increase the number of on-site visits to sub-recipients, have been adversely affected.

#### **Auditors' Comment:**

As discussed in the finding above, DCFS determined amounts previously reported as subrecipient expenditures were vendor payments. As a result, DCFS did not identify the amounts passed through to these entities as subrecipient expenditures on the State's schedule of federal awards or in award communications. DCFS notes in their response that they will continue to perform a review of OMB Circular A-133 reports and perform programmatic procedures; however, since these organizations are

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not considered subrecipients they are not required to have audits performed in accordance with OMB Circular A-133. Finally, consistent with the prior year, DCFS did not perform fiscal monitoring procedures.

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**State Agency:** Illinois Department of Children and Family Services (DCFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Adoption Assistance

**CFDA # and Program Expenditures:** 93.659/93.659 ARRA (\$106,425,000)

**Award Numbers:** 1001IL1407/0901IL1407/0801IL1407

**Questioned Costs:** \$3,017

**Finding 10-38** *Missing Documentation in Adoption Assistance Eligibility Files*

DCFS could not locate case file documentation supporting eligibility determinations for beneficiaries of the Adoption Assistance program.

The Adoption Assistance Program provides funds to states to support the payment of subsidies and non-recurring expenses on behalf of eligible children with special needs. In order to be eligible to receive benefits under the adoption assistance program, the child must have been removed from the home of a relative either pursuant to a voluntary placement agreement or a judicial determination that remaining in the home is contrary to the welfare of the child, the child must be under the age of 18, and the State must have determined that the child has met certain criteria which may preclude the adoption of the child without adoption assistance benefits. These criteria are defined as “special needs” and include a determination that the child cannot or should not be returned to the home of his/her parents, as well as documentation of the child’s specific factor(s) or condition(s) (such as ethnic background, age, sibling group, or handicap) that precludes the child’s placement for adoption without assistance benefits.

During our testwork of 65 Adoption Assistance beneficiary payments (totaling \$47,463), we reviewed case files for compliance with eligibility requirements and for the allowability of related benefits paid and noted documentation could not be located to support certain eligibility criteria. Specifically, we noted the case file for one beneficiary (with a sampled assistance payment of \$445) did not contain documentation supporting a criminal background check and child abuse and neglect registry check were performed on the prospective adoptive parents evidencing the placement would be in the best interest of the child. Additionally, the temporary custody order for this case did not contain the probable cause finding for removing the child from the home and did not give guardianship of the child to DCFS. As such, the case file did not contain adequate documentation to support that placement or the initial removal of the child from the home were in the best interest of the child. DCFS claimed reimbursement for adoption assistance benefits made on behalf of this child totaling \$3,017 during the year ended June 30, 2010.

DCFS claimed reimbursement for adoption assistance beneficiary payments totaling \$91,351,317 during the year ended June 30, 2010.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost



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reimbursements contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria, among other things, require that the expenditures must be necessary, reasonable, and supported by adequate documentation, including documentation supporting eligibility determinations were performed in accordance with program requirements.

According to 42 USC 673 (a)(2)(A)(i), in order to be eligible for adoption assistance benefits, 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. The only stipulation specified in the requirement is that the child need not be removed from the home of a relative. According to 42 USC 671 (a)(20), the prospective adoptive parent(s) must satisfactorily have met a criminal records check and a child abuse and neglect registry check.

The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure documentation supporting eligibility criteria is properly maintained in case records.

In discussing these conditions with DCFS officials, they stated this child came into care via a guardianship order dated July 12, 1993. The court order did not have the required findings and DCFS was unable to obtain a transcript for the hearing.

Failure to maintain case file documentation, including initial judicial determinations and background checks, may result in payments to ineligible beneficiaries, which are unallowable costs. (Finding Code 10-38, 09-35, 08-38, 07-34, 06-32, 05-44)

#### **Recommendation:**

We recommend DCFS review its procedures for retaining and documenting how beneficiaries have met eligibility requirements and implement changes necessary to ensure adequate judicial determinations and background checks of prospective adoptive parents exist for all children for whom adoption subsidy payments and nonrecurring expenditures are claimed.

#### **DCFS Response:**

The Department agrees that proper documentation should be obtained and retained for all cases. A process was implemented in July 2009 to review all case documentation prior to the finalization of an adoption. A review of the initial court order findings is a part of this process, along with a review of the background check results. Periodic reviews are performed on cases which opened prior to the review process initiated in July 2009 to ensure that the proper documentation is included in the case files.

The Department will make a claiming adjustment for actual amount claimed, \$3,017.15 during the fiscal year, for the beneficiary payment questioned by the auditor.

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**State Agency:** Illinois Department of Children and Family Services (DCFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Adoption Assistance

**CFDA # and Program Expenditures:** 93.659/93.659 ARRA (\$106,425,000)

**Award Numbers:** 1001IL1407/0901IL1407/0801IL1407

**Questioned Costs:** Cannot be determined

**Finding 10-39** *Failure to Ensure that Adoption Assistance Recertifications Are Performed on a Timely Basis*

DCFS did not ensure that adoption assistance recertifications were performed on a timely basis for children receiving recurring adoption assistance benefits.

The Adoption Assistance program provides funds to states to support the payment of subsidies and non-recurring expenses on behalf of eligible children with special needs. A child's eligibility for the program is determined initially at the time of the adoption proceedings. However, it is the State's responsibility to establish a process to ensure that children on behalf of whom the State is making subsidy payments are in the continued care of their adoptive parent(s). On a biannual basis, the State sends a recertification form to the adoptive parent(s) of a child on behalf of whom the parent is receiving adoption subsidy payments. The form contains a series of questions concerning the parents' legal and financial responsibility of the child. The adoptive parents must answer the questions, sign and return the form to DCFS to demonstrate their continued legal and financial responsibility over the child.

During our testwork of 65 recurring subsidy payments (totaling \$47,463) made under the Adoption Assistance program, we noted two case files (with sampled payments of \$890) in which DCFS could not locate a recertification form submitted by the adoptive parent within the most recent two year period. DCFS claimed reimbursement for adoption assistance benefits made on behalf of these children totaling \$10,680 during the year ended June 30, 2010.

DCFS claimed reimbursement for adoption assistance beneficiary payments totaling \$91,351,317 during the year ended June 30, 2010.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursements contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria, among other things, require that the expenditures must be necessary, reasonable, and supported by adequate documentation, including documentation supporting eligibility determinations were performed in accordance with program requirements.

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According to 42 USC 673 (a)(4), payments are discontinued when the State determines that the adoptive parents are no longer legally responsible for the support of the child. Parents must keep the State agency informed of circumstances which would make the child ineligible for adoption assistance payments, or eligible for assistance payments in a different amount. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Effective internal controls should include establishing procedures to obtain adoption recertification forms on a timely basis.

The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure documentation supporting periodic recertifications is properly maintained in case records.

In discussing these conditions with DCFS officials, they stated recertification letters are sent out via an automated process. If the first letter is not returned, a second letter is automatically mailed 60 days later. When the second letter was not returned, notification of these cases was not received in the Post-Adoption Unit for further follow up due to an oversight. A follow-up letter was sent on December 14, 2010 for one case where a recertification was not on file and this letter was returned indicating that the adoptive parent still has legal responsibility for this child and wishes the subsidy to continue.

Failure to complete the necessary eligibility recertification could result in payments to ineligible beneficiaries, which are unallowable costs. (Finding Code 10-39, 09-37, 08-41, 07-39, 06-36)

#### **Recommendation:**

We recommend DCFS implement procedures to ensure recertification forms are received in accordance with the State's established process and maintained in the eligibility files for children receiving recurring adoption assistance benefits.

#### **DCFS Response:**

The Department agrees to conduct further review of the recertification process and implement additional procedures to ensure reporting to the Post-Adoption Unit and the reporting of follow-up is completed.

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### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Department of Children and Family Services (DCFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Foster Care – Title IV-E

**CFDA # and Program Expenditures:** 93.658/93.658ARRA (\$197,283,000)

**Award Numbers:** 1001IL1401/0901IL1401/0801IL1401

**Questioned Costs:** \$2,883

**Finding 10-40** *Missing Documentation in Foster Care Eligibility Files*

DCFS could not locate case file documentation supporting eligibility determinations for beneficiaries of the Foster Care program.

In order to be eligible to receive benefits under the program, a child must meet specific financial and non-financial eligibility criteria. One of these criterion is that the child would be eligible for the former Aid to Families with Dependent Children (AFDC) program for which eligibility is based on a child's age, among other factors.

In addition, DCFS was authorized by USDHHS to conduct a subsidized guardianship waiver demonstration project, which falls under the Title IV-E Foster Care program. Under the subsidized guardianship program, the court assigns legal guardianship for a child to a private caregiver, providing the child with a more permanent, stable living arrangement as an alternative to long-term foster care while providing administrative cost savings to the program. The subsidized guardianship demonstration project ended October 31, 2009 and was replaced by the Kinship Guardianship Assistance Program which has similar objectives and requirements, but is not a waiver program.

During our testwork of 65 Foster Care beneficiary payments (totaling \$77,982), we reviewed case files for compliance with eligibility requirements and allowability of related benefits. We noted the following exceptions:

- The case file for one beneficiary (with a sampled maintenance payment of \$422) did not include adequate documentation supporting the initial removal of the child from the home was in the best interest of the child. Specifically, we noted the temporary custody order for this case did not contain the probable cause finding for removing the child from the home and did not document whether reasonable efforts were made to prevent the removal of the child from the home by DCFS. DCFS claimed reimbursement for foster care benefits made on behalf of this child totaling \$5,064 during the year ended June 30, 2010.
- The case file for one beneficiary (with a sampled maintenance payment of \$410) did not include evidence supporting the annual guardianship recertification was performed. Specifically, we noted the annual recertification form required to be signed and returned by the guardian was not on file for the period under audit. DCFS claimed reimbursement for

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### Schedule of Findings and Questioned Costs

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foster care benefits made on behalf of this child totaling \$4,920 during the year ended June 30, 2010.

DCFS claimed reimbursement for foster care beneficiary payments totaling \$87,598,418 during the year ended June 30, 2010.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursements contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria, among other things, require that the expenditures must be necessary, reasonable, and supported by adequate documentation, including documentation supporting eligibility determinations were performed in accordance with program requirements.

According to 45 CFR 1356.21, where a child is placed in foster care by means of a judicial determination, such determination must include language stating, among other things, that continuation in the home would be contrary to the child's welfare and that reasonable efforts were made (or not required) to prevent the removal of the child from the home.

According to 42 USC 672 (b), foster care maintenance payments may be made under this part only on behalf of a child who is, among other things, in the foster family home of an individual or in a child-care institution. 89 Illinois Administrative Code 302.410(h) requires guardians to respond to annual written notices from DCFS to maintain the child's eligibility for the Title XIX Medicaid Program and for the maintenance payment under the Foster Care program.

The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure documentation supporting eligibility criteria is properly maintained in case records.

In discussing these conditions with DCFS officials, they stated the child in the case identified with missing documentation came into care via a temporary custody order dated June 14, 2006. The court order did not have the required findings and we were unable to obtain a transcript for this hearing.

Failure to maintain case file documentation, including relevant court orders and recertification documentation could result in payments to ineligible beneficiaries. (Finding Code 10-40)

#### **Recommendation:**

We recommend DCFS review its procedures for retaining and documenting how beneficiaries have met eligibility requirements and implement changes necessary to ensure documentation supporting eligibility criteria exists for all children for whom foster care benefits are claimed.

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**DCFS Response:**

The Department agrees. Procedures have been reviewed and revised as needed so that the initial order is reviewed during the Administrative Case Review process. We have requested a revision to the CYCIS legal screen to more clearly capture the information regarding the findings needed in a court order. If there is a question regarding the initial court order, the case is forwarded to the Federal Financial Participation (FFP) Unit for further review. FFP also receives copies of all court orders from four of the largest counties within the State. These orders are reviewed for compliance with the federal regulations. FFP also conducts regular quarterly reviews to ensure that the proper documentation is included in the case files. This quarterly review includes looking at the findings in the initial court order. Changes are made to procedures, as necessary after on-going reviews, for obtaining and retaining documents to ensure copies initial judicial determinations and other required documents are retained for all children.

In addition, trainings are conducted throughout the State to educate the field staff about the findings that are required in a court order. If a finding is not made, the field staff is to notify the DCFS legal counsel and the Federal Financial Participation Unit. The amount claimed for this beneficiary in fiscal year 2010, \$2,882.52, was removed from the claim in July 2010.

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For Year Ended June 30, 2010

**State Agency:** Illinois Department of Children and Family Services (DCFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Foster Care – Title IV-E  
Adoption Assistance

**CFDA # and Program Expenditures:** 93.658/93.658 ARRA (\$197,283,000)  
93.659/93.659 ARRA (\$106,425,000)

**Award Numbers:** 0801IL1401/0901IL1401/1001IL1401 (93.658/93.658 ARRA)  
(CFDA Number) 0801IL1407/ 0901IL1407/1001IL1407 (93.659/93.659 ARRA)

**Questioned Costs:** None

**Finding 10-41** *Untimely Submission of Financial Reports*

DCFS does not have a process in place to ensure financial reports are prepared and submitted within required timeframes.

DCFS is required to prepare the ACF-IV-E-1 – *Foster Care and Adoption Assistance Financial Report* (ACF-IV-E report) on a quarterly basis. During our testwork over two quarterly ACF-IV-E reports submitted for the quarters ended December 31, 2009 and March 31, 2010, we noted the reports were submitted 44 and 61 days after their required due dates, respectively.

According to 45 CFR 201.5, the State is required to submit a quarterly statement of expenditures for each of the public assistance programs under the Social Security Act. The instructions for the ACF-IV-E report (OMB Form No. 097-0205) require the report to be submitted by the 30<sup>th</sup> day of the month following the end of each fiscal quarter. In addition, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure financial reports are submitted within required timeframes.

In discussing these conditions with DCFS officials, they stated they believed the extension request submitted to USDHHS was granted and extended the reporting deadline.

Failure to prepare financial reports in a timely manner inhibits the ability of USDHHS to properly monitor and evaluate the performance of the programs. (Finding Code 10-41)

**Recommendation:**

We recommend DCFS implement procedures to ensure all financial reports are submitted within the established deadlines.

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**DCFS Response:**

The Department concurs that there is a 30 days filing requirement. However it has been a long standing practice of DHHS-ACF to grant filing extensions if the request is received timely from the State Title IV-E agency. DCFS consulted with our regional DHHS-ACF Fiscal staff and they are in agreement with our practice. While DCFS intends to continue to make efforts to improve the time required to prepare claims, DCFS still anticipates claim preparation to take longer than 30 days and to continue filing timely extension with DHHS-ACF.

**Auditors' Comment:**

DCFS could not provide documentation supporting an extension of the reporting deadline had been approved by USDHHS.



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### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Department of Children and Family Services (DCFS)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Child Welfare Services – State Grants

**CFDA # and Program Expenditures:** 93.645 (\$8,369,000)

**Award Numbers:** G-1001IL1400/G-0901IL1400

**Questioned Costs:** None

#### **Finding 10-42** *Failure to Ensure Timely Preparation of Initial Case Plans*

DCFS did not prepare initial case plans in a timely manner for Child Welfare Services beneficiaries.

The case plan serves as DCFS' written documentation of the services planned for each child taken into protective custody. The case plan describes DCFS' plans to improve or protect the welfare of the child. Information documented in the case plan includes the health and education records of the child, a description of the type of home or institution in which the child is to be placed, DCFS' plan for assuring the child receives safe and proper care and services to improve the condition of the child's home in order to facilitate his or her return home, as well as other pertinent information.

During a review of 40 case files selected for testwork, we noted nineteen of the initial case plans were completed within a range of two to 71 days over the 60 day federal requirement.

According to 45 CFR 1356.21(g)(2), case plans are required to be developed within a reasonable period, to be determined by the State, but no later than 60 days from the child's removal from their home. Per State requirements (705 ILCS 405/2-10.1), the State has defined a reasonable timeframe as 45 days.

In discussing these conditions with DCFS officials, they stated timely preparation of case plans is always a concern. Unfortunately, due to staff changes and reductions, placement changes, and coordination with other procedures and agencies including law enforcement, there are times when case plans are not prepared within the established timeframes.

Failure to prepare case plans in a timely manner could result in Child Welfare Services not being performed/provided in accordance with Title IV-E or the State law. (Finding Code 10-42, 09-39, 08-40, 07-38, 06-37, 05-51, 04-37, 03-35, 02-33, 01-20, 00-20, DCFS 99-5)

#### **Recommendation:**

We recommend DCFS stress the importance of preparing and completing the initial service plans timely to all caseworkers to comply with Federal requirements.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**DCFS Response:**

The Department agrees and continues to stress the importance of adequate and timely documentation for child case files through training and communications to all case staff. Based on the fundamentals of good social work practice, requirements of the Council of Accreditation, and Federal Review Outcomes, Illinois has implemented an Integrated Assessment program that includes preparation of a comprehensive service plan where one cannot be completed without the other. Additionally, a workgroup has established a plan to implement changes to procedures in order to prepare timely service plans and resolve the matters that cause delays as well as provide an on-going monitoring of timeliness. That implementation project is continuing. Through trainings, we continue to stress the importance of adequate and timely case planning as a key component of providing quality service to children.

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For Year Ended June 30, 2010

**State Agency:** Illinois Department on Aging (IDOA)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Aging Cluster  
**CFDA # and Program Expenditures:** 93.044/93.045/93.053/93.705/93.707 (\$52,083,000)  
**Award Numbers:** 10AAILT3SP/10AAILNSIP/09AAILT3SP/09AAILNSIP/09AAILC1RR/  
09AAILC2RR  
**Questioned Costs:** None

**Finding 10-43** *Inadequate On-Site Monitoring of Subrecipients*

IDOA is not adequately monitoring subrecipients receiving federal awards for the Aging Cluster.

IDOA passes through federal funding to thirteen area agencies on aging (subrecipients) throughout the State. Each of these agencies works with IDOA to develop an annual area plan detailing how funds will be used to meet the goals and objectives of the Aging Cluster programs. IDOA has established policies and procedures for monitoring its subrecipients, which includes: performing informal evaluations (on-site reviews), reviewing periodic financial, programmatic, and single audit reports, and providing training and guidance to subrecipients as necessary. Additionally, IDOA performs on-site programmatic monitoring procedures on the Advisory Councils for each area agency once every three years. The Advisory Councils were established to advise the area agencies on matters relating to the development and administration of the area plans, but are not responsible for the direct administration of the program benefits.

During our testwork over four subrecipients of the Aging Cluster with expenditures of approximately \$21,949,000 during the year ended June 30, 2010, we noted on-site monitoring procedures had not been performed since 1998 for any of the subrecipients selected. Upon further discussion with Agency personnel, we noted fiscal on-site monitoring procedures were not performed for any subrecipients during the year ended June 30, 2010. However, we noted IDOA performs on-site reviews over internal controls related to the operation of the program at each area agency on aging. The reviews were only over internal controls in place and there were no reviews over financial or programmatic records to ensure the federal awards were used for authorized purposes in compliance with laws and regulations and the provisions of the grant agreement. Total awards passed through to subrecipients were approximately \$51,146,000 during the year ended June 30, 2010.

According to OMB Circular A-133 \_\_\_\_.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure on-site reviews are performed on a periodic basis.

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In discussing these conditions with IDOA officials, they stated on-site programmatic monitoring is performed at all subrecipient locations annually and the fiscal monitoring tool has been updated and reviewed as outlined in OMB Circular A-133 for use in fiscal year 2011.

Failure to adequately perform subrecipient monitoring procedures could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the annual area plan. (Finding Code 10-43, 09-40, 08-42, 07-40, 06-38, 05-52, 04-38, 03-36)

#### **Recommendation:**

We recommend IDOA perform periodic on-site reviews of all subrecipients which include reviewing financial and programmatic records, observation of operations and/or processes to ensure their subrecipients are administering the federal program in accordance with the applicable laws, regulations, and the annual area plan.

#### **IDOA Response:**

The Department performs on-site programmatic monitoring at all 13 AAAs on an annual basis. During the 2010 fiscal year the Department completed two on-site monitoring visits at each of the AAAs. These reviews consisted of on-site review of the American Reinvestment and Recovery Act (ARRA) Nutrition programs and on-site review of NAPIS on-line performance reporting to ensure subrecipient compliance with program rules and objectives.

The Department agrees that on-site subrecipient fiscal monitoring was not performed during fiscal year 2010. Since the onset of the audit, the Department has updated our fiscal monitoring tool and has since initiated a formal fiscal monitoring program. An on-site fiscal monitoring schedule has been developed that ensures that all 13 AAAs will be reviewed during fiscal year 2012.

#### **Auditors' Comment:**

As noted in the finding above, the programmatic reviews performed during fiscal year 2011 were only over select areas and focused on determining whether IDOA subrecipients have internal control policies and procedures, not determining whether those controls are implemented and operating effectively or whether the subrecipient have complied with all direct and material programmatic requirements.

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**State Agency:** Illinois Department on Aging (IDOA)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Aging Cluster

**CFDA # and Program Expenditures:** 93.044/93.045/93.053/93.705/93.707 (\$52,083,000)

**Award Numbers:** 10AAILT3SP/10AAILNSIP/09AAILT3SP/09AAILNSIP/09AAILC1RR/  
09AAILC2RR

**Questioned Costs:** None

**Finding 10-44** *Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports*

IDOA is not adequately monitoring the OMB Circular A-133 reports submitted by its subrecipients receiving federal awards for the Aging Cluster.

IDOA passes through federal funding to thirteen area agencies on aging (subrecipients) throughout the State. IDOA requires subrecipients expending more than \$500,000 in federal awards during their fiscal year to submit OMB Circular A-133 audit reports. IDOA staff 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 IDOA records; and (3) type A programs (as defined by OMB Circular A-133) are being audited at least every three years. Additionally, IDOA staffs are responsible for evaluating the type of audit opinion issued (i.e. unqualified, qualified, and adverse) and issuing management decisions on reported findings within the prescribed timeframe.

During our testwork of four subrecipients of the Aging Cluster (with total expenditures of approximately \$21,949,000), we noted the A-133 desk review checklist was not completed in a timely manner and a management decision was not issued for findings reported in the audit report reviewed for one subrecipient tested (with expenditures of \$7,753,000). Additionally, the expenditures in the schedule of expenditure of federal awards for this subrecipient were not reconciled to IDOA's financial records.

Total awards passed through to subrecipients of the Aging Cluster were approximately \$51,146,000 during the year ended June 30, 2010.

According to OMB Circular A-133 \_\_\_ .400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 compliance supplement, dated June 2010, a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 3) ensure that the subrecipient takes timely and

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appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

In discussing these conditions with IDOA officials, they stated the position responsible for performing A-133 desk reviews was vacant during the audit period. Duties were being performed by other staff as time permitted, which impacted the timeliness of some reviews.

Failure to obtain and adequately review subrecipient OMB Circular A-133 audit reports in a timely manner may result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 10-44, 09-41, 08-43, 07-41, 06-39)

#### **Recommendation:**

We recommend IDOA establish procedures to ensure that: (1) desk reviews are performed on a timely basis for all subrecipients, (2) expenditures reported by the subrecipients are reconciled to the schedule of expenditures of federal awards submitted in the OMB Circular A-133 audit reports, and (3) supervisory reviews are documented to evidence their completion.

#### **IDOA Response:**

The Department has filled the position responsible for performing A-133 desk reviews, which will ensure that all A-133 desk reviews are completed timely and in accordance with the requirements of OMB Circular A-133.

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For Year Ended June 30, 2010

**State Agency:** Illinois Department on Aging (IDOA)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Aging Cluster

**CFDA # and Program Expenditures:** 93.044/93.045/93.053/93.705/93.707 (\$52,083,000)

**Award Numbers:** 10AAILT3SP/10AAILNSIP09AAILT3SP/09AAILNSIP/09AAILC1RR/  
09AAILC2RR

**Questioned Costs:** None

**Finding 10-45** *Inadequate Process to Monitor the Maintenance of Effort Requirement*

IDOA does not have an adequate process to ensure the Aging Cluster maintenance of effort (MOE) requirement has been met.

As a condition of receiving federal funds under the Aging Cluster, IDOA is required to maintain State funded expenditures for services to the State's elderly population equal to the average of State funded expenditures for aging services for the previous three years. State funded MOE expenditures are required to be certified to USDHHS at the end of each federal fiscal year. This annual certification is subject to review and approval by agency officials and serves as IDOA's formal documentation of whether the MOE requirement has been met.

During our testwork over the Aging Cluster MOE requirement for federal fiscal year 2009 (reported in fiscal year 2010), we noted IDOA had not prepared or submitted the annual MOE certification as of the date of our testwork (February 15, 2011). Accordingly, IDOA had not determined whether State funded expenditures for aging services were sufficient to meet the MOE requirement. In May 2011, IDOA certified MOE expenditures of \$5,323,630 for federal fiscal year 2009.

According to 45 CFR 1321.49, each fiscal year the IDOA, to meet the required non-Federal share applicable to its allotments, shall spend under the State Plan for both services and administration at least the average amount of State funds it spent under the plan for the three previous fiscal years. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure MOE requirements are met.

In discussing these conditions with IDOA officials, they stated maintenance of effort is monitored on a continuous basis during the life of the grant to ensure the MOE requirements are met. USDHHS sends an email reminder to agency staff responsible for preparing the MOE. This staff position was vacant when the email reminder was sent, contributing to this oversight.

Failure to monitor the maintenance of effort requirement could result in the State not meeting the MOE requirement for the Aging Cluster. (Finding Code 10-45)

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**Recommendation:**

We recommend IDOA implement procedures to ensure the maintenance of effort requirement is met.

**IDOA Response:**

We agree that the MOE for federal fiscal year 2009 was not filed in a timely manner. Upon identification of the oversight, the Department immediately prepared and submitted the report to AoA. Additionally, the Department has completed MOE for federal fiscal year 2010 and submitted the report to AoA in a timely manner.



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For Year Ended June 30, 2010

**State Agency:** Illinois Department on Aging (IDOA)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Aging Cluster

**CFDA # and Program Expenditures:** 93.044/93.045/93.053/93.705/93.707 (\$52,083,000)

**Award Numbers:** 10AAILT3SP/10AAILNSIP09AAILT3SP/09AAILNSIP/09AAILC1RR/  
09AAILC2RR

**Questioned Costs:** None

**Finding 10-46** *Inadequate Cash Management Procedures for Subrecipients*

IDOA does not have adequate procedures to monitor the cash needs of subrecipients and to determine whether subrecipients are minimizing the time elapsing between the receipt and disbursement of funding for the Aging Cluster program.

IDOA passes through federal funding to thirteen area agencies on aging (subrecipients) throughout the State. The subrecipients request monthly cash advances based upon estimated accrual expenditures. IDOA will disburse estimated accrual expenditures for the requested period not to exceed 1/12<sup>th</sup> of the subrecipient's grant award. Each subrecipient is required to maintain the federal funds in an interest bearing account. Upon close out of the grant, the subrecipients certify and remit the interest earned back to IDOA.

During our test work, we noted that IDOA requires its subrecipients to prepare a quarterly reconciliation of their net cash position; however, IDOA does not reduce a subrecipient's cash advance if the reconciliation identifies the subrecipient has excess cash on hand. As a result, subrecipients remitted approximately \$17,103 in interest earned on excess federal funds to IDOA. Additionally, IDOA does not have a process in place to determine if the interest remitted is reasonable.

When funds are provided in advance of expenditure, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the US Treasury and disbursement. Specifically, 45 CFR 92.21 requires that pass-through entities monitor cash advances to subrecipients to ensure those advances are for immediate cash needs only. Based on discussions with Federal agencies, we have interpreted "immediate cash needs" as 30 days or less of advance funding. In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include analysis of the subrecipient's cash position prior to advancing program funds.

In discussing these conditions with IDOA officials, they stated subrecipients are not required to provide monthly expenditure reports; therefore, the actual expenditures are reconciled on a quarterly basis.

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Providing subrecipients funding advances of greater than 30 days results in additional costs of financing for the US Treasury. (Finding Code 10-46, 09-42, 08-44, 07-42, 06-41)

**Recommendation:**

We recommend IDOA review its advance funding policies and techniques for subrecipients and implement a monitoring process to ensure subrecipients receive no more than 30 days of funding on an advance basis and that the subrecipient interest certified and remitted appears reasonable.

**IDOA Response:**

The Department concurs with the finding and recommendation. The Department will review its policies and procedures for advance funding with program managers and fiscal staff to develop a methodology that will assist in creating a more accurate projection of the 30 day advanced funding.

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For Year Ended June 30, 2010

**State Agency:** Illinois Department on Aging (IDOA)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Aging Cluster  
**CFDA # and Program Expenditures:** 93.044/93.045/93.053/93.705/93.707 (\$52,083,000)  
**Award Numbers:** 10AAILT3SP/10AAILNSIP09AAILT3SP/09AAILNSIP/09AAILC1RR/  
09AAILC2RR  
**Questioned Costs:** None

**Finding 10-47** *Improper Reporting of Amounts in Financial Status Reports*

The IDOA did not accurately report indirect costs in its annual financial status reports (SF-269 reports).

IDOA is required to submit semi-annual SF-269 reports for the Aging Cluster program. These reports are intended to identify the direct federal expenditures, as well as the indirect cost base, the applicable indirect cost rate, and amount of indirect costs attributable to the award. During our testwork over the SF-269 report for the semi-annual period ending March 31, 2010, we noted the IDOA did not report the indirect cost base, indirect cost rate, or indirect costs attributable to the award. For the year ended June 30, 2010, total indirect costs charged to the Aging Cluster program were \$1,110,000.

According to 45 CFR 92.41(b), the State is required to prepare semi-annual Financial Status Reports (SF-269). The instructions for the financial status report require information relative to indirect costs charged to the federal programs to be presented for the reporting period. Additionally, the A-102 Common Rule requires nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure data reported in financial status reports is complete and accurate.

In discussing these conditions with IDOA officials, they stated the Department was under the impression that indirect costs did not have to be reported on the SF-269 based upon discussion with USDHHS personnel.

Failure to prepare complete and accurate reports inhibits the ability of USDHHS to properly monitor and evaluate the financial status of the program and performance of the program activities. (Finding Code 10-47)

**Recommendation:**

We recommend IDOA implement procedures to ensure the financial status reports submitted for its federal awards are complete and accurate.

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**IDOA Response:**

The Department will continue to work with AoA to further clarify the reporting requirements related to indirect costs.

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**State Agency:** Illinois Department of Public Health (IDPH)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Public Health Emergency Preparedness Program

**CFDA # and Program Expenditures:** 93.069 (\$73,334,000)

**Award Numbers:** 3H75TP000325-01S1/1H75TP000325-01/5U90TP516966-10/3U90TP516966-10W1/1U90TP000176-01

**Questioned Costs:** None

**Finding 10-48** *Inadequate Monitoring of Subrecipients*

IDPH does not sufficiently perform on-site reviews of subrecipients receiving federal awards under the Public Health Emergency Preparedness (PHEP) program.

IDPH passes through PHEP program funding to various local health departments for developing and upgrading state and local response systems for threats from terrorism, pandemic influenza, and other public health emergencies. The awards provided to subrecipients are a combination of cash grants and non-cash awards in the form of vaccines. Subrecipients are also required to provide matching funds from non-federal sources to assist the State in meeting the PHEP program's match requirement.

During our testwork of 25 subrecipients of the PHEP program, we noted IDPH monitors subrecipients of the PHEP program by: (1) reviewing periodic expenditure reports, (2) examining single audit reports and findings, (3) performing on-site reviews of compliance with programmatic requirements on a periodic basis, and (4) periodic communication of program requirements. However, IDPH does not perform on-site monitoring procedures to review the fiscal and administrative capabilities and internal controls of any of its PHEP subrecipients. IDPH also has not established procedures to monitor the matching amounts reported by subrecipients to ensure the expenditures reported by the subrecipients meet general allowable cost requirements or PHEP program specific requirements.

Total federal awards passed through to subrecipients of the PHEP program were approximately \$30,159,000. Matching funds provided by subrecipients from local sources were approximately \$700,000.

According to OMB Circular A-133\_\_\_\_.400(d), 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, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal

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controls should include ensuring on-site review procedures are designed to monitor all applicable compliance requirements and fiscal controls.

In discussing these conditions with IDPH officials, they stated that staffing shortages have contributed to the conditions cited.

Failure to adequately monitor subrecipients could result in federal or matching funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement. (Finding Code 10-48)

**Recommendation:**

We recommend IDPH revise the on-site monitoring procedures to include procedures to review each applicable compliance requirement and the fiscal and administrative controls of its subrecipients. IDPH should also evaluate the current staffing of its monitoring department to ensure resources are adequate to complete reviews within prescribed timeframes.

**IDPH Response:**

The Department concurs in the finding and recommendation. The Department will revise the on-site monitoring procedures to include procedures to review applicable compliance requirements, including the fiscal and administrative controls of subrecipients. This will be accomplished by revising the job description of a current fiscal staff member to include on-site fiscal reviews, which should facilitate completion of on-sites reviews in a more timely manner.

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**State Agency:** Illinois Department of Public Health (IDPH)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Public Health Emergency Preparedness  
Centers for Disease Control and Prevention – Investigations and Technical Assistance  
HIV Care Formula Grants

**CFDA # and Program Expenditures:** 93.069 (\$73,334,000)  
93.283 (\$13,815,000)  
93.917 (\$39,814,000)

**Award Numbers:** 3H75TP000325-01S1/1H75TP000325-01/5U90TP516966-10/  
(CFDA Number) 3U90TP516966-10W1/1U90TP000176-01 (93.069)  
5H23IP522568-07/5H23IP522568-08 (93.283)  
G24HA08494-03-00/2X07HA00013-19/2X07HA00013-12 (93.917)

**Questioned Costs:** None

**Finding 10-49** *Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports*

IDPH does not have an adequate process for ensuring subrecipients of the Public Health Emergency Preparedness, Centers for Disease Control and Prevention – Investigations and Technical Assistance (CDC Investigations and Technical Assistance), and HIV Care Formula Grants programs have complied with OMB Circular A-133 audit requirements.

IDPH requires subrecipients expending more than \$500,000 in federal awards during their fiscal year to submit OMB Circular A-133 audit reports. IDPH finance staff 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 IDPH records; and (3) type A programs (as defined by OMB Circular A-133) are being audited at least every three years. Additionally, finance staff are responsible for evaluating the type of audit opinion issued (i.e. unqualified, qualified, adverse) and issuing management decisions on findings reported within required timeframes.

During our testwork over 50 subrecipients (25 for each program) of the Public Health Emergency Preparedness and the CDC Investigations and Technical Assistance program with expenditures totaling \$17,245,706 and \$5,722,162, respectively, during the year ended June 30, 2010, we noted there were seven subrecipients of the Public Health Emergency Preparedness program (with expenditures totaling \$6,578,190 during the fiscal year) and seven subrecipients of the CDC Investigations and Technical Assistance program (with expenditures totaling \$1,007,379 during the fiscal year) whose A-133 reports were not obtained within the required nine months after the subrecipients year end, and there was no evidence of follow up procedures performed by IDPH. Specifically, these reports were received between 35 and 218 days after the nine month requirement.

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Additionally, a standard checklist was not used to document the review of subrecipient A-133 reports received from subrecipients of the Public Health Emergency Preparedness, CDC Investigations and Technical Assistance, and the HIV Care Formula Grants programs to determine whether: (1) the audit reports met the audit requirements of OMB Circular A-133; (2) federal funds reported in the schedule of expenditures of federal awards reconciled to IDPH records to ensure subrecipients properly included amounts in the SEFA; and (3) Type A programs were audited at least every three years.

Subrecipient expenditures under the federal programs for the year ended June 30, 2010 were as follows:

<b>Program</b>	<b>Total Fiscal Year 2010 Subrecipient Expenditures</b>	<b>Total Fiscal Year 2010 Program Expenditures</b>	<b>Percentage</b>
Public Health Emergency Preparedness	\$30,159,000	\$73,334,000	41.1%
CDC Investigations and Technical Assistance Program	\$7,942,000	\$13,815,000	57.5%
HIV Care Formula Grants	\$7,342,000	\$39,814,000	18.4%

According to OMB Circular A-133 §\_\_\_.400(d), 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, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 compliance supplement, dated June 2010, a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient’s audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient’s audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

In discussing these conditions with IDPH officials, they stated that staffing shortages have limited their ability to meet these requirements.

Failure to obtain and adequately review subrecipient OMB Circular A-133 audit reports in a timely manner could result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 10-49 ,09-44, 08-48, 07-45, 06-46, 05-56)

**Recommendation:**

We recommend IDPH establish procedures to ensure all subrecipients receiving federal funds have audits performed in accordance with OMB Circular A-133. Additionally, desk reviews of A-133 audit



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reports should be formally documented using the A-133 desk review checklist, which includes procedures to determine whether the audit reports meet the requirements of OMB Circular A-133, federal funds reported in the schedule of expenditures of federal awards reconcile to IDPH records, and Type A programs are audited at least once every three years.

**IDPH Response:**

The Department concurs in the finding and recommendation. The Department will monitor compliance more closely, working with staff when specific program findings are identified. The Department will continue to monitor receipt of audit reports from its subrecipients and be more diligent in its follow up to obtain any missing reports. The Department supports efforts to consolidate the A-133 audit function across State agencies as recommended by HB5124 which is now P.A. 96-1141.

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**State Agency:** Illinois Department of Public Health (IDPH)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Centers for Disease Control and Prevention – Investigations and Technical Assistance  
HIV Care Formula Grants

**CFDA # and Program Expenditures:** 93.283 (\$13,815,000)  
93.917 (\$39,814,000)

**Award Numbers:** 5H23IP522568-07/5H23IP522568-08 (93.283)  
(CFDA Number) G24HA08494-03-00/2X07HA00013-19/2X07HA00013-12 (93.917)

**Questioned Costs:** None

**Finding 10-50** *Inadequate On-Site Monitoring of Subrecipients*

IDPH is not adequately performing on-site monitoring of subrecipients receiving federal awards under the Centers for Disease Control and Prevention – Investigations and Technical Assistance (CDC Investigations and Technical Assistance) and the HIV Formula Care Grants programs.

IDPH monitors subrecipients of the CDC Investigations and Technical Assistance program by: (1) reviewing periodic expenditure reports, (2) examining single audit reports and findings, (3) performing on-site reviews of compliance with programmatic requirements on a quarterly basis, and (4) periodic communication of program requirements. However, IDPH does not perform on-site monitoring procedures to review the fiscal and administrative capabilities and internal controls of any of the subrecipients.

Additionally, during our testwork of 25 subrecipients of the CDC Investigations and Technical Assistance program and eight subrecipients of the HIV Formula Care Grants program with expenditures of \$5,722,162 and \$5,408,989, respectively, during the year ended June 30, 2010, we noted the following:

- On-site programmatic reviews were not performed for one subrecipient of the CDC Investigations and Technical Assistance program (with expenditures of \$244,024 during the fiscal year) and two subrecipients of the HIV Formula Grants program (with expenditures of \$291,072 during the fiscal year).
- The standard monitoring tool was not used to document the on-site programmatic review for one subrecipient of the CDC Investigations and Technical Assistance program (with expenditures of \$141,438).

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Subrecipient expenditures under the federal programs for the year ended June 30, 2010 were as follows:

<b>Program</b>	<b>Total Fiscal Year 2010 Subrecipient Expenditures</b>	<b>Total Fiscal Year 2010 Program Expenditures</b>	<b>Percentage</b>
CDC Investigations and Technical Assistance Program	\$7,942,000	13,815,000	57.5%
HIV Care Formula Grants	\$7,342,000	39,814,000	18.4%

According to OMB Circular A-133 \_\_\_\_\_.400(d), 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, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring on-site review procedures are performed in a timely manner and are designed to monitor fiscal controls.

In discussing these conditions with IDPH officials, they stated that throughout the programs audited, staffing shortages have hampered meeting on-site monitoring requirements.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement. (Finding Code 10-50, 09-45, 08-49, 07-44, 06-44, 05-55, 04-42)

**Recommendation:**

We recommend IDPH revise the on-site monitoring procedures to include procedures to review the subrecipients' fiscal and administrative capabilities. IDPH should also evaluate the current staffing of its monitoring department to ensure resources are adequate to complete reviews within prescribed timeframes.

**IDPH Response:**

The Department concurs in the finding and recommendation. A new internal control review questionnaire is being prepared with the expert assistance of the agency's internal audit staff and will be used by specific program staff who performs on-site program reviews. For the HIV Formula Grants program, programmatic and fiscal site visits are conducted annually in all eight Care Connect offices. The Direct Services Unit in our HIV Section is planning to hire an additional fiscal monitoring staff person to help ensure a more complete audit of each lead agency. The HRSA Ryan White program uses specific monitoring tools for on-site visits which utilizes a scoring system that yields a percent compliance for various categories. Strengthening the fiscal component by hiring an additional staff person would further improve that process.

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**State Agency:** Illinois Department of Public Health (IDPH)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** HIV Care Formula Grants  
**CFDA # and Program Expenditures:** 93.917 (\$39,814,000)  
**Award Numbers:** G24HA08494-03-00/2X07HA00013-19/2X07HA00013-12  
**Questioned Costs:** Cannot be determined

**Finding 10-51** *Inadequate Process for Determining Client Eligibility*

IDPH does not have an adequate process for performing client eligibility determinations for its HIV Care Formula Grant (HIV) program.

The HIV program administered by IDPH includes an AIDS Drug Assistance Program (ADAP) under which beneficiaries who meet certain eligibility requirements are provided drugs to treat HIV/AIDS. The eligibility criteria for ADAP require that the beneficiary: (1) has been diagnosed with HIV/AIDS; (2) is at an income level at or below 500% of the federal poverty level; (3) is not eligible for 80% or greater coverage of drugs through a third party payer; (4) is not eligible for medical assistance through the Medicaid Cluster (Medicaid); and (5) is an Illinois resident. IDPH's current process for determining eligibility involves an individual completing an application and submitting it to IDPH through the mail or in person to a member of the HIV Consortium (subrecipients of the HIV program). The application requires the applicant to submit proof of income, insurance, residency, and documentation of a medical diagnosis of HIV/AIDS. Additionally, IDPH confirms with the Illinois Department of Healthcare and Family Services that the beneficiary is not receiving benefits under Medicaid.

During our testwork of benefits provided to HIV beneficiaries, we selected 40 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits. We noted that in six cases, the beneficiary's application indicated the beneficiary had no income. Although the individual's income level was below 500% of the poverty level and IDPH confirmed the individual was not receiving benefits under Medicaid, 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.

Additionally, we noted IDPH only recertifies (redetermines) eligibility of beneficiaries on an annual basis, instead of every six months as required by program requirements.

According to US Code 42 USC 300ff-26(b), an individual receiving benefits under the HIV program is required to 1) have a medical diagnosis of the HIV disease and 2) be a low-income individual as defined by the State. According to the Notice of Grant Award for the HIV program, IDPH is required to implement a recertification process, at a minimum, every six months to ensure the program only serves eligible clients.

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Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include procedures to collect and maintain adequate documentation to support eligibility determinations and recertifying the eligibility of beneficiaries every six months.

In discussing these conditions with IDPH officials, they stated that staffing issues impacted timely recertifications and that sound public health policy dictates presumptive eligibility for ADAP.

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. (Finding Code 10-51, 09-43, 08-47, 07-46, 06-43, 05-54, 04-40)

#### **Recommendation:**

We recommend IDPH implement procedures to (1) verify income and insurance information with third party sources (i.e., employers, third party insurers, etc.) and other State agencies and (2) perform recertifications of eligibility every six months.

#### **IDPH Response:**

The Department concurs in the finding and recommendation. ADAP does utilize the following forms of documentation when verifying income; two recent pay stubs, current tax return for self-employed individuals; IDES letter of unemployment reward; Social Security award letters (SSDI and/or SSI). In the instances that a client reports income less than \$500 per month or zero income, then a letter of support is required by ADAP. The auditor also noted during the site visit that ADAP needed to print off the Medicaid screen when verifying Medicaid standing and place a hard copy of the screen print in the client's file. This procedure was implemented on June 1, 2010.

Regarding the six month recertification requirement from the Health Resources and Services Administration (HRSA), ADAP implemented the 6 month recertification requirement on April 1, 2010, which is ongoing at this time.

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**State Agency:** Illinois Department of Public Health (IDPH)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Medicaid Cluster

**CFDA # and Program Expenditures:** 93.775/93.777/93.778 (\$8,612,823,000)

**Award Numbers:** 05-0805IL5048/05-0905IL5048/05-1005IL5048/05-0805IL5028/  
05-0905IL5028/05-10905IL5028/05-1005ILARRA

**Questioned Costs:** None

**Finding 10-52** *Failure to Investigate Provider Complaints within Required Timeframes*

IDPH did not investigate complaints received relative to providers of the Medicaid Cluster within required timeframes.

The Office of Health Care within IDPH is responsible for receiving and investigating complaints received against providers of the Medicaid Cluster. State laws require the Office of Health Care to investigate complaints within 30 days of receipt unless the complaint alleges abuse or neglect. Complaints of abuse or neglect are required to be investigated within seven days of receipt. As the timeframes for complaint investigations included in the State's laws are more stringent than those included in the federal Medicaid regulations, the State timeframes are required to be followed.

During our testwork over 40 complaints filed against Medicaid providers during the year ended June 30, 2010, we identified eleven complaints that were not investigated within the timeframes required by the State's law. The delays in investigating these complaints ranged from eight to 70 days in excess of required timeframes.

According to Section 5010 of The Centers for Medicare and Medicaid Services (CMS) State Operations Manual, each state is expected to have written policies and procedures to ensure that the appropriate response is taken for each complaint received against providers. Among other things, these policies and procedures are required to include timelines for investigating complaints which are at least as stringent as those included in federal regulations. Additionally, the Nursing Home Care Act (210 ILCS 45/3-702(d)) requires complaints to be investigated within 30 days of receipt unless the complaint alleges abuse or neglect. Complaints of abuse or neglect are required to be investigated within 7 days of receipt.

In discussing these conditions with IDPH officials, they stated that the cause of the problem was significant staffing shortages due to the inability to fill surveyor vacancies.

Failure to investigate complaints against Medicaid providers within required timeframes may prevent the State from identifying and correcting health and safety violations and from protecting the welfare of Medicaid beneficiaries. (Finding Code 10-52, 09-47, 08-53, 07-48)

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**Recommendation:**

We recommend IDPH review its current process for investigating complaints received against Medicaid providers and consider changes necessary to ensure all complaints are investigated within the timeframes required by State law.

**IDPH Response:**

The Department concurs in the finding and recommendation. The current process for complaint intake and investigation is adequate. The root cause of failing to meet all investigation timeframes was reduced staffing levels. Due to State budget constraints in the years preceding the audit time period, many field surveyor vacancies were left unfilled.

PA 96-1372 (SB326) significantly revised the Illinois Nursing Home Care Act, as well as several related State statutes. Among the revisions to State law was a mandate that the Department increase nursing home surveyor staffing levels and these staffing increases are underway. Presently, 45 additional nurse positions have been hired. With increased survey staff, the Department will be able to initiate the investigation of complaints within the mandated timeframes.

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**State Agency:** Illinois State Board of Education (ISBE)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Title I, Part A Cluster

**CFDA # and Program Expenditures:** 84.010/84.389 ARRA (\$696,276,000)

**Award Numbers** S010A070013/S010A080013/S010A090013/S010A080013/S389A090013

**Questioned Costs:** None

**Finding 10-53** *Failure to Sanction Non-Comparable Local Education Agency (LEA) and Inadequate Documentation for Determining Comparability*

ISBE does not take adequate measures to sanction a LEA that did not meet the comparability of services requirement under the Title I, Part A Cluster (Title I).

LEAs must provide educational services for schools receiving Title I funds that are comparable (equal) to those that are not receiving Title I funds within the same school district (“comparability of services”). Based on information provided from a USDE audit and procedures performed during our audit, we noted ISBE did not sanction one LEA which did not properly calculate comparability ratios or determine the amount of federal funds that should have been returned as a result of the LEA not meeting the comparability requirement. Specifically, ISBE did not sanction the LEA for continuously having non-comparable schools or for including improper salary information in the calculations. During the initial comparability calculation, the LEA had 21 non-comparable schools. To make the schools comparable, the LEA allocated just enough funds (totaling \$1.6 million) to each of the non-comparable schools to make them comparable. However, the LEA only expended \$955,000 of that amount and 20 of the 21 schools remained non-comparable. Further, this LEA continues to improperly include longevity salary information in the calculation.

Section 1120A(c) of the Elementary and Secondary Education Act states that a subrecipient may receive funds under this part only if state and local funds will be used in schools served under this part to provide services that, taken as a whole, are at least comparable to services in schools that are not receiving funds under this part. Each subrecipient must maintain records that are updated biannually, documenting compliance with the comparability requirement. The State Educational Agency is ultimately responsible for ensuring that all subrecipients remain in compliance with the comparability requirement. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure that the subrecipients are effectively monitored in order to ensure they are compliant with the comparability of services requirement.

In discussing these conditions with ISBE officials, they stated the non-comparability issue was first raised in the U.S. Department of Education (ED) Office of the Inspector General Report on Comparability issued June 7, 2007. This report states that; “Determinations of corrective action to be



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taken, including the recovery of funds, will be made by the appropriate Department of Education officials, in accordance with the General Education Provisions Act.” ISBE must wait to receive the ED determination of corrective action before the Agency can sanction the LEA.

Failure to ensure that LEAs remain in compliance with the comparability of services requirement may result in: 1) an inequitable education for students attending schools receiving Title I funds and 2) unallowable costs. (Finding Code 10-53, 09-48, 08-54, 07-52, 06-51)

#### **Recommendation:**

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

#### **ISBE Response:**

As has been previously stated, ISBE acknowledges that the LEA noted in the finding was not sanctioned when comparability requirements were not met. However, the Agency continues to work with the U. S. Department of Education and is still awaiting the final determination of corrective action. In its July 1, 2009 Program Determination Letter on ISBE’s FY 07 Single Audit findings, the ED Office of Elementary and Secondary Education stated: “As the auditors and ISBE noted, this and other related issues regarding LEAs’ compliance with the comparability requirement and ISBE’s monitoring of its LEAs’ compliance with this requirement are being addressed by the Program Determination Letter (PDL) for the OIG’s audit of Illinois (ED-OIG/A05G0033). Because the PDL for ED-OIG/ A05G0033 will be issued in the near future, we are not requiring ISBE to provide corrective actions regarding the comparability issues identified by the auditors in response to the above referenced audit findings. Rather, these matters will be handled through the resolution of the OIG audit, and we consider these findings to be closed.” Upon receipt, ISBE will take the corrective action contained in the Program Determination Letter. The Agency continues to work with the LEA cited in the USDE report to ensure their compliance with comparability requirements.

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**State Agency:** Illinois State Board of Education (ISBE)  
**Federal Agency:** US Department of Education (USDE)  
**Program Name:** Title I, Part A Cluster  
Special Education Cluster  
Career and Technical Education – Basic Grants to States  
Twenty-First Century Community Learning Centers  
Reading First State Grants  
Improving Teacher Quality State Grants

**CFDA # and Program Expenditures:** 84.010/84.389ARRA (\$696,276,000)  
84.027/84.173/84.391ARRA/84.392ARRA (\$742,808,000)  
84.048 (\$42,690,000)  
84.287 (\$41,474,000)  
84.357 (\$19,835,000)  
84.367 (\$106,583,000)

**Award Numbers** S010A070013/S010A080013/S010A090013/S010A080013/  
(CFDA Number) S389A090013(84.010/84.389ARRA)  
H027A070072/H027A080072/H027A090072/H391A090014A  
(84.027/84.173/84.391ARRA)  
V048A070013/V048A080013/V048A090013 (84.048)  
S287C070013/S287C080013/S287C090013 (84.287)  
S357A070014/S357A080014/S357A090014 (84.357)  
S367A070012/S367A080012/S367A090012 (84.367)

**Questioned Costs:** None

**Finding 10-54** *Inadequate On-Site Fiscal Monitoring of Subrecipients*

ISBE is not adequately performing on-site fiscal monitoring reviews of subrecipients of the Title I, Part A Cluster, Special Education Cluster, Career and Technical Education – Basic Grants to States, Twenty-First Century Community Learning Centers, Reading First State Grants, and Improving Teacher Quality State Grants programs (collectively referred to as the Education programs).

ISBE selects subrecipients of the Education programs to perform on-site fiscal and administrative monitoring procedures using a risk based approach. Specifically, ISBE places each subrecipient receiving funding into a risk level (low, medium, and high) category that dictates the frequency (annual, every 2 years, and every 3 years) of on-site fiscal and administrative monitoring procedures. The risk assessments consider the following factors: the funding level received by the entity, the entity's financial status, the entity's improvement status, any past audit findings, and the type of entity.

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In reviewing the subrecipient risk assessment procedures performed by ISBE, we noted the risk criteria were evaluated on an entity-wide basis for each subrecipient; however, several subrecipients selected for on-site reviews were comprised of numerous individual school sites of which only a portion were subject to on-site fiscal and administrative review procedures. Upon further investigation, we noted ISBE has not developed measurable selection criteria for determining which individual school sites will be subject to on-site monitoring procedures for each subrecipient selected for review.

Further, during our testwork over a sample of 40 subrecipients from each of the Education major programs, we noted the following number of subrecipients that were selected for on-site fiscal and administrative reviews based on the criteria identified above for which an actual review was not performed:

<b>Program</b>	<b>Number of Subrecipients Scheduled but not Reviewed</b>
Title I, Part A Cluster	28
Special Education Cluster	15
Twenty-First Century Community Learning Centers	11
Reading First State Grants State Grants	2
Improving Teacher Quality State Grants	28

Finally, we noted the monitoring tools used by ISBE for on-site fiscal and administrative reviews of subrecipients did not include procedures designed to ensure 1) compliance with providing access to federal funding for new or significantly expanded charter schools, and 2) the accuracy of information reported by the Local Education Agencies (LEAs) that is used by ISBE in the calculation of adequate yearly progress in order to properly identify LEAs and schools in need of improvement.

According to OMB Circular A-133 \_\_\_\_\_.400(d), 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, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In discussing these conditions with ISBE officials, they stated the level of External Assurance staffing continues to impact the ability of the division to meet scheduled monitoring visits. The External Assurance division has been reorganized. Management is in the process of posting vacancies and hiring additional staff throughout the State.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement (Finding Code 10-54, 09-49, 08-55, 07-53)

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**Recommendation:**

We recommend ISBE evaluate the current staffing of the External Assurance Department to ensure resources are allocated to perform this function. We also recommend ISBE review its risk assessment criteria and establish measurable selection criteria for selecting individual school sites for on-site reviews. Finally, ISBE should review and update its monitoring instruments to ensure they include procedures for all direct and material compliance requirements.

**ISBE Response:**

ISBE agrees and understands the importance of on-site fiscal monitoring. ISBE reorganized the External Assurance Division in March 2011 and is in the process of reviewing how resources are allocated to perform this function. ISBE will also review its risk assessment criteria for selecting individual school sites for on-site reviews and develop a selection process to ensure all applicable schools receive the appropriate on-site review. In addition, criteria for establishing an adequate monitoring instrument are also being reviewed.

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**State Agency:** Illinois State Board of Education (ISBE)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Title I, Part A Cluster  
Improving Teacher Quality State Grants

**CFDA # and Program Expenditures:** 84.010/84.389 ARRA (\$696,276,000)  
84.367 (\$106,583,000)

**Award Numbers** S010A070013/S010A080013/S010A090013/S010A080013/  
(CFDA Number) S389A090013(84.010/84.389ARRA)  
S367A070012/S367A080012/S367A090012(84.367)

**Questioned Costs:** None

**Finding 10-55** *Inadequate On-Site Programmatic Monitoring of Subrecipients*

ISBE is not adequately performing on-site programmatic monitoring reviews of subrecipients of the Title I, Part A Cluster and Improving Teacher Quality State Grants programs.

On-site programmatic reviews for subrecipients of the Title I, Part A Cluster and Improving Teacher Quality State Grants programs are performed by the External Assurance Department of ISBE in conjunction with the fiscal and administrative reviews. ISBE selects subrecipients in these programs to perform on-site monitoring using a method which combines elements of both cyclical and risk based approaches. This approach is designed to result in all subrecipients being reviewed on an annual, every 2 year or every 3 year cycle, and all programs being reviewed at least once every 6 years.

Specifically, ISBE places each subrecipient receiving funding into a risk level (low, medium, and high) category that dictates the frequency (annual, every 2 year, and every 3 year) of on-site monitoring procedures. The risk assessments consider the following factors: the funding level received by the entity, the entity's financial status, the entity's improvement status, any past audit findings, and the type of entity.

Additionally, ISBE officials stated that risk assessments for each program are performed based on the nature of the program (i.e. certain programs are considered higher risk), prior A-133 Findings, and information received from internal and external sources. Based on this analysis, each program is placed into a risk level category (low, medium, and high) that dictates the frequency (annual, every 3 year, every 6 year) of on-site monitoring procedures over the specific program.

In reviewing the subrecipient risk assessment procedures performed by ISBE, we noted the risk criteria were evaluated on an entity-wide basis for each subrecipient; however, several subrecipients selected for on-site reviews were comprised of numerous individual school sites of which only a portion were subject to on-site fiscal and administrative review procedures. Upon further investigation, we noted ISBE has not developed measurable selection criteria for determining which individual school sites will be subject to on-site monitoring procedures for each subrecipient.

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Further, during our audit procedures, we selected a sample of 40 subrecipients for both Title I, Part A Cluster and Improving Teacher Quality State Grants and noted the following number of subrecipients that were selected for an on-site programmatic review based on the criteria above for which an actual review was not performed:

Program	Number of Subrecipients Scheduled but not Reviewed
Title I, Part A Cluster	28
Improving Teacher Quality State Grants	28

Additionally, the USDE performed a review of ISBE’s administration of the Title I, Part A Cluster and Improving Teacher Quality State Grants programs. During this review, USDE identified several instances of noncompliance with program regulations at the subrecipient level, which have been attributed to deficiencies in ISBE’s monitoring procedures for subrecipients of these programs. These instances of non-compliance at the subrecipient level were noted in the following areas:

- Parental involvement,
- Parental notification of school choice,
- The provision of supplemental educational services,
- The administration of schoolwide programs,
- Compliance with earmarking requirements relating to choice-related transportation and parental involvement at private schools,
- Services for private school children,
- Compliance with supplement not supplant requirements, and
- The use of non-highly qualified teachers.

According to OMB Circular A-133 \_\_\_\_\_.400(d), 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, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In discussing these conditions with ISBE officials, they stated the level of External Assurance staffing continues to impact the ability of the division to meet scheduled monitoring visits. The External Assurance division has been reorganized. Management is in the process of posting vacancies and hiring additional staff throughout the State.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 10-55, 09-50, 08-56, 07-54).

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**Recommendation:**

We recommend ISBE evaluate the current staffing of the External Assurance department to ensure resources are allocated to perform this function. We also recommend ISBE review its risk assessment criteria and establish measurable selection criteria for selecting individual school sites for on-site reviews. Finally, we recommend ISBE update its monitoring instruments (programs) to ensure that the subrecipients' compliance with certain program requirements is properly monitored and documented.

**ISBE Response:**

ISBE agrees and understands the importance of on-site programmatic monitoring. ISBE reorganized the External Assurance Division in March 2011 and is in the process of reviewing how resources are allocated to perform this function. ISBE will also review its risk assessment criteria for selecting individual school sites for on-site reviews and develop a selection process to ensure all applicable schools receive the appropriate on-site review. In addition, criteria for establishing an adequate monitoring instrument are also being reviewed.

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**State Agency:** Illinois State Board of Education (ISBE)  
**Federal Agency:** US Department of Education (USDE)  
**Program Name:** State Fiscal Stabilization Fund Cluster  
**CFDA # and Program Expenditures:** 84.394/84.397 (\$1,015,227,000)  
**Award Number:** S394A090014 (84.394ARRA)/S397A090014(84.397)  
**Questioned Costs:** None

**Finding 10-56** *Inadequate On-Site Monitoring Procedures*

ISBE did not perform on-site monitoring procedures for subrecipients receiving federal awards under the State Fiscal Stabilization Fund Cluster.

ISBE passed through approximately \$1,015,227,000 in State Fiscal Stabilization Fund Cluster funding to the Local Education Agencies (LEAs) during the year ended June 30, 2010 to help stabilize State and local governments as well as minimize and avoid reductions in their budgets for education and other essential services in exchange for a commitment to advance essential education reforms. ISBE's subrecipient monitoring procedures for State Fiscal Stabilization Fund Cluster include: (1) providing subrecipients with technical guidance through training sessions and handbooks; (2) performing reviews of monthly expenditure claims documentation; and (3) performing desk reviews of single audit reports.

During our review of the on-site monitoring procedures performed by ISBE for a sample of 40 subrecipients of the State Fiscal Stabilization Fund Cluster with expenditures of \$420,673,492 during the year ended June 30, 2010, we noted ISBE has not developed adequate procedures to monitor all relevant fiscal and administrative processes and controls of its subrecipients. Specifically, on-site monitoring procedures are not performed to determine whether subrecipients are documenting administrative expenditures in accordance with the applicable cost principles or whether subrecipients are following appropriate procurement procedures. The on-site monitoring procedures performed by ISBE primarily focus on performing reviews of monthly expenditure claims documentation. Although ISBE collects a monthly expenditure claim along with documentation supporting the expenditures reported by the subrecipient, the documentation collected does not provide sufficient detail to allow ISBE to evaluate whether the costs meet the allowable costs criteria in OMB Circular A-87 or whether procurements were performed in accordance with the Illinois Procurement Code.

According to OMB Circular A-133 §\_\_.400(d), 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, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In discussing these conditions with ISBE officials, they stated the delay in developing and implementing on-site monitoring procedures for subrecipients of the State Fiscal Stabilization Fund Cluster was due to timing and limited resources.



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Failure to monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement. (Finding Code 10-56)

**Recommendation:**

We recommend ISBE review its on-site monitoring procedures for subrecipients of the State Fiscal Stabilization Fund Cluster and implement changes necessary to ensure procedures performed adequately address all compliance requirements that are direct and material to subrecipients.

**ISBE Response:**

ISBE agrees and understands the importance of on-site monitoring. ISBE has developed and implemented on-site monitoring procedures for subrecipients of the State Fiscal Stabilization Fund Cluster.

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**State Agency:** Illinois School Board of Education (ISBE)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Title I, Part A Cluster  
Improving Teacher Quality State Grants

**CFDA # and Program Expenditures:** 84.010/84.389 ARRA (\$696,276,000)  
84.367 (\$106,583,000)

**Award Numbers** S010A070013/S010A080013/S010A090013/S010A080013/  
(CFDA Number) S389A090013(84.010/84.389ARRA)  
S367A070012/S367A080012/S367A090012(84.367)

**Questioned Costs:** None

**Finding 10-57** *Inaccurate Monitoring of Maintenance of Effort*

ISBE does not have adequate procedures in place to ensure the maintenance of effort (MOE) requirement for subrecipients of the Title I, Part A Cluster (Title I) and Improving Teacher Quality State Grants (Title II) programs is accurately calculated.

ISBE passed through approximately \$689,466,000 and \$105,649,000 in Title I and Title II program funding, respectively, to Local Education Agencies (LEAs) during the year ended June 30, 2010 to improve the quality of teaching for children who are at risk of not meeting academic standards and to increase academic achievement among all students. A LEA may only receive funding under these programs if the combined fiscal effort per student or the aggregate expenditures of the LEA from State and local funding sources for free public education for the preceding fiscal year was not less than 90% of the combined fiscal effort per student or aggregate expenditures for the second preceding year.

During our testwork over the MOE calculations for 40 subrecipients of the Title I and Title II programs, we noted the calculations for 20 subrecipients did not include all MOE expenditures. Specifically, we noted non-capitalized expenditures reported on the most recent Annual Financial Report were improperly excluded from the calculations resulting in an understatement of 2010 MOE expenditures for these subrecipients. Upon further review, ISBE determined that non-capitalized expenditures were consistently excluded from the calculation for all subrecipients based on a formula error in the MOE calculations. Although these subrecipients were in compliance with the MOE requirement despite the calculation errors, these MOE calculations will serve as the base for determining compliance with the MOE requirement in 2011.

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure formulas used to calculate maintenance of effort amounts include all required expenditure categories.

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In discussing these issues with ISBE officials, they stated that the calculation errors occurred due to a misunderstanding related to designing the formula to extrapolate expenditure data used in the MOE calculations.

Failure to properly calculate MOE expenditures prohibits ISBE from properly monitoring subrecipient compliance with the MOE requirement on a prospective basis. (Finding Code 10-57)

**Recommendation:**

We recommend ISBE review its current process for calculating MOE expenditures incurred by its subrecipients to ensure all expenditure categories are properly included in the MOE calculation.

**ISBE Response:**

ISBE agrees and will review the process for calculating MOE expenditures incurred by its subrecipients to ensure all expenditure categories are properly included in the MOE calculation. In addition, internal controls will be strengthened in order to minimize the possibility for errors in the selection of expenditure data used in the calculations.

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**State Agency:** Illinois State Board of Education (ISBE)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Title I, Part A Cluster  
Special Education Cluster  
State Fiscal Stabilization Fund Cluster

**CFDA # and Program Expenditures:** 84.010/84.389ARRA (\$696,276,000)  
84.027/84.173/84.391ARRA/84.392ARRA (\$742,808,000)  
84.394/84.397 ARRA (\$1,015,227,000)

**Award Numbers** S010A070013/S010A080013/S010A090013/S010A080013/  
(CFDA Number) S389A090013(84.010/84.389ARRA)  
H027A070072/H027A080072/H027A090072/H391A090014A  
(84.027/84.173/84.391ARRA)  
S394A090014/S397A090014 (84.394/84.397ARRA)

**Questioned Costs:** None

**Finding 10-58** *Inadequate Cash Management Procedures for Subrecipients*

ISBE does not have adequate procedures to monitor the cash needs of subrecipients and to determine whether subrecipients are minimizing the time elapsing between the receipt and disbursement of funding for Title I, Part A Cluster, Special Education Cluster, and the State Fiscal Stabilization Fund (SFSF) Cluster programs.

ISBE passes through federal funding to Local Education Agencies (subrecipients) throughout the State to support education programs. A payment schedule (i.e. monthly or quarterly, or upon request) is established by the subrecipients and ISBE during the grant application and budgeting process. ISBE makes payments to the subrecipients based upon the established payment schedule. During our testwork, we noted ISBE is not monitoring the cash position of the subrecipients throughout the year to ensure that the subrecipients do not have excess federal cash on-hand at the time of each payment.

When funds are provided in advance of expenditure, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the US Treasury and disbursement. Specifically, 34 CFR 80.37 requires the pass-through entities monitor cash advances to subrecipients to ensure those advances are for immediate cash needs only. Based on discussions with Federal agencies, we have interpreted “immediate cash needs” as 30 days or less of advance funding. In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include analysis of the subrecipient’s cash position prior to advancing program funds.

In discussing these conditions with ISBE officials, they stated that due to a similar finding identified by the Federal Office of Inspector General in a February 2010 audit of ISBE’s internal controls

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regarding Federal stimulus funds, the agency has made a significant policy change in how Federal funds will be distributed to local education agencies beginning in fiscal year 2012.

Failure to monitor the cash position of subrecipients could result in advances in excess of 30 days cash needs and in additional costs of financing for the US Treasury. (Finding Code 10-58, 09-51)

**Recommendation:**

We recommend ISBE establish procedures to monitor the cash position of subrecipients. These procedures should be designed to ensure subrecipients receive no more than 30 days of funding on an advance basis.

**ISBE Response:**

ISBE agrees and has made a major policy decision that comprehensively changes the methodology for distributing Federal grant funds to local education agencies (LEAs) beginning in fiscal year 2012. The LEA's will no longer receive advanced payments based on a payment schedule but rather receive payments through a modified reimbursement method.

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**State Agency:** Illinois Community College Board (ICCB)  
**Federal Agency:** US Department of Education (USDE)  
**Program Name:** Career and Technical Education – Basic Grants to States  
**CFDA # and Program Expenditures:** 84.048 (\$42,690,000)  
**Award Numbers** V048A070013/V048A080013/V048A090013  
**Questioned Costs:** None

**Finding 10-59** *Inadequate Documentation of Monitoring of Subrecipient OMB Circular A-133 Audit Reports*

ICCB is not adequately reviewing OMB Circular A-133 audit reports that are required to be received from subrecipients of the Career and Technical Education – Basic Grants to States (post-secondary education) program.

The Illinois State Board of Education provided ICCB with an interagency grant of \$19,116,730 to establish Career and Technical Education programs at community colleges throughout the State.

ICCB reviews OMB Circular A-133 audit reports from subrecipients who expend \$500,000 or more of federal awards in their fiscal year. ICCB reviews these reports to assess whether or not there are violations of program requirements (findings). As part of this review process, ICCB completes a checklist, which primarily consists of questions related to whether or not the subrecipient audit report discloses any audit findings. However, during our procedures over the A-133 desk reviews completed during State fiscal year 2010 (report submissions from 2009), we noted no documentation to support that:

- ICCB performs a thorough “desk review” of the report to determine whether the audits were performed in accordance with OMB Circular A-133.
- The federal funds reported in the schedule of expenditures of federal awards reconciles to funding notifications.
- ICCB programs that are Type A programs (as defined by OMB Circular A-133) are being audited at least every three years.

Total federal awards passed through to subrecipients of the Career and Technical Education program were \$42,339,000 during the year ended June 30, 2010.

According to OMB Circular A-133 §\_\_\_\_.400(d), 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, regulations, and the provisions of contracts or grant agreements and that project goals are achieved.

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According to the OMB Circular A-133 Compliance Supplement, dated June 2010, a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipients fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipients audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipients audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.

According to 34 CFR Sections 80.20 and 80.40, ICCB is required to have an effective internal control structure in place to ensure proper monitoring of subrecipients.

In discussing these conditions with ICCB officials, they stated the A-133 desk review checklist and subrecipient certification procedures were not updated until fiscal year 2011.

Failure to adequately obtain, review, and perform follow-up procedures on subrecipient OMB Circular A-133 audit reports could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 10-59, 09-56, 08-59, 07-56, 06-54)

#### **Recommendation:**

We recommend ICCB:

- Update its checklist to include additional criteria to ensure that a sufficient review is performed over the reports,
- Establish a process for updating the subrecipient files with the results of the findings follow-up review, and
- Require its subrecipients to certify that less than \$500,000 was expended in total federal awards if an OMB A-133 audit report is not submitted.

#### **ICCB Response:**

The ICCB agrees with the finding. The ICCB updated its checklist for the review of the 2010 audits and the ICCB sends out a certification for its subrecipients to certify they are not subject to an A-133 audit.

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**State Agency:** Illinois Board of Higher Education (IBHE)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** State Fiscal Stabilization Fund Cluster

**CFDA # and Program Expenditures:** 84.394/84.397 (\$1,015,227,000)

**Award Number:** S394A090014/ S397A090014 (84.394ARRA/84.397ARRA)

**Questioned Costs:** None

**Finding 10-60** *Failure to Obtain Suspension and Debarment Certifications and Communicate Program Requirements to Subrecipients*

IBHE did not obtain required certifications that subrecipients were not suspended or debarred from participation in Federal assistance programs and did not communicate program requirements to subrecipients of the State Fiscal Stabilization Fund Cluster program.

IBHE is responsible for communicating award information and monitoring federal funding passed through to public colleges and universities throughout the State under the State Fiscal Stabilization Fund Cluster program.

During our review of four award documents for subrecipients of the State Fiscal Stabilization Fund Cluster program, we noted IBHE did not include a suspension and debarment certification in any of the grant agreements. As a result, IBHE did not obtain a certification that the subrecipients of the State Fiscal Stabilization Fund Cluster program were not suspended or debarred from participation in Federal assistance programs. Further, IBHE did not perform a verification check with the "Excluded Parties List System" (EPLS) maintained by the General Services Administration for its subrecipients.

Additionally, IBHE's grant agreements did not identify the specific program name, CFDA number and federal award number under which federal funding had been provided during the year ended June 30, 2010 or the requirement to have an audit performed in accordance with OMB Circular A-133.

Subrecipient expenditures under the State Fiscal Stabilization Fund Cluster program for the year ended June 30, 2010 were \$86,963,000, all of which was funded by ARRA.

According to 34 CFR 80.35, grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension." Further, according to OMB Circular A-133 §\_\_400(d), a pass-through entity is required to identify federal awards made by informing each subrecipient of the CFDA title and number, award name and number, and award year. The pass through entity is also required to advise subrecipients of requirements imposed on them by federal laws and regulations.



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Additionally, the A-102 Common Rule also requires nonfederal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required certifications for covered contracts and subawards are received, documented, and not made with a debarred or suspended party and procedures to ensure subrecipient award communications contain all required information.

In discussing these conditions with IBHE officials, they stated the unusual nature of this grant and evolving federal guidance during the grant period contributed to the noncompliance identified.

Failure to obtain certifications or perform verification procedures with the EPLS could result in the awarding of Federal funds to subrecipients that are suspended or debarred from participation in Federal assistance programs and failure to communicate program information could result in subrecipients not properly administering the program in accordance with federal regulations or having required audits performed. (Finding Code 10-60)

#### **Recommendation:**

We recommend IBHE establish procedures to ensure subrecipients are not suspended or debarred or otherwise excluded from participation in Federal assistance programs and that all required information is properly communicated to its subrecipients.

#### **IBHE Response:**

The IBHE accepts the recommendation and will include the required suspension and debarment certification in all future grant agreements for Federal assistance programs. In addition, the IBHE will establish procedures to ensure that all required information is communicated properly to subrecipients.

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**State Agency:** Illinois Student Assistance Commission (ISAC)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Federal Family Education Loans

**CFDA # and Program Expenditures:** 84.032 (\$238,016,000)

**Award Numbers:** None

**Questioned Costs:** None

**Finding 10-61** *Untimely Deposits into the Federal Fund*

ISAC does not deposit the federal share of borrower payments into the Federal Fund within the required 48 hours.

ISAC receives payments on defaulted loans directly from borrowers and indirectly through outside collection agencies. Borrower payments received by outside collection attorneys are generally remitted to ISAC bi-weekly which extends the period between receipts of the borrower payments (received from outside collection agencies) and deposited into the Federal Fund. During our testwork over 40 borrower payments, we noted three instances where borrower payments were not deposited into the Federal Fund within the required 48 hours. The delays were approximately five to eight days. ISAC is aware of the delay, and, as a result, calculates interest on funds remitted outside of the 48 hour requirement. During the year ended June 30, 2010, ISAC transferred approximately \$2,450 from the operating fund to the Federal Fund as interest payments on untimely remittances.

In accordance with 34 CFR section 682.419(b)(6)), the guaranty agency is required to deposit into its Federal Fund all funds received on loans on which a claim has been paid, including default collections, within 48 hours of receipt of those funds, minus any portion that the agency is authorized to deposit into the Operating Fund. Forty-eight hours means two business days. "Receipt of Funds" means actual receipt of funds by the guaranty agency or its agent (i.e. collection agencies), whichever is earlier.

In discussing these conditions with ISAC officials, they stated that delays in receipt of borrower payments from certain outside legal collection agencies were the reason for non-compliance with the 48-hour rule.

Failure to make deposits into the Federal Fund within the required time frame could result in lost interest earnings to the Federal Fund. (Finding Code 10-61, 09-57, 08-61, 07-59, 06-58, 05-71)

**Recommendation:**

We recommend ISAC establish procedures to ensure borrower payments from outside collection attorneys are received on a timely basis.

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**ISAC Response:**

Payments received untimely from certain outside collection attorneys are 1% of total borrower payments. Ninety-nine percent of borrower payments are deposited on a timely basis. ISAC has thoroughly evaluated its deposit process and is working with the outside legal collection agencies to reduce processing time for remitting collections into the Federal Fund. In addition, ISAC continues to transfer interest on a monthly basis for those deposits that fall outside the 48-hour deposit period into the Federal Fund.

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**State Agency:** Illinois Student Assistance Commission (ISAC)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Federal Family Education Loans

**CFDA # and Program Expenditures:** 84.032 (\$238,016,000)

**Award Numbers:** None

**Questioned Costs:** Cannot be determined

**Finding 10-62** *Inadequate Process to Verify Unreported Loans*

ISAC does not have an adequate process to verify unreported loans.

ISAC maintains loan level information in its guaranty loan subsidiary ledger (guaranty system) for all loans guaranteed by ISAC through the Federal Family Education Loans program. This information is reported to the National Student Loan Data System (NSLDS). The information in the guaranty system is updated by lenders primarily through an electronic lender manifest (update file) submitted to ISAC on a quarterly basis.

In addition to lender manifests, ISAC has additional processes in place to identify and adjust the guaranty system records for loans with no activity reported from lenders. The first process is the “presumed paid” process. Through this process, ISAC runs a semi-annual report that identifies loans in the guaranty system that have been in repayment status for twelve years, and that have not been updated through any lender reporting in the past four years. These criteria are consistent with criteria established by the USDE for identifying loans that have been presumed paid. The status of these loans is then changed from repayment to paid in full, and reported as such to the NSLDS.

The second process is called the “unreported loans” process. Through this process, ISAC runs a semi-annual report that identifies loans in the guaranty system that have not been updated through the lender manifest reporting process during the previous 180 days. Any loans included on this listing are sent to the lenders with instructions to review the loan information and update as appropriate in the next lender manifest. However, ISAC has limited means to follow-up with the lenders to verify that the lenders have made the appropriate changes. The primary mechanism available to ISAC is the bi-annual compliance reviews of the lenders performed by ISAC personnel, in which the status of the unreported loans list is noted.

During our testwork over the accuracy of the loan information included in the guaranty system, we selected a sample of 100 student loans to confirm the accuracy of the loan information with the lender. For one loan in our sample, the outstanding loan balance in the guaranty system did not agree to the outstanding loan balance reported by the lender. The guaranty system had an outstanding loan balance of \$75 as of March 31, 2010, while the lender reported an outstanding loan balance of \$13.50 as of March 31, 2010. For one loan in our sample, the lender was unable to locate the loan in their records. The outstanding loan balance in the guaranty system was \$2,625 as of March 31, 2010. For one loan in our sample, we were unable to obtain a response from the lender. Prior to our testwork, no

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follow-up was performed by ISAC to determine whether the lenders properly investigated the status of these loans.

In accordance with 34 CFR Section 682.404(a)(4) and (b)(4)(ii)(G)(3) and (c), a guaranty agency shall accurately complete and submit to the Secretary a Form 2000 report as the Secretary uses the ED Form 2000 report for the previous September 30 to calculate the amount of loans in repayment at the end of the preceding fiscal year.

In discussing these conditions with ISAC officials, they state that there is not a federal requirement for lenders to respond to the unreported loans report. The industry standard requests that lenders review the loans on the report and make the necessary corrections to ensure that those unreported loans are included in the lenders next monthly lender manifest submission.

An inadequate process to verify loan information in the guaranty system could result in inaccurate reporting to the NSLDS. (Finding Code 10-62, 09-58, 08-64)

#### **Recommendation:**

We recommend ISAC review its process to ensure that loan information is properly verified and reported to the NSLDS.

#### **ISAC Response:**

ISAC recognizes the importance of obtaining accurate and timely data from its lenders. As there is not a federal requirement for lenders to respond to the unreported loans report, ISAC relies on standard business processes with the approval of the U.S. Department of Education (ED) to verify unreported loans.

The following business processes will continue to be in place to accept changes and updates to loan records:

- ISAC will continue to process monthly lender manifest submissions.
- ISAC will continue its “presumed paid” process which is a method to change the loan status to presumed paid for loans that have been in repayment status for twelve years and that have not been updated through any lender reporting in the past four years. ISAC will continue to create the semi-annual unreported loans report as the means for lenders to report changes and updates to loan records.
- ISAC will continue to initiate an unreported loans follow up process with e-message reminders to lenders/servicers to make the necessary corrections and report loans on their Lender Manifest submission. The reminders will be sent at 60 day intervals to remind lenders/servicers to make the necessary corrections and report loans on their Lender Manifest submission.

ISAC will continue to participate in the Common Review Initiative (CRI) to conduct the compliance audits of participating lenders. The CRI review process includes a verification and determination that the lender/servicer is diligently working unreported loan reports to reduce overall unreported loan rates.

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**State Agency:** Illinois Student Assistance Commission (ISAC)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Federal Family Education Loans

**CFDA # and Program Expenditures:** 84.032 (\$238,016,000)

**Award Numbers:** None

**Questioned Costs:** Cannot be determined

**Finding 10-63** *Incomplete Lender Agreements*

ISAC does not have a process to ensure lender agreements are complete and enforceable.

ISAC works directly with eligible lenders to provide individuals subsidized and unsubsidized Federal Stafford loans and Federal PLUS loans. All lenders must execute an ISAC lender agreement prior to participating in the Federal Family Education Loans (FFEL) program through ISAC. During an internal review of twenty lender agreements, ISAC identified three lender agreements that did not specify the loan programs ISAC authorized and guaranteed. In addition, ISAC noted one lender agreement wherein the lender's authorization signature was not dated on the lender agreement. However, no follow-up was performed by ISAC to review the remaining population of lender agreements to ensure they were complete and enforceable. In addition, during our review of 25 lender agreements, we identified four lender agreements that did not specify the loan programs ISAC authorized and guaranteed.

In accordance with 34 CFR Section 682.503(a)(1), to participate in the Federal Guaranteed Student Loan Programs, a lender must have a guarantee agreement with the Secretary. The Secretary will not guarantee a loan unless it is covered by such an agreement. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure that all lender agreements are complete and enforceable.

In discussing these conditions with ISAC officials, they stated that ISAC procedures and processes have been in place to ensure complete lender agreements since 2003.

Failure to ensure lender agreements are complete and enforceable could result in the payment of claims to ineligible lenders, which are unallowable costs. (Finding Code 10-63, 09-59)

#### **Recommendation:**

We recommend ISAC review its process to ensure that lender agreements are executed fully and the lender agreements specify the loan programs for which the agreement is being executed. Further, ISAC should have a process in place to periodically review lender agreements in order to ensure they are complete and enforceable.

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For Year Ended June 30, 2010

#### **ISAC Response:**

The following business processes are in place with ISAC and the U.S. Department of Education (ED) to ensure that lender agreements are complete, enforceable and reviewed periodically:

- A process has been in place to ensure lender agreements are complete at the time of initial execution since the ISAC Compliance department became responsible for this activity in 2003. An Agreement Check List has been used to ensure that all agreements are properly executed. To our knowledge, this process was not reviewed during field work testing. Although ISAC provided a listing of Lender Agreements executed within the audit period, FY10, the sample of agreements chosen by the auditors did not include any of these agreements in order to test the current process. All Lender Agreements found to be incomplete were executed prior to 2003. (It also is important to clarify that the Lender Agreements found in the auditor's review that do not have check marks next to the loan programs are those identified by ISAC and are not additional.)
- The U.S. Department of Education determines whether a lender is eligible to participate in the FFEL programs, not ISAC. - "In accordance with 34 CFR Section 682.503(a)(1), to participate in the Federal Guaranteed Student Loan Programs, a lender must have a guarantee agreement with the Secretary." The Secretary is the U.S. Department of Education (ED) and a lender is determined eligible to participate in the FFEL programs by ED. Before making FFELP loans to borrowers, lenders must enter into agreements with guarantors and receive U.S. Department of Education approval to participate. The lender is not eligible to begin making FFELP loans until a complete Lender Participation Questionnaire is approved by ED.
- ISAC has a supplemental process in place to gather information about loan programs - As part of the lender participation process, ISAC has had a procedure in place since the 1980's that gathered loan program data in order for the guaranty operations to correctly identify and guarantee the loan types in which the lender wanted to participate. The procedure calls for a lender data sheet to supplement the Lender Agreement. The lender data sheet contains specific contact information along with a notation of the programs for which the lender is/was to participate. It was from this form that the loan programs were entered into the guaranty system.
- The U.S. Department of Education already has a process in place that requires lenders to submit a newly signed Organization Participation Agreement (OPA) every two years. This process makes a periodic review of lender agreements by ISAC redundant and unnecessary since lender participation is determined by ED.
- ISAC has a procedure in place that requires lenders to submit new agreements when program changes impact the terms and conditions as stated in the Lender Agreement.

**Final note:** ISAC will not be executing any new lender participation agreements due to the elimination of the Federal Family Education Loan Program (FFELP) effective July 1, 2010.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**Auditors' Comment:**

As discussed above, seven out of 45 lender agreements tested did not specify the loan programs ISAC authorized or guaranteed and one out of 45 did not include the date of the lender's signature. After identification of this issue of incomplete lender agreements, ISAC failed to follow up on the remaining population of lender agreements to ensure they were complete and enforceable.



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Student Assistance Commission (ISAC)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Federal Family Education Loans

**CFDA # and Program Expenditures:** 84.032 (\$238,016,000)

**Award Numbers:** None

**Questioned Costs:** Cannot be determined

**Finding 10-64** *Inadequate Process for Assignment of Defaulted Loans*

ISAC does not have an adequate process to ensure all defaulted loans that meet the requirements specified in 34 CFR 682.409 are assigned to the USDE.

In June 2009, USDE lifted a moratorium on the assignment of defaulted loans that was enacted in fiscal year 2008. As a result, ISAC is required to assign all defaulted loans that meet certain criteria as described below as of April 15th of each year to the USDE. During our audit of the Federal Family Education Loan Program, we noted there were approximately 7,021 defaulted loans that meet these criteria as of August 4, 2010 that should have been assigned to the USDE but were not. Management indicated it was their practice to only assign approximately 10,000 loans per year.

According to 34 CFR 682.409(a)(1), unless the Secretary notifies an agency, in writing, that other loans must be assigned to the Secretary, an agency must assign any loan that meets all of the following criteria as of April 15 of each year:

- i. The unpaid principal balance is at least \$100.
- ii. For each of the two fiscal years following the fiscal year in which these regulations are effective, the loan, and any other loans held by the agency for that borrower, have been held by the agency for at least four years; for any subsequent fiscal year such loan must have been held by the agency for at least five years.
- iii. A payment has not been received on the loan in the last year.
- iv. A judgment has not been entered on the loan against the borrower.

In discussing these conditions with ISAC officials, they stated that a large portion of the year was spent assigning loans with judgments to the Department of Education. Guarantors were given only one opportunity to assign these loans in a short time period. Also, due to the reassignment of staff and the increase in the number of disabilities required to be assigned to the Department of Education, the retrieval of promissory notes was delayed.

Failure to assign loans to the USDE results in ISAC's noncompliance with federal regulations. (Finding Code 10-64)

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For Year Ended June 30, 2010

**Recommendation:**

We recommend ISAC assign all defaulted loans to the USDE that meet the criteria contained in 34 CFR 682.409 or obtain a written waiver which specifies the number and criteria for assignment of loans to the USDE.

**ISAC Response:**

ISAC will make every attempt to assign all eligible loans in a timely manner. It should be noted that the Department of Education put a hold on assignment of files beginning April 22, 2011. The Department of Education has estimated that assignment may begin again in July 2011. They will notify us of a definite date.

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### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Student Assistance Commission (ISAC)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Federal Family Education Loans

**CFDA # and Program Expenditures:** 84.032 (\$238,016,000)

**Award Numbers:** None

**Questioned Costs:** None

**Finding 10-65** *Failure to Review Post Claim Data within Required Timeframes*

ISAC did not review post claim data within the required timeframes.

On a quarterly basis, ISAC performs a post claim review over a sample of claims of defaulted loans purchased from lenders to verify data provided by lenders on claim filing forms matches the actual collection and repayment history of the loan. If any errors are observed during the post claim review of the claims, ISAC expands the sample of claims from the specific lender whose account contained the error.

During our audit, we noted the post claim reviews for the quarters ended March 31, 2010 and June 30, 2010 were not performed within the required timeframes. Specifically, we noted the post claim reviews for these quarters were not completed until November 4, 2011.

In accordance with guidance from the USDE in a bulletin dated July 15, 2008, each quarter a guaranty agency must review a sample of purchased claims scientifically selected from the total population of claims purchased during the previous quarter within approximately 11 weeks following the end of each quarter. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure post claim data reviews are completed in a timely manner.

In discussing these conditions with ISAC officials, they stated that the reviews were late due to a change in staffing.

Failure to perform post claim data reviews within the required timeframes results in noncompliance. (Finding Code 10-65)

#### **Recommendation:**

We recommend ISAC review its current process for performing post claim reviews and consider any changes necessary to ensure reviews are completed within the required timeframes.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**ISAC Response:**

ISAC post claim sampling reviews are currently submitted within the required timeframes.

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### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Student Assistance Commission (ISAC)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Federal Family Education Loans

**CFDA # and Program Expenditures:** 84.032 (\$238,016,000)

**Award Numbers:** None

**Questioned Costs:** None

**Finding 10-66** *Failure to Remit Payments on Defaulted Loans in a Timely Manner*

ISAC did not ensure payments on defaulted loans were remitted to USDE within the required timeframes.

ISAC receives payments on defaulted loans directly from borrowers and indirectly through outside collection agencies. When a borrower makes payments on a loan after the guarantee agency has paid a claim on that loan, the guarantee agency must pay the USDE an equitable share of those payments within 45 days. ISAC remits the USDE share of those payments by netting the payment against future claims and reports the payments on the monthly claiming reports. During our testwork over 40 payment receipts (totaling \$49,265) on defaulted loans, we noted one payment for \$508 that was not remitted to the USDE within 45 days of the payment because it was improperly excluded from the subsequent month's claiming report. The delay in remitting this payment receipt was five days after the required federal timeframe.

According to 34 CFR 682.404(g)(2), unless the USDE approves otherwise, the guaranty agency must pay to USDE its share of borrower payments within 45 days of its receipt of the payments. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure payment receipts on defaulted loan are remitted to USDE within required timeframes.

In discussing these conditions with ISAC officials, they stated this was a one time issue due to human error.

Failure to remit payment receipts on defaulted loans within the required timeframes may result in noncompliance with federal regulations. (Finding Code 10-66)

#### **Recommendation:**

We recommend ISAC review its current process for remitting payment receipts on defaulted loans and consider any changes necessary to ensure such payments receipts are remitted in a timely manner.

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**ISAC Response:**

ISAC has reviewed its current process for remitting payment receipts. Amounts posted are reconciled to amounts deposited daily. Any discrepancies are immediately investigated and resolved.

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For Year Ended June 30, 2010

**State Agency:** Illinois Student Assistance Commission (ISAC)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** Federal Family Education Loans

**CFDA # and Program Expenditures:** 84.032 (\$238,016,000)

**Award Numbers:** None

**Questioned Costs:** None

**Finding 10-67** *Inadequate Documentation of Controls over Information Systems*

ISAC does not have adequate documentation of access and program development controls over the information systems that support the Federal Family Education Loans (FFEL) program.

The information technology systems that support the FFEL program include the Loan Guarantee System and the Odyssey Accounting System. The Loan Guarantee System is used by ISAC to track and maintain loan level detail for defaulted loans purchased from lenders and for certain program reporting functions. The Odyssey Accounting System is used by ISAC to process claims, track and perform certain collection procedures on defaulted loans, and perform financial accounting and reporting functions. ISAC has formally documented information system policies and procedures covering several topics including (1) User Awareness of Security Policy, (2) General Usage of Computer, (3) Password Policy, (4) Internet Usage Policy, (5) Mainframe Disaster Planning, (6) Back-up Policy, (7) Access to Secure Facilities, and (8) Computer Security Acknowledgement. Additionally, upon granting access to each new user, ISAC has review procedures to ensure the system access assigned to each user is initiated and approved by the departmental supervisor and is compatible with the user's assigned job function and does not present a segregation of duties conflict prior to granting system access.

During our testwork over the access, program change and development, and computer operations controls of the two systems, we noted the following:

- There are no formal procedures to periodically review user access for each user of the Loan Guarantee System.
- There is no formal documentation maintained to support the periodic review of user access for each user of the Odyssey Accounting System.
- There were two program and application changes in our sample of 5 system changes for which no formal documentation was maintained to support the testing and validation procedures performed before the system changes were implemented and placed into production.
- The password complexity and account lockout settings for the system network are not properly configured in accordance with the internal password policy.

The A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring the

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information systems associated with the administration of the federal programs are adequately secured and have proper change management controls in place.

In discussing these conditions with ISAC officials, they stated the reviews of system access for personnel transferring within the Agency were not documented.

Failure to adequately secure the information systems that are used to administer the federal programs could result in noncompliance with laws, regulations and the grant agreement. (Finding Code 10-67)

#### **Recommendation:**

We recommend ISAC implement procedures to perform formal reviews of user access rights on a periodic basis to ensure that the access rights granted to each user are appropriate based on their job responsibilities and that the planned level of segregation of duties is achieved on a continuing basis. Additionally, we recommend ISAC review its current process for performing system change validation procedures and consider any changes necessary to ensure such procedures are formally documented. Lastly, we recommend ISAC review the password complexity and account lockout settings for the system network and implement any changes necessary to ensure those setting are properly configured in accordance with the internal password policy.

#### **ISAC Response:**

ISAC acknowledges the benefit of performing formal reviews of user access rights on a periodic basis. IT staff initiated a formal, comprehensive review of all user access privileges in fall 2010, and is expected to be completed in May 2011. The process is intended to be performed annually for all staff. The procedure will be formalized in our agency security policy, which is scheduled to be updated by management, and reviewed and signed by all staff, in July 2011.

Regarding system change validation, production migration procedures were enhanced this year to specifically check for evidence of User Acceptance Test signoff. With this enhancement, production migration staff will not promote a change request from the application maintenance and development teams without first seeing evidence of UAT signoff. In conjunction with this procedural enhancement, ISAC implemented a robust project/change request system this year. JIRA is a collaborative, transparent request management software tool employed by both IT and business unit staff. Issues are 'opened' by staff from business units and 'closed' by them as well. The significance of this aspect of JIRA is that not only do we now capture all activities relating to a request in a single, centralized repository, we also including such things as UAT sign-off and final production implementation user-verification (via the 'close' action) by business users as well. In addition, project-related documents are attached to JIRA requests, so that artifacts like requirements and scope documents, project plans, test plans, test results documents are now all a part of the permanent work request record, saved in a centralized, transparent repository.

While we agree that a disparity existed between our published password policy and the actual settings in our network, we do not view this as a substantive risk. In November 2010, ISAC increased the password complexity required for access to both our network and mainframe. Our users were informed of the new password complexity requirements via all-staff email, and all staff are scheduled to review and sign ISAC's updated security policy in July 2011.



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For Year Ended June 30, 2010

**State Agency:** Illinois Department of Employment Security (IDES)

**Federal Agency:** US Department of Labor (USDOL)

**Program Name:** Unemployment Insurance

**CFDA # and Program Expenditures:** 17.225/17.225 ARRA (\$8,554,955,000)

**Award Numbers:** UI157960755/UI167440855A17/UI167440855A17ARRA/UI180181055A17/  
UI180181055A17ARRA/ UI195801055A17/UI195801055A17ARRA

**Questioned Costs:** Cannot be determined

**Finding 10-68** *Failure to Obtain Refusal to Work Certifications*

IDES does not obtain continuing certifications that claimants have not refused suitable work offers throughout the eligibility period prior to the payment of benefits under the Unemployment Insurance (UI) Program.

The UI program administered by IDES provides benefits to eligible individuals that are unemployed and able and available to work. The structure of the Federal-State UI Program partnership is based upon Federal law; however it is implemented through State law, specifically in Chapter 820, Act 405 of the Illinois Compiled Statutes (ILCS). IDES has also developed a comprehensive policies and procedures manual available to all employees on their intranet to allow for the consistent and proper administration of the UI program. According to these policies and procedures, a claimant is required to complete an application for benefits which includes, among other things, an initial certification that the claimant has not refused any suitable work offers. Additionally, a claimant must certify his or her continuing eligibility status on a weekly basis prior to receiving UI benefits using IDES' telephone application, Teleserve. The certification (via Teleserve) requires the claimant to answer questions certifying their eligibility for the period benefits will be received, including whether the claimant was able and available for work and whether the claimant actively sought work during the certification period. However, the claimant is not required to certify whether he or she refused any suitable work offers. Accordingly, IDES does not have adequate procedures to determine on a continuing (prospective) basis whether claimants have refused suitable work offers during the period for which benefits are received.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable under federal awards, beneficiary payments are allowable costs to the extent they are made to individuals who meet the program's eligibility requirements.

According to 820 ILCS 405/603, an individual shall be ineligible for benefits if he has failed, without good cause, either to apply for available, suitable work when so directed by the employment office or Director, or to accept suitable work when offered him by the employment office or an employing unit.

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Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure all eligibility certifications are made on a continuing basis throughout the period for which benefits are paid.

In discussing these conditions with IDES officials, they stated claimants were previously required to certify that they had not refused suitable work through Teleserve for each week of benefits they certified to; however, the refusal to work question was removed from the script over thirteen years ago due to a perceived confusion from claimants in answering the question.

Failure to obtain adequate certifications supporting the claimants' eligibility status could result in the payment of UI benefits to ineligible claimants, which are unallowable costs. (Finding Code 10-68, 09-60, 08-65)

#### **Recommendation:**

We recommend IDES implement procedures to ensure adequate eligibility certifications are obtained from all claimants on a continuing basis throughout the period for which benefits are paid.

#### **IDES Response:**

We agree. The refusal of work question was added to the Teleserve Interactive Voice Response (IVR) System and the Internet Claims Bi-weekly Certification page when Release 4 of IBIS was implemented in August 2010. The system records the claimant's response to the question and where appropriate, the certification will be suspended if the claimant indicates he/she refused an offer to work.

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### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Department of Employment Security (IDES)

**Federal Agency:** US Department of Labor (USDOL)

**Program Name:** Unemployment Insurance Program

**CFDA # and Program Expenditures:** 17.225/17.225 ARRA (\$8,554,955,000)

**Award Numbers:** UI157960755/UI167440855A17/UI167440855A17ARRA/UI180181055A17/  
UI180181055A17ARRA/ UI195801055A17/UI195801055A17ARRA

**Questioned Costs:** None

#### **Finding 10-69** Failure to Issue Eligibility Determinations within Prescribed Timeframes

IDES is not issuing eligibility determinations for individuals applying for Unemployment Insurance (UI) benefits in accordance with timeframes required by the State Plan.

UI eligibility determinations are made during the initial intake of the claim and are monitored throughout the benefit payment period. If the claimant does not meet certain eligibility criteria either during the initial intake of the claim or throughout the benefit payment period, or if an employer disagrees with the initial eligibility determination, an issue is identified in the system and the claim appears on a pending adjudication report. The claim is then assigned to a claims adjudicator for resolution. The pending adjudication report monitors the number of days the claim has been outstanding since the initial detection date, which is the date on which IDES detected an issue on the claim which could affect past, present, or future benefit rights.

During our testwork we conducted unannounced site visits to three local offices and requested the most recent pending adjudication report as of the date of our visit. We noted a significant backlog in the resolution status of claims in the adjudication process. Specifically, we noted a total of 691 out of 1,775 claims at the three local offices were outstanding for time periods ranging from 22 to 247 days as of the date of our visits.

Additionally, during our review of the fiscal year 2011 State Quality Service Plan (Plan) submitted by IDES to the USDOL, we noted IDES did not meet the acceptable level of performance for issuing eligibility determinations on certain disqualifying issues as defined by the USDOL (non-monetary issues) for the federal fiscal year 2010, resolving only 62.3% of these determinations within 21 days of the detection date.

According to 20 CFR Part 640.3, state laws are required to include provisions for such methods of administration as will reasonably insure the full payment of unemployment benefits for eligible claimants with the greatest promptness that is administratively feasible. According to the Unemployment Insurance Program Letter No. 23-10, Attachment A, issued by the Employment and Training Administration Advisor System of the USDOL, 80% of non-monetary determinations must be made by state workforce agencies within 21 days of the detection date.

In discussing these conditions with IDES officials, they stated the significant increase in the volume of claims and the under-funding of the UI program in recent years have worsened the situation.

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Failure to issue eligibility determinations within prescribed timeframes could result in the untimely and/or improper payment of unemployment benefits. (Finding Code 10-69, 09-61, 08-66)

**Recommendation:**

We recommend IDES implement procedures to ensure all eligibility determinations are made within the prescribed timeframes.

**IDES Response:**

We agree.

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### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Department of Employment Security (IDES)

**Federal Agency:** US Department of Labor (USDOL)

**Program Name:** Unemployment Insurance

**CFDA # and Program Expenditures:** 17.225/17.225 ARRA (\$8,554,955,000)

**Award Numbers:** UI157960755/UI167440855A17/UI167440855A17ARRA/UI180181055A17/  
UI180181055A17ARRA/ UI195801055A17/UI195801055A17ARRA

**Questioned Costs:** \$9,767

**Finding 10-70** *Inadequate Procedures for Follow-up of Invalid Social Security Numbers*

IDES does not have adequate procedures to follow up on invalid social security numbers for claimants of the Unemployment Insurance (UI) program.

To be eligible to receive UI benefits, claimants must be in the labor force, unemployment must be caused by lack of suitable work, and the claimant must be legally authorized to work. In determining whether claimants are legally authorized to work, IDES sends a file containing all UI applications to the Social Security Administration (SSA) on a daily basis to verify whether the applicant has a valid social security number. The file is returned and uploaded into the Benefit Information System (BIS), which is the information system used by IDES to determine eligibility, initiate unemployment benefit payments, and maintain a history for all UI claimants. If the number is deemed invalid by the SSA, an automatic stop is placed on the claimant's account during the upload process and benefit payments cease. A letter is sent to the claimant requesting an in-person interview at one of the local offices. Benefits will not be reinstated until the claimant appears for the interview and presents evidence of a valid social security number.

During our testwork over the eligibility of UI benefit payments, we selected a sample of 50 claimants from a listing of invalid social security numbers and noted two did not have the automatic stop applied and as such, were not properly investigated by IDES. Total benefits paid to these two claimants were \$9,767 during the year ended June 30, 2010. During the year ended June 30, 2010, a total of 2,006 out of 833,274 social security numbers were reported as potentially invalid by the Social Security Administration for which benefits paid to 238 claimants were approximately \$1,680,000.

In accordance with 42 U.S.C. Section 1320b-7(a)(1), IDES shall require, as a condition of eligibility for unemployment benefits, that each claimant for benefits furnish to the agency his/her social security number (or numbers if he/she has more than one such number), and IDES shall utilize such numbers in the administration of the unemployment compensation program so as to associate the agency's records pertaining to each claimant with the claimant's social security number(s). If IDES determines that a claimant has refused or failed to provide a Social Security Number, then that individual shall be ineligible to participate in the unemployment compensation program. Any claimant held ineligible for not supplying a social security number may become eligible upon providing IDES with such number retroactive to the extent permitted under State law.

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For Year Ended June 30, 2010

In accordance with 820 ILCS 405/614, an alien shall be ineligible for UI benefits unless the alien was an individual who was lawfully admitted for permanent residence at the time such services were performed or otherwise was permanently residing in the United States under color of law at the time such services were performed (including an alien who was lawfully present in the United States as a result of the application of the provisions of Section 212(d) (5) of the Immigration and Nationality Act).

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure adequate follow up is performed relative to invalid social security numbers.

In discussing these conditions with IDES officials, they stated the two numbers were submitted to the Social Security Administration but were not returned on the file and as such had not been uploaded to BIS. When the annual rematch was done for the auditors, these numbers were on the return file from SSA.

Failure to adequately follow up on invalid social security numbers could result in the payment of UI benefits to ineligible claimants, which are unallowable costs. (Finding Code 10-70, 09-62)

#### **Recommendation:**

We recommend IDES implement additional procedures to ensure the automated stop is generated for all invalid social security numbers to prevent payment of benefit to ineligible claimants and to ensure all requests are returned from the SSA.

#### **IDES Response:**

We agree. IDES intends to have an online verification process with the Social Security Administration in place as part of the implementation of IBIS. This should ensure responses are received for each new claim filed. This should be in place by June 30, 2011.

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### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Department of Employment Security (IDES)

**Federal Agency:** US Department of Labor (USDOL)

**Program Name:** Unemployment Insurance

**CFDA # and Program Expenditures:** 17.225/17.225 ARRA (\$8,554,955,000)

**Award Numbers:** UI157960755/UI167440855A17/UI167440855A17ARRA/UI180181055A17/  
UI180181055A17ARRA/ UI195801055A17/UI195801055A17ARRA

**Questioned Costs:** \$3,871

**Finding 10-71** *Incomplete Documentation in Client Eligibility Files*

IDES did not maintain complete documentation supporting client eligibility determinations made for the Unemployment Insurance program.

The Unemployment Insurance (UI) program administered by IDES provides benefits to eligible individuals that are unemployed and able and available to work. The structure of the Federal-State UI Program partnership is based upon Federal law; however it is implemented through State law, specifically the Illinois Unemployment Insurance Act (the Act) (820 ILCS 405). IDES has also developed a comprehensive policies and procedures manual available to all employees on their intranet to allow for the consistent and proper administration of the UI program. During our testwork of the UI program, we selected 60 beneficiary payments to review for compliance with eligibility requirements and for the allowability of the related benefits, and noted the following exceptions:

- In one case, the UI application could not be located. We were able to verify each of the eligibility criteria through information in the electronic files.
- In one case, the claimant's application contained insufficient documentation to determine if the claimant had dependents and provided over half the support, however the benefit payment included a dependent allowance. Total dependent benefits paid to this individual was \$3,871.
- In fifteen cases, the claimant was not registered on the Illinois Skills Match system. In each of these cases, we were able to determine the individuals were actively seeking employment through the weekly certifications made to IDES.

Beneficiary payments selected in our samples totaled \$38,768. UI benefits paid to beneficiaries totaled \$8,363,733,306 during the year ended June 30, 2010.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria require, among other things, that each expenditure must be adequately documented.

According to 820 ILCS 405/700, claims for benefits shall be made in accordance with such regulations as the Director may prescribe. IDES has established policies and procedures that require each new claimant to complete an application for benefits.

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According to 820 ILCS 405/401-C, with respect to any benefit year beginning on or after January 6, 2008 and before January 1, 2010, an individual with a dependent child or dependent children to whom benefits are payable with respect to any week shall, in addition to those benefits, be paid 18.2% of his or her prior average weekly wage, provided that the total amount payable to the individual with respect to a week shall not exceed 65.2% of the statewide average weekly wage.

According to 820 ILCS 405/500-C, to be eligible for benefits, an unemployed individual must be able and available for work, provided that during the period in question he was actively seeking work and has certified such. IDES has established policies and procedures that describe actively seeking work as registering with the Illinois Skills Match Program, reporting at an employment office when requested in accordance with the regulations, and certifying during the period that he/she has been actively seeking work.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure eligibility determinations are adequately documented and supported.

In discussing these conditions with IDES, they stated the application that was not located may have been misfiled or mislabeled when microfilmed. Regarding the dependent allowance, the IDES representative failed to document clarification of the claimant's responses to the applicable questions. Claimants are advised to register in the Skills Match system, but do not always do so.

Failure to maintain complete supporting documentation for eligibility determinations could result in the payment of UI benefits to ineligible claimants, which are unallowable costs. (Finding Code 10-71, 09-63, 08-68, 07-62, 06-61)

#### **Recommendation:**

We recommend IDES reinforce procedures to ensure all eligibility determination documentation is complete and properly maintained.

#### **IDES Response:**

We agree. Since the implementation of IBIS on 8/30/10, all claimants that require registration with Illinois Skills Match are automatically partially registered at the time of claim filing.



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### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Department of Employment Security (IDES)

**Federal Agency:** US Department of Labor (USDOL)

**Program Name:** Unemployment Insurance

**CFDA # and Program Expenditures:** 17.225/17.225 ARRA (\$8,554,955,000)

**Award Numbers:** UI157960755/UI167440855A17/UI167440855A17ARRA/UI180181055A17/  
UI180181055A17ARRA/ UI195801055A17/UI195801055A17ARRA

**Questioned Costs:** None

**Finding 10-72** *Inadequate Monitoring of Unemployment Insurance Service Organization*

IDES does not adequately monitor a service organization of the Unemployment Insurance (UI) program.

In September 2008, IDES began utilizing debit cards to pay UI benefits. IDES has contracted with a third party service provider (financial institution) to administer the debit card processing of UI benefits. The third party processor is responsible for performing several internal control procedures over the debit card process which include monitoring and processing ACH files based upon a schedule determined by IDES; processing incoming and outgoing wires transfers on a daily basis; balancing the debit card activity to the associated account; establishing customer accounts with the debit card processor; coordinating new card production with the debit card processor, and providing daily monitoring reports to IDES.

During our audit, we noted IDES does not require its service provider to obtain an independent examination of the operating effectiveness of internal controls during the year (commonly referred to as a Type II SAS 70 report). As a result, IDES is not able to adequately monitor its third party service provider to determine whether internal controls that are essential to compliance with federal requirements of the UI program are operating effectively.

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure third party service providers have appropriate internal controls to process transactions accurately and in compliance with federal regulations.

In discussing these conditions with IDES officials, they stated that in their opinion it was sufficient to have received a Type I SAS 70 report from this bank, which provided a description of the internal controls and reasonable assurance that the controls were properly designed, as well as a Type II SAS 70 from the debit card provider, who subcontracts with the bank.

Failure to ensure service organizations obtain an annual independent auditors' report on the design and tests of operating effectiveness of those controls could lead to the improper payment of unemployment insurance benefits. (Finding Code 10-72, 09-64)

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For Year Ended June 30, 2010

**Recommendation:**

We recommend IDES review its procedures for monitoring its third party servicers and implement any changes necessary to ensure significant internal controls at the service organizations are operating effectively.

**IDES Response:**

IDES accepts this finding. We have implemented a procedure to formalize our review of third party service provider controls and have included a Type II SAS 70 review as a requirement in the new bank contract.

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### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Department of Employment Security (IDES)

**Federal Agency:** US Department of Labor (USDOL)

**Program Name:** Unemployment Insurance

**CFDA # and Program Expenditures:** 17.225/17.225 ARRA (\$8,554,955,000)

**Award Numbers:** UI157960755/UI167440855A17/UI167440855A17ARRA/UI180181055A17/  
UI180181055A17ARRA/ UI195801055A17/UI195801055A17ARRA

**Questioned Costs:** None

**Finding 10-73** *Inadequate Documentation of Resolution of Exceptions and Supervisory Review of the Claim Exception and Monitoring Reports*

The IDES local offices did not clearly document the resolution of the issues identified on the claim exception and monitoring reports, and the reports did not always indicate that a supervisory review had been performed.

The IDES Central Office generates several system (exception and monitoring) reports to facilitate proper benefit payment that are utilized at the local office level and monitored by local office and/or regional office management. Per federal program emphasis, several of the common reports reviewed locally are designed to report claims with unresolved issues that are preventing payment, as a tool to ensure payments to eligible individuals are made timely. These reports include the following:

- SSN Verification From SSA - At the end of each work day, the Social Security Numbers (SSNs) for all new claims are extracted for submission to the Social Security Administration (SSA) for verification. All SSNs that are returned to IDES as invalid are written to a report that is sorted by local office.
- Sensitive Changes Report - The Sensitive Changes Report includes name, address and SSN changes, claim and claimant information deletions and TeleServe PIN resets. Management reviews the report to ensure that proper supporting documentation is available, where applicable, and to monitor for any unusual activity that may require further follow-up. The report also includes the terminal ID where the changes were made to facilitate tracking.
- Immigration Record Check For Unemployment – This is a daily listing of claimants who are not US citizens and was created to allow for follow-up to ensure non-citizens were registered with the federal Verification Information System (VIS).
- Combined Application Error Report – All daily claim applications appear on this report. Regional offices have the ability to request the report for any of their local offices as needed. Each transaction is reviewed to confirm that it was accepted; any rejected transactions require follow-up.
- File Maintenance Error Report and Rejected Transaction Report – All daily rejected transactions, other than applications and certifications, appear on one of these two reports. The File Maintenance Error Report lists only rejections and warning messages from system generated transactions and local office adjudication data entries. Regional offices have the ability to request both reports for any of their local offices as needed. Each transaction is reviewed to determine if corrective action is needed. If corrective action is taken, documentation of the action is required

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

by annotating the report with the type and dates of the action. The corrected error reports are periodically reviewed by the local office supervisor.

- Media Transfer Report – All claimants must file for benefits at the local office responsible for the area in which the claimant lives. Often times a claimant will go to a different local office, thus the claim will be taken and transferred to the correct local office. All claims transferred in and out of each local office are listed on this report, and each office is responsible for verifying that all files that should be transferred in have been received.
- Daily Rejected Report – All eligibility determination rejections, as well as who made the determination and why the rejection was made. The report is reviewed for reasonableness.
- All Transactions Report – All activity that happened the previous day, including claims entered, payments processed, etc. This report is reviewed for reasonableness.
- Claims Application Error Report – All claims that were potentially paid in error based upon certain edits within the system. All claims on this report require follow-up.
- Internet Claims Deletion Report – All internet claims that were deleted from the system. The report includes information such as when the claim was set up, by whom, the eligibility determination made, and when the claim was deleted. Other than this report, there is no other documented history retained of internet claims after their deletion from the system.
- First Certification Report – All claimants certifying for the first time. All first certifications must be reviewed for eligibility.
- Certification Summary Report – All claimants certifying through the TeleServe system are included on this report. This report is reviewed for reasonableness.
- Pending Adjudication Report – All claims that are in the adjudication process and the number of days the claim has been in the process. This report is used to track the resolution of the protested claims to ensure they are resolved within 21 days.

IDES retains claim exception and monitoring reports (except for the sensitive changes report) for a period of three months after the end of the quarter.

We conducted unannounced site visits to three local offices and requested the above claim exception and monitoring reports for the most recent date that had been reviewed by the local office staff. We reviewed a total of 39 reports and noted that resolution of exceptions and supervisory review was not consistently documented. Specifically, we noted the following:

- We were unable to determine whether seven claim and exception monitoring reports had been worked within three days as the claim and exception monitoring reports were not retained by the local offices for a period of three months after the end of the quarter.
- Fourteen claim and exception monitoring reports did not contain evidence of being worked by the local office staff.
- Twenty-four claim and exception monitoring reports were not worked within three days.
- Twenty-six claim exception monitoring reports did not contain evidence of supervisory review.

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure adequate timely follow up and documentation of review of claim exception reports.

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For Year Ended June 30, 2010

In discussing these conditions with IDES officials, they stated that not all reports and/or items on reports require resolution and supervisory review.

Failure to adequately document resolution of claim exception and monitoring reports could result in the payment of UI benefits to ineligible claimants, which are unallowable costs. (Finding Code 10-73, 09-65, 08-70, 07-63, 06-62, 05-88)

#### **Recommendation:**

We recommend IDES complete and document the resolution of each claim in a timely manner on the exception and monitoring report (including supervisory review), and retain the reports as considered necessary to facilitate completion of the audit. IDES should also automate the claim exception and monitoring edit reports into the Benefits Information System in future years to facilitate a more efficient and effective process for claims exception resolution documentation.

#### **IDES Response:**

We accept the finding and have automated the reports. Most of the errors that occurred in BIS have been eliminated with the new benefit system (IBIS) or become workflow items that are automatically tracked in the system for follow up.

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### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Department of Employment Security (IDES)

**Federal Agency:** US Department of Labor (USDOL)

**Program Name:** Unemployment Insurance

**CFDA # and Program Expenditures:** 17.225/17.225 ARRA (\$8,554,955,000)

**Award Numbers:** UI167440855A17ARRA/UI180181055A17ARRA/UI195801055A17ARRA

**Questioned Costs:** Cannot be determined

**Finding 10-74** *Improper System Configuration for Offset of Overpayments*

IDES has not configured its information technology systems to properly offset overpayments related to the Federal Additional Compensation (FAC) and the Emergency Unemployment Compensation (EUC08) programs, which were established by the American Recovery and Reinvestment Act and administered as a part of the Unemployment Insurance (UI) Program.

The FAC program provides a \$25 weekly supplement to the unemployment compensation of eligible claimants, and is 100% funded from Federal general revenues. FAC overpayments may only be offset by FAC payments. Other federally funded benefits, such as EUC08 benefits, can also be used to offset FAC overpayments.

The EUC08 program is a federally funded benefit extension program which provides up to 53 weeks of benefits to claimants who have exhausted their benefit rights to regular compensation in an applicable benefit year. In the event that an EUC08 overpayment is made to a claimant, states are allowed to recover the overpayment by deducting the amount from future benefits payable to the claimant under any state or Federal UC law in the three-year period following the date that the claimant received the improper payment. However, no single EUC08 offset may exceed 50 percent of the EUC08 weekly benefit amount payable to the claimant for the week.

Based on a review performed by the U.S. Department of Labor – Employment and Training Administration and discussion with management, we noted the following:

- IDES had not properly configured its information technology system to offset the FAC overpayments with FAC benefits. IDES' information technology system was configured to offset the FAC overpayments against the EUC08 benefit payments and other federally funded benefits, which resulted in slower collections of FAC overpayments. Total FAC payments made during the fiscal year ended June 30, 2010 were \$600,564,325, of which \$11,858,375 or 2.0% consisted of overpayments.
- IDES had not properly configured its information technology system to offset EUC08 fraud overpayments to a maximum of 50% against the weekly benefit amount. The system is currently programmed to offset EUC08 fraud overpayments with 100% of the EUC08 weekly benefit amount. Total EUC08 benefits paid during the fiscal year ended June 30, 2010 were \$2,688,389,967, of which \$10,466,937 or 0.4%, consisted of overpayments related to fraud.

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For Year Ended June 30, 2010

According to Unemployment Insurance Program Letter (UIPL) 11-09, Attachment A, Section D, FAC may only be used to offset FAC overpayments. According to UIPL 23-08 Attachment A, page A-13, #3(B)(i) and UIPL Change 1, Section K titled Overpayments, Q&A #2, EUC08 offsets for EUC08 fraud overpayments are limited to 50% of the EUC08 weekly benefit amount.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure system configurations are in place to properly offset benefit overpayments in accordance with the Federal regulations.

In discussing these conditions with IDES officials, they stated they were following past practices of previous federal extension programs by following state law which provides for a higher recoupment for fraudulent overpayments than does federal law. Concerning the failure to offset a FAC overpayment with a FAC payment, it was assigned a low priority compared to other requirements of the American Recovery and Reinvestment Act that significantly expanded the Unemployment Insurance Program. In addition, resources to perform the necessary programming tasks had been diverted to performing implementation and conversion tasks related to the implementation of the new benefit information system (IBIS).

Failure to properly offset benefit payment overpayments could result in inaccurate benefit payments. (Finding Code 10-74, 09-68)

#### **Recommendation:**

We recommend IDES implement procedures to ensure the information technology systems are properly configured to offset overpayments in accordance with the Federal regulations.

#### **IDES Response:**

We agree. Changes to ensure that fraudulent EUC overpayments are only recouped at 50% instead of 100% were implemented as well as the ability to offset a FAC overpayment with a FAC payment.

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For Year Ended June 30, 2010

**State Agency:** Illinois Department of Employment Security (IDES)

**Federal Agency:** US Department of Labor (USDOL)

**Program Name:** Unemployment Insurance

**CFDA # and Program Expenditures:** 17.225/17.225 ARRA (\$8,554,955,000)

**Award Numbers:** UI167440855A17ARRA/UI180181055A17ARRA/ UI195801055A17ARRA

**Questioned Costs:** None

**Finding 10-75** *Untimely Verification of Out-of-State Wages for EUC08 Beneficiaries*

IDES did not perform all required out-of-state wages verification procedures for Emergency Unemployment Compensation (EUC08) beneficiaries.

The EUC08 program was established by the American Recovery and Reinvestment Act and is administered as a part of the Unemployment Insurance (UI) Program. The EUC08 program is a federally funded benefit extension program which provides up to 33 weeks of benefits to claimants who have exhausted their benefit rights to regular unemployment compensation under the applicable state law with respect to the applicable benefit year. The benefit year is the one year period beginning with the Sunday of the week in which the worker first files a valid claim for benefits.

A claimant eligible for regular UI benefits in another state is considered to have established a new benefit year and has not exhausted all rights to regular benefits and, therefore, is not eligible for EUC08 benefits.

Based on a review performed by the U.S. Department of Labor – Employment and Training Administration and discussion with management, we noted IDES does not examine out-of-state wages at the beginning of the initial EUC08 and initial extended benefit claim or at the end of each quarter to determine if UI eligibility could be established in another state. IDES procedures for verifying whether a claimant has exhausted all rights to regular benefits only include examining out-of-state wages each time a claimant establishes new benefit year.

According to Unemployment Insurance Program Letter (UIPL) No. 23-08, Attachment A, page A-3, #1(b)(2), at each quarter change, a state must check to see if an individual meets the state's requirements to establish a new benefit year. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to perform verification procedures related to claimant eligibility in accordance with Federal regulations.

In discussing these conditions with IDES officials, they stated they had explored different solutions as a result of the finding last year that were not viable and only recently learned of another option.

Failure to perform required out of state wage verifications could result in the payment of EUC08 benefits to ineligible recipients. (Finding Code 10-75, 09-69)



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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**Recommendation:**

We recommend IDES establish procedures to perform out of state wage verifications at the beginning of the initial EUC08 and extended benefit periods, and at the end of each quarter to determine if UI eligibility could be established in another state.

**IDES Response:**

We agree. USDOL has recently provided an option and we are exploring it.

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### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Department of Employment Security (IDES)  
**Federal Agency:** US Department of Labor (USDOL)  
**Program Name:** Unemployment Insurance  
**CFDA # and Program Expenditures:** 17.225/17.225 ARRA (\$8,554,955,000)  
**Award Numbers:** UI157960755/UI167440855A17/UI167440855A17ARRA/UI180181055A17/  
UI180181055A17ARRA/ UI195801055A17/UI195801055A17ARRA  
**Questioned Costs:** \$219

**Finding 10-76** *Inaccurate Benefit Payment Calculations*

IDES did not accurately calculate benefit payments for the Alternative Trade Adjustment Assistance (ATAA) grant administered under the Unemployment Insurance Program.

The ATAA grant is available to a subset of beneficiaries who were eligible for benefits under the Trade Readjustment Assistance (TRA) grant, which is also administered under the Unemployment Insurance Program. The objective of the TRA grant is to provide benefit payments to assist individuals who become unemployed or underemployed as a result of increased imports or a shift of production to Mexico or Canada to return to suitable employment. The objective of the ATAA grant is to provide workers 50 years of age or older with the option of receiving a temporary wage subsidy upon prompt reemployment at lower pay than their previous adversely affected employment as an alternative to other TRA benefits. The ATAA wage subsidy must be evaluated on a monthly basis to determine whether the subsidy should be adjusted to accommodate pay changes resulting from changes in employment or shift differentials. Total expenditures for the ATAA program were \$707,830 for the year ended June 30, 2010.

During our test work of the ATAA program, IDES disclosed an internal review of beneficiary payments for the quarter ended September 30, 2009 which identified several instances of non-compliance consistent with the prior year's audit results. Specifically, we noted the following exceptions were identified in IDES' review:

- In ten cases (with sampled weekly payments of \$4,482), the ATAA weekly benefit amount was not accurate due to changes in hours not reflected in the benefit calculation. As a result, eight beneficiaries were underpaid by \$1,019 and two beneficiaries were overpaid by \$115.
- In five cases (with sampled weekly payments of \$2,235), benefits paid were calculated using a monthly rate instead of a weekly rate which resulted in overpayments of \$102.
- In one case (with sampled weekly payments of \$528), benefits paid were calculated using a monthly rate instead of a semi-monthly rate which resulted in an underpayment of \$42.
- In one case (with sampled weekly payments of \$244), benefits paid were calculated using a weekly rate instead of a bi-weekly rate which resulted in an overpayment of \$2.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable

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### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

under federal awards, costs must meet certain general criteria. Those criteria require, among other things, that each expenditure be accurately calculated and paid in accordance with Federal guidelines.

USDOL Training and Employment Guidance Letter (TEGL) 2-03 requires the ATAA benefit calculation to be repeated if, as a result of the monthly verification exercise, the claimant's hourly wage and/or hours are determined to have changed in such a way as to affect the ATAA wage subsidy. Further, TEGL 2-03 states that a worker is ineligible to receive an ATTA wage subsidy if the worker returns to work to the same employment from which the worker was separated. TEGL 2-03 also requires the benefits to be paid on a weekly, biweekly, or other payment frequency not to exceed monthly.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure benefit payments are accurately calculated and paid in accordance with Federal guidelines.

In discussing these conditions with IDES officials, they stated that staff calculating benefit payments were still in training and there was no monitoring process in place.

Failure to accurately calculate and pay benefits could result in unallowable costs. (Finding Code 10-76, 09-66, 08-67)

#### **Recommendation:**

We recommend IDES implement procedures to ensure the ATAA benefit payments are properly calculated and paid on at least a monthly basis.

#### **IDES Response:**

We agree. Draft procedures have been modified to include payment accuracy verification by staff who do not process payments prior to payment file creation in ACCESS and upload to IBIS. Quarterly reviews of 60 A/RTAA payments per quarter will continue to be conducted to ensure accuracy of payments.

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For Year Ended June 30, 2010

**State Agency:** Illinois Department of Commerce and Economic Opportunity (DCEO)

**Federal Agency:** US Department of Energy (USDOE)  
US Department of Health and Human Services (USDHHS)

**Program Name:** Weatherization Assistance for Low Income Persons  
Low Income Home Energy Assistance Program

**CFDA # and Program Expenditures:** 81.042 (\$69,126,000)  
93.568 (\$237,689,000)

**Award Number:** DE-FG45-04R530678/DE-FG26-04R530678/DE-EE0000490 (81.042)  
G-08B2ILLIEA/G-09B1ILLIEA/G-09B01ILLIE2/G-1002ILLIEA/  
G-1002ILLIE2 (93.568)

**Questioned Costs:** Cannot be determined

**Finding 10-77** *Inadequate Process for Following Up on Monitoring Findings and Failure to Perform Supervisory Reviews of Monitoring Files*

DCEO did not have an adequate process in place for following up on monitoring findings for subrecipients of the Weatherization Assistance for Low Income Persons (Weatherization) program and did not document supervisory reviews of on-site monitoring files for subrecipients of the Weatherization and Low Income Home Energy Assistance Program (LIHEAP) programs.

DCEO's subrecipient monitoring process for the Weatherization and LIHEAP programs includes performing fiscal and programmatic on-site reviews, A-133 audit report desk reviews, external audit reviews, and expenditures report reviews. DCEO has developed standardized monitoring checklists for each of its federal programs which are used by DCEO personnel in performing and documenting on-site reviews.

During our review of monitoring reports and checklists prepared for on-site reviews conducted for 15 Weatherization subrecipients (with expenditures of \$50,736,315) during fiscal year 2010, we noted DCEO identified and reported several instances of non-compliance with program requirements to its subrecipients. Findings identified in monitoring reports included items such as: (1) failing to identify substandard work during home inspections, (2) failing to ensure contractor costs were reasonable, and (3) advancing funds to contractors for incomplete work. Upon further review of the monitoring files, we noted DCEO had not performed procedures to ensure timely corrective action was taken by subrecipients prior to reimbursing program expenditures and, as a result, unallowable costs may have been paid to subrecipients during the year ended June 30, 2010.

In addition, we noted the on-site monitoring review files tested for the 15 Weatherization subrecipients identified above and for 15 LIHEAP subrecipients (with expenditures of \$181,624,717) did not have adequately documented supervisory reviews to ensure the review checklist procedures were properly completed.

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DCEO passed through approximately \$70,289,000 and \$227,215,000 of federal funding to subrecipients of the Weatherization and LIHEAP programs, respectively, during the year ended June 30, 2010.

According to OMB Circular A-133 §\_\_\_\_.400(d)(3), 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, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. In addition, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to follow up on findings identified during subrecipient reviews prior to reimbursing program expenditures. Effective internal controls should also include performing and documenting supervisory reviews of on-site monitoring reviews to ensure they are completed and documented in accordance with established procedures.

In discussing these conditions with DCEO officials, they stated an Excel spreadsheet was being used to track Weatherization monitoring visits and findings prior to the implementation of a SharePoint tracking system in September 2010. Supervisors were reviewing the monitoring finding letters and files but were not documenting their reviews for both the LIHEAP and Weatherization programs.

Failure to adequately monitor subrecipients and to ensure on-site reviews were properly completed could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 10-77)

#### **Recommendation:**

We recommend DCEO establish procedures to follow up on on-site monitoring findings to verify corrective actions have been implemented by subrecipients prior to reimbursing program expenditures. We also recommend DCEO implement procedures to perform and document supervisory reviews of on-site monitoring files.

#### **DCEO Response:**

The Department agrees with the finding and implemented a SharePoint monitoring and finding tracking system in September 2010 for the Weatherization program. The SharePoint system also documents the supervisory reviews for the Weatherization program. The Department plans on developing a SharePoint monitoring and finding tracking system for LIHEAP which will also document supervisory reviews.

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**State Agency:** Illinois Department of Commerce and Economic Opportunity (DCEO)

**Federal Agency:** US Department of Labor (USDOL)  
US Department of Energy (USDOE)  
US Department of Health and Human Services (USDHHS)

**Program Name:** Workforce Investment Act Cluster  
Weatherization Assistance for Low Income Persons  
Community Services Block Grant Cluster

**CFDA # and Program Expenditures:** 17.258/17.258ARRA/17.259/17.259ARRA/17.260/  
17.260ARRA (\$231,737,000)  
81.042 (\$69,126,000)  
93.569/93.710 (\$61,943,000)

**Award Number:** AA-16026-07-55-A-17/AA-17119-08-55-A-17/AA-18637-09-55A-17/  
AA-20192-10-55-A-17 (17.258/17.258ARRA/17.259/17.259ARRA/  
17.260/17.260ARRA)  
DE-FG45-04R530678, DE-FG26-04R530678, DE-EE0000490 (81.042)  
G-08B1ILCOSR/G-09B1ILCOSR/G-10B1ILCOSR (93.659/93.710)

**Questioned Costs:** None

**Finding 10-78** *Failure to Communicate ARRA Information and Requirements to Subrecipients*

DCEO did not communicate American Recovery and Reinvestment Act (ARRA) information and requirements to subrecipients of the Workforce Investment Act Cluster (WIA Cluster), Weatherization Assistance for Low Income Persons (Weatherization), and Community Services Block Grant Cluster (CSBG Cluster) programs.

During our testwork over disbursements to subrecipients of the WIA Cluster, Weatherization, and CSBG Cluster programs, we noted DCEO did not identify the federal award number, catalog of federal domestic assistance (CFDA) number, or the amount attributable to ARRA at the time of each disbursement for the period from July 1, 2009 to May 9, 2010. Additionally, DCEO's grant agreements did not identify the requirement for subrecipients to separately report ARRA program expenditures on their schedule of expenditures federal awards (SEFA) and data collection form. DCEO passed through approximately \$90,038,000, \$51,944,000, and \$27,986,000 of ARRA funding to subrecipients of the WIA Cluster, Weatherization, and CSBG Cluster programs, respectively, during the year ended June 30, 2010.

According to the American Recovery and Reinvestment Act, Federal Agencies must require recipients to agree to: (1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal Award number, CFDA number, and the amount of ARRA funds; and (2) require their subrecipients to provide similar identification in their SEFA and data collection form.

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In discussing these conditions with DCEO officials, they stated they became aware of this issue in May 2010 when it was identified as a finding for the previous audit period (State fiscal year 2009). As a result of the timing of the previous audit, these conditions were still present for the current audit period even though DCEO completed corrective action in June 2010.

Failure to communicate required ARRA information could result in subrecipients not properly administering the federal programs in accordance with federal regulations. (Finding Code 10-78, 09-70)

**Recommendation:**

We recommend DCEO properly communicates ARRA information and requirements to its subrecipients.

**DCEO Response:**

The Department agrees with the recommendation and completed corrective action in June 2010. The Department revised the audit provisions in the grant agreement to include the specific requirement for subrecipients to separately report ARRA expenditures on their SEFA and data collection forms. The Department also modified its voucher submissions to include the required ARRA information on disbursements to the subrecipients.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Department of Commerce and Economic Opportunity (DCEO)

**Federal Agency:** US Department of Energy (USDOE)

**Program Name:** Weatherization Assistance for Low Income Persons

**CFDA # and Program Expenditures:** 81.042 (\$69,126,000)

**Award Number:** DE-FG45-04R530678/DE-FG26-04R530678/DE-EE0000490

**Questioned Costs:** None

**Finding 10-79** Inaccurate ARRA 1512 Reports

DCEO did not accurately report expenditures in the quarterly American Recovery and Reinvestment Act (ARRA) 1512 report for the Weatherization Assistance for Low Income Persons (Weatherization) program.

The ARRA 1512 report is required to be submitted on a quarterly basis to report expenditures and other information related to the Weatherization program. During our review of one of the four quarterly reports submitted during the fiscal year ended June 30, 2010, we noted the Total Federal Amount of ARRA Expenditures reported did not agree to DCEO's financial records or to the program expenditures reported on the SF-425 Federal Financial Report filed for the respective quarter. Specifically, we noted Total Federal Amount of ARRA Expenditures were erroneously reported in the ARRA 1512 reports, as follows:

<b>Line Item</b>	<b>Actual Expenditures</b>	<b>Reported Expenditures</b>	<b>Difference</b>
Total Federal Amount of ARRA Expenditures	\$ 20,388,506	\$ 20,347,353	\$ 41,153

According to Section 1512 of the American Recovery and Reinvestment Act, the State is required to submit quarterly expenditure and data reports within 10 days after the end of the quarter. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure expenditure information reported on the ARRA 1512 reports are accurate and agree to supporting documentation.

In discussing these conditions with DCEO officials, they stated the Department did not provide updated reporting information for allocated costs that are collected from another State agency after the initial 10 day deadline. The Department did not believe that the amount of the additional allocated costs met the intended requirement of the OMB guidance for "continuous correction" reporting provision relating to "significant reporting errors, material omissions and administrative/technical problems." The Department also assumed that using a cumulative basis to report the costs in the subsequent quarter was adequate and in compliance with the OMB guidance.



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For Year Ended June 30, 2010

Failure to accurately report expenditures on the ARRA 1512 reports prevents the USDOE from effectively monitoring and evaluating the performance of the programs and could result in an improper allocation of future funding by the USDOE. (Finding Code 10-79)

**Recommendation:**

We recommend DCEO review the process and procedures in place to prepare and submit ARRA 1512 reports to ensure expenditures reported are accurate and reconcile to DCEO's financial records.

**DCEO Response:**

The Department agrees with the recommendation and will modify its monthly closing and reconciliation procedures to eliminate differences in expenditures due to timing issues.

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For Year Ended June 30, 2010

**State Agency:** Illinois Department of Commerce and Economic Opportunity (DCEO)

**Federal Agency:** US Department of Health and Human Services (USDHHS)

**Program Name:** Low Income Home Energy Assistance Program

**CFDA # and Program Expenditures:** 93.568 (\$237,689,000)

**Award Number:** G-08B2ILLIEA/G-09B1ILLIEA/G-09B01ILLIE2/G-1002ILLIEA/  
G-1002ILLIE2

**Questioned Costs:** None

**Finding 10-80** *Failure to Submit Required Financial Reports*

DCEO failed to prepare and submit separate financial status reports required for the Low Income Home Energy Assistance Program (LIHEAP) Leveraging Incentive program award.

DCEO is required to submit an annual financial status report for each open LIHEAP award. This report includes information on federal expenditures, recipient expenditures, unliquidated obligations, and indirect costs for the program during the reporting period. During our testwork, we noted DCEO did not prepare or submit financial status reports for the LIHEAP Reach Program and the LIHEAP Leveraging Incentive Program during the fiscal year ended June 30, 2010. Expenditures under the LIHEAP Reach and LIHEAP Leveraging Incentive programs were \$25,000 and \$595,746, respectively, during the year ended June 30, 2010.

According to 45 CFR 92.41(b), the State is required to submit a financial status report (SF-269), identifying all costs incurred during the award period within 90 days of the end of the grant year. In addition, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure reported expenditures are accurate.

In discussing these conditions with DCEO officials, they stated the failure was directly attributable to information exchanged during the transfer of the LIHEAP program to DCEO from the Department of Health and Family Services (DHFS). DCEO understood from DHFS that all reporting for both the LIHEAP Reach and the LIHEAP Leveraging Incentive programs should be included in the reporting for the regular LIHEAP award. DCEO reported all the financial transactions for these programs in the regular LIHEAP award annual report for the fiscal year ended June 30, 2010.

Failure to prepare and submit required financial status reports prevents the USDHHS from effectively monitoring the LIHEAP Program. (Finding Code 10-80)

**Recommendation:**

We recommend DCEO establish procedures to identify reporting requirements and to ensure all required reports are prepared and submitted in accordance with program requirements.

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For Year Ended June 30, 2010

**DCEO Response:**

The Department agrees with the finding and continues to maintain procedures that help to identify all program reporting requirements. In this instance, DCEO immediately filed the required reports when the auditors identified the reporting exception during the course of this audit. DCEO also contacted DHFS to ensure there were no other awards or reporting requirements involved in the transfer that were not clearly identified during the initial transfer of the program.

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### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Department of Transportation (IDOT)

**Federal Agency:** US Department of Transportation (USDOT)

**Program Name:** Airport Improvement Program

**CFDA # and Program Expenditures:** 20.106/20.106 ARRA (\$73,551,000)

**Award Numbers:** Various

**Questioned Costs:** None

**Finding 10-81** *Inadequate On-Site Monitoring of Subrecipients*

IDOT is not adequately performing on-site monitoring procedures for subrecipients receiving federal awards under the Airport Improvement Program.

IDOT passed through approximately \$25,358,000 to 39 subrecipients of the Airport Improvement program during the fiscal year ended June 30, 2010. The majority of the subrecipient grants pertain to construction projects for airport improvement or noise abatement projects. As a pass through entity, IDOT monitors subrecipients of the Airport Improvement Program primarily by reviewing procurement files, receiving periodic expenditure reports, reviewing invoices and cancelled checks prior to reimbursing subrecipients, and receiving OMB Circular A-133 Audit Reports.

Effective in fiscal year 2010, IDOT developed standardized checklists for conducting on-site reviews of its subrecipients receiving federal awards under the Airport Improvement Program. During our review of the on-site monitoring procedures, we noted IDOT has not established criteria for determining which subrecipients will be subject to on-site monitoring procedures on an annual basis. We also noted only one subrecipient was subject to an on-site review during the fiscal year ended June 30, 2010.

According to the OMB Circular A-133 Compliance Supplement, dated June 2010, a pass-through entity is responsible for monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulation, and provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures for identifying which subrecipients will be subject to on-site monitoring review procedures.

In discussing these conditions, IDOT officials stated they monitored subrecipients by reviewing grant applications, receiving periodic expenditure reports, reviewing invoices for noise abatement projects, and reviewing OMB Circular A-133 audit reports.

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Failure to adequately perform subrecipient monitoring procedures could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 10-81, 09-73, 08-78, 07-70, 06-71, 05-76)

**Recommendation:**

We recommend IDOT establish formal criteria for determining which subrecipients will be subject to periodic on-site reviews on an annual basis.

**IDOT Response:**

The Department agrees with the finding. Although the Department believes that they have documented reasonable assurance of federal AIP grant compliance for local let projects in accordance with OMB Circular A-133, the Department will expand its on-site monitoring efforts to include auditing 20% of the projects that are let locally each year. As such, the 'Administrative Bulletin 2010-01' will be revised to establish formal criteria for determining which subrecipients will be audited.

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For Year Ended June 30, 2010

**Agency:** Illinois Department of Transportation (IDOT)

**Federal Agency:** US Department of Transportation (USDOT)

**Program Name:** Highway Planning and Construction Cluster

**CFDA # and Program Expenditures:** 20.205/20.205 ARRA/20.219 (\$1,609,558,000)

**Award Numbers:** Various

**Questioned Costs:** Cannot be determined

**Finding 10-82** *Failure to Retain Documentation in Accordance with Federal Regulations*

IDOT did not retain documentation for construction projects funded by the Highway Planning and Construction Cluster program in accordance with federal regulations.

Contractors must receive advance approval from IDOT to bid on construction projects. As a condition of obtaining IDOT's advance approval, contractors are required to submit an affidavit of availability, which identifies the total value of work previously awarded but not yet complete by the contractor, the contractor's commitment of equipment and personnel on payroll for the planned project, any proposed work on which the contractor is the low bidder which has not yet been awarded, all subcontractors used by the contractor on its projects, and the value of work sublet by the contractor. This affidavit is used by IDOT to determine whether the contractor has available capacity to complete the project.

During our testwork over 40 contractor payments (totaling \$74,578,444) and the related procurement files, we noted the affidavit of availability for eight contractors (with sampled payments of \$11,085,747) could not be located. Upon further review, we noted these projects were originally bid prior to fiscal year 2005 and the affidavits of availability were purged in accordance with IDOT's record retention policy which only requires documentation of this nature to be retained for a five year period. Accordingly, IDOT has purged the affidavits of availability for all projects which were bid prior to July 1, 2004, including those for open constructions projects and advance construction projects claimed in the current period. As federal regulations require records to be retained for a period of three years **after** final payments and all other pending matters are closed, these affidavits should have been retained by IDOT.

In each of the procurement files missing the affidavit of availability, each of the advance approval criteria was verified through additional supporting documentation in IDOT's electronic records. Therefore all information necessary to establish and support the advance approval procedures had been performed for the period was available; however, the respective affidavit of availability and/or source documentation including evidence of IDOT personnel's review and approval could not be located.

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Payments made to or claimed under advanced construction projects for the contractors identified as exceptions in our testwork for the projects sampled were \$185,838,636 for the year ending June 30, 2010. Payments made to contractors whose projects were bid prior to July 1, 2004 were \$127,497,628 during the year ended June 30, 2010. Payments made for construction contracts under the Highway Planning and Construction Cluster program were approximately \$1,586,316,000 during the year ended June 30, 2010.

According to 49 CFR Section 18.36(i)(10-11), records must be retained for three years after grantees or subgrantees make final payments and all other pending matters are closed to allow access to the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives for the purpose of making audits or examinations. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing record retention policies that comply with federal regulations.

In discussing these conditions with IDOT officials, they stated that the Department followed the approved record retention requirements.

Failure to retain documentation in accordance with Federal regulations may result in unallowable costs being charged to the federal program and prevents Federal agencies from properly monitoring the State's compliance with program requirements. (Finding Code 10-82)

#### **Recommendation:**

We recommend IDOT review its current record retention policies and procedures and implement the changes necessary to ensure documentation is retained in accordance with Federal regulations.

#### **IDOT Response:**

The Department agrees with the finding. The Department will review the current record retention policy and revise as necessary.

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### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Department of Transportation (IDOT)

**Federal Agency:** US Department of Transportation (USDOT)

**Program Name:** Highway Planning and Construction Cluster

**CFDA # and Program Expenditures:** 20.205/20.205 ARRA/20.219 (\$1,609,558,000)

**Award Numbers:** Various

**Questioned Costs:** None

**Finding 10-83** *Inadequate Contract Provisions For Projects Subject to Davis-Bacon and Department of Labor (DOL) Requirements*

IDOT did not include provisions in the construction contracts requiring the contractors and subcontractors to comply with the Davis-Bacon Act and Department of Labor Regulations for the Highway Planning and Construction Cluster program.

Non-federal entities are required to comply with the requirements of the Davis-Bacon Act and the Department of Labor regulations applicable to contracts governing federally financed and assisted construction. These regulations require, in part, that all laborers and mechanics employed by contractors or subcontractors who work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid prevailing wage rates established for the locality of the project. IDOT's process to comply with these requirements includes informing their contractors of the applicability of these requirements through communications in the bid documents and obtaining weekly certified payroll reports from contractors. However, IDOT did not include in all of their contracts a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and related DOL regulations. Specifically, we selected 40 contractor payments totaling \$74,518,444 and noted the related contract for six payments totaling \$11,384,952 did not contain the Davis-Bacon Act requirements. IDOT paid approximately \$1,586,316,000 for construction contracts subject to the Davis-Bacon Act during the year ended June 30, 2010.

According to 29 CFR Section 5.5 (a), non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required provisions for the Davis-Bacon Act and the DOL regulations are included in contracts subject to those requirements.

In discussing these conditions with IDOT officials, they stated the "Required Contract Provisions Federal-Aid Construction Contracts" document was being removed from Federal-Aid contracts due to a misguided directive. This was corrected during the current audit period.



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Failure to include the Davis-Bacon Act and DOL regulations in the construction contracts could result in contractors not paying the prevailing wage rate to employees. (Finding Code 10-83, 09-75)

**Recommendation:**

We recommend IDOT establish procedures to ensure the provisions requiring the contractors and subcontractors to comply with the Davis-Bacon Act and Department of Labor Regulations are included in all executed contracts.

**IDOT Response:**

The Department agrees with the finding. The Contracts Office of the Bureau of Design and Environment has been including the required provisions for the Davis-Bacon Act and U.S. Department of Labor regulations in the proposals/contracts subject to those requirements since the November 6, 2009 letting.

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For Year Ended June 30, 2010

**State Agency:** Illinois Department of Transportation (IDOT)

**Federal Agency:** US Department of Transportation (USDOT)

**Program Name:** Airport Improvement Program  
Highway Planning and Construction Cluster

**CFDA # and Program Expenditures:** 20.106/20.106 ARRA (\$73,551,000)  
20.205/20.205 ARRA/20.219 (\$1,609,558,000)

**Award Numbers:** Various (20.106)  
(CFDA Number) Various (20.205/20.205 ARRA/20.219)

**Questioned Costs:** None

**Finding 10-84** *Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports*

IDOT does not have an adequate process to review subrecipient OMB Circular A-133 reports.

IDOT passed through approximately \$25,358,000 and \$134,994,000 to subrecipients of the Airport Improvement Program and the Highway Planning and Construction Cluster program, respectively, during the year ended June 30, 2010. During our testwork, we noted the checklist used by IDOT to perform A-133 desk reviews does not include procedures to reconcile federal funds spent by IDOT to the schedule of expenditures of federal awards reported by the subrecipient. As a result, IDOT is not able to determine whether federal awards passed through to subrecipients have been properly included in the subrecipients' OMB Circular A-133 audits.

Per OMB Circular A-133 Compliance Supplement, dated June 2010, a pass-through entity is required to monitor the activities of subrecipients to provide reasonable assurance that the subrecipients administer the federal awards in compliance with federal requirements, to ensure required audits are performed, to require the subrecipients to take prompt corrective action on any audit findings, and to evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure federal awards passed through to subrecipients have been properly included in the subrecipients' OMB Circular A-133 audits.

In discussing these conditions with IDOT officials, they stated reconciliation procedures were being developed.

Failure to reconcile federal funds passed through by IDOT to the schedule of expenditures of federal awards reported by the subrecipient could result in subrecipients reporting incorrect federal expenditures and receiving inadequate OMB Circular A-133 audits. (Finding Code 10-84, 09-76, 08-80, 07-72, 06-72, 05-77, 04-62, 03-54, 02-48)

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**Recommendation:**

We recommend IDOT implement procedures to ensure amounts reported by subrecipients in the schedule of expenditures of federal awards are reconciled to departmental records.

**IDOT Response:**

The Department agrees with the finding. During fiscal year 2011, a process of reconciling the amount of federal awards passed through IDOT and reported by subrecipients in the schedule of federal awards has been implemented. The new protocol has been adopted and included as part of the subrecipient monitoring programs.

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For Year Ended June 30, 2010

**Agency:** Illinois Department of Transportation (IDOT)

**Federal Agency:** US Department of Transportation (USDOT)

**Program Name:** Airport Improvement Program  
Highway Planning and Construction Cluster

**CFDA # and Program Expenditures:** 20.106/20.106 ARRA (\$73,551,000)  
20.205/20.205 ARRA/20.219 (\$1,609,558,000)

**Award Numbers:** Various (20.106)  
(CFDA Number) Various (20.205/20.205 ARRA/20.219)

**Questioned Costs:** None

**Finding 10-85** *Failure to Communicate ARRA Information and Requirements to Subrecipients*

IDOT did not communicate American Recovery and Reinvestment Act (ARRA) information and requirements to subrecipients of the Airport Improvement Program and the Highway Planning and Construction Cluster program.

During our testwork over five ARRA disbursements totaling approximately \$1,732,000 to three subrecipients of the Airport Improvement Program and four ARRA disbursements totaling approximately \$4,834,000 to two subrecipients of the Highway Planning and Construction Cluster program, we noted IDOT did not identify the federal award number, catalog of federal domestic assistance (CFDA) title and number, or the amount of the award attributable to the ARRA at the time of each disbursement. Additionally, IDOT's grant agreements did not identify the requirement for their subrecipients to separately report the ARRA program expenditures on the schedule of expenditures federal awards (SEFA) and the data collection form. IDOT passed through ARRA funds of approximately \$6,490,000 to four subrecipients of the Airport Improvement Program, and approximately \$19,638,000 to ten subrecipients of the Highway Planning and Construction Cluster program during the year ended June 30, 2010.

According to 2 CFR 176.210 (c) and (d), recipients of ARRA funds agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal Award number, CFDA number, and the amount of ARRA funds. When a recipient awards ARRA funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental ARRA funds from regular subawards under the existing program. Recipients of ARRA funds also agree to require their subrecipients to provide similar identification in their SEFA and data collection form. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required ARRA information is communicated to subrecipients.

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In discussing these conditions with IDOT officials, they stated the Department implemented a web application by which subrecipients could retrieve the Federal Award number, CFDA title number and the amount of the award attributable to the ARRA. However, the use of this application was not required in order to receive payment.

Failure to communicate required ARRA information could result in subrecipients not properly administering the federal programs in accordance with federal regulations. (Finding Code 10-85)

**Recommendation:**

We recommend IDOT implement procedures to ensure ARRA information and requirements are properly communicated to its subrecipients.

**IDOT Response:**

The Department agrees with the finding. The Department will explore system modifications necessary to provide the ARRA information as required by 2 CFR 176.210 (c) and (d).

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For Year Ended June 30, 2010

**State Agency:** Illinois Department of Transportation (IDOT)

**Federal Agency:** US Department of Transportation (USDOT)

**Program Name:** Airport Improvement Program  
Highway Planning and Construction Cluster

**CFDA # and Program Expenditures:** 20.106/20.106 ARRA (\$73,551,000)  
20.205/20.205 ARRA/20.219 (\$1,609,558,000)

**Award Numbers:** Various (20.106)  
(CFDA Number) Various (20.205/20.205 ARRA/20.219)

**Questioned Costs:** None

**Finding 10-86** Failure to Notify Subrecipients of Federal Funding

IDOT did not provide required program information relative to federal funds passed through to the subrecipients of the Airport Improvement Program and Highway Planning and Construction Cluster programs for the year ended June 30, 2010.

During our testwork of 25 grant awards to 17 subrecipients who received approximately \$23,502,000 in Highway Planning and Construction Cluster program funds and 25 grant awards to 19 subrecipients who received approximately \$8,956,000 of the Airport Improvement Program funds, we noted the following:

- Twelve grant award notices for the Highway Planning and Construction Cluster program and eighteen grant award notices for the Airport Improvement Program did not communicate the need for an audit in accordance with OMB Circular A-133.
- Thirteen grant award notices for the Highway Planning and Construction Cluster program and seven grant award notices for the Airport Improvement Program included incorrect information regarding the need for an audit in accordance with OMB Circular A-133. Specifically, IDOT notified those subrecipients that an audit in accordance with OMB Circular A-133 is required if the subrecipient receives (rather than expends) proceeds totaling \$500,000 or more in federal financial assistance from any source during its fiscal year.
- Six grant award notices for the Airport Improvement Program did not communicate the specific program or CFDA number and title under which federal funding had been provided.
- Twenty-five grant award notices for the Highway Planning and Construction Cluster program did not communicate the specific program or CFDA number and title under which federal funding had been provided.

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For Year Ended June 30, 2010

Subrecipient expenditures under the federal programs for the year ended June 30, 2010 were as follows:

<b>Program</b>	<b>Total Fiscal Year 2010 Subrecipient Expenditures</b>	<b>Total Fiscal Year 2010 Program Expenditures</b>	<b>%</b>
Airport Improvement Program	\$25,358,000	\$73,551,000	34.5%
Highway Planning and Construction Cluster	\$134,994,000	\$1,609,558,000	8.4%

According to OMB Circular A-133\_\_400(d), a pass-through entity is required to identify federal awards made by informing each subrecipient of the CFDA title and number, award name and number, and award year. The pass through entity is also required to advise subrecipients of the need for an audit in accordance with OMB Circular A-133 if a subrecipient expends more than \$500,000 in federal financial assistance during its fiscal year. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure required federal award notifications are made to subrecipients.

In discussing these conditions with IDOT officials, they stated that the projects identified were initiated before the prior year corrective action that revised the agreements had been fully implemented.

Failure to inform subrecipients of federal award information could result in subrecipients improperly omitting expenditures from their schedule of expenditures of federal awards, expending federal funds for unallowable purposes, or not receiving a single audit in accordance with OMB Circular A-133. (Finding Code 10-86, 09-77, 08-81, 07-73, 06-74, 05-78, 04-63)

**Recommendation:**

We recommend IDOT review its current process for preparing subrecipient funding notifications to ensure all required information is properly communicated to its subrecipients.

**IDOT Response:**

The Department agrees with the finding. As of the previous audit finding, the Department has modified the agreements to include notification of the CFDA number and federal funding program for the grant award notices. The Department will revise the current award notices to reflect the correct OMB Circular A-133 language.

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For Year Ended June 30, 2010

**State Agency:** Illinois Department of Transportation (IDOT)

**Federal Agency:** US Department of Transportation (USDOT)

**Program Name:** Highway Planning and Construction Cluster

**CFDA # and Program Expenditures:** 20.205/20.205 ARRA/20.219 (\$1,609,558,000)

**Award Numbers:** Various

**Questioned Costs:** None

**Finding 10-87** *Failure to Follow Sampling and Testing Program for Construction Materials*

IDOT did not test materials used for construction activities under the Highway Planning and Construction Cluster program in accordance with their approved sampling and testing program.

The Highway Planning and Construction Cluster program administered by IDOT provides federal funding to construct and rehabilitate interstate highways and public roads. IDOT is required to have a sampling and testing program in place to ensure that materials and workmanship generally conform to approved plans and specifications. Each State is required to develop their own sampling and testing program which must conform to requirements established by Federal law and must be approved by the Federal Highway Administration (FHWA). IDOT has developed a comprehensive sampling and testing program as documented in the Project Procedures Guide for Sampling Frequencies for Materials Testing and Inspection (the Guide) and the Manual for Materials Inspection (the Manual) that meets these requirements.

IDOT utilizes the Materials Integrated System for Test Information and Communication (MISTIC) system to track which materials require testing and the method of testing to be used. This system is integrated with IDOT's construction billing system in which resident engineers enter quantities used during construction to generate payments to the contractors. If quantities entered do not have a test number which conforms to the type of testing required by the Guide assigned in MISTIC, it is the resident engineer's responsibility to ensure the proper test is completed before payment is made.

During our test work, we selected 115 materials from ongoing (open) construction projects and advanced construction projects and noted the following exceptions:

- In five instances, materials were accepted using a method of acceptance that was not in accordance with the Manual.
- In two instances, documentation could not be located to support the testing completed over the materials sampled.

According to 23 CFR Section 637.205(a), each State's transportation department shall develop a quality assurance program which will assure that the materials and workmanship incorporated into each Federal-aid highway construction project on the National Highway System are in conformity with the requirements of the approved plans and specifications, including approved changes.



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Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure materials used in each Federal-aid highway construction project on the National Highway System are tested and documented in accordance with the sampling and testing plan approved by the FHWA.

In discussing these conditions with IDOT officials, they stated that the 2009 Manual had been just recently published when two to three of the exceptions happened. The methods of acceptance for the materials involved were changed in the 2009 Manual. This may have lead to some confusion for the IDOT field staff. Another exception occurred in 2005, well before the 2009 Manual was published, and the material involved was seldom used and is no longer specified or used by IDOT. Only one to two items were true exceptions to a long-standing method of acceptance and these items were the same material selected twice from the same contract. The separately denoted items that involved not being able to find the source documents on microfilm are considered non-issues by IDOT since the correct method of acceptance information was retrieved from IDOT's official database, MISTIC.

Failure to follow and document the sampling and testing program approved by the FHWA could result in substandard materials and workmanship in the State's interstate highways and public roads. (Finding Code 10-87, 09-79)

#### **Recommendation:**

We recommend IDOT implement procedures to ensure all materials are tested in accordance with the sampling and testing program approved by the FHWA.

#### **IDOT Response:**

The Department agrees with the finding. IDOT plans to continue to regularly update the Manual for Materials Inspection (Manual) and the Project Procedures Guide (PPG). The Bureau of Materials and Physical Research (BMPR) will notify the districts of these audit findings and encourage improvement in the materials areas involved in the identified exceptions. At this time, BMPR believes that continued use of the updated Manual and PPG will reduce the exceptions in the future.

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**State Agency:** Illinois Department of Transportation (IDOT)

**Federal Agency:** US Department of Transportation (USDOT)

**Program Name:** Airport Improvement Program

**CFDA # and Program Expenditures:** 20.106/20.106 ARRA (\$73,551,000)

**Award Numbers:** Various

**Questioned Costs:** None

**Finding 10-88** *Inadequate Cash Management Procedures*

IDOT does not have procedures to ensure cash draws are performed in accordance with the Treasury-State Agreement.

Annually, the State of Illinois negotiates the Treasury-State Agreement (TSA) with the US Department of the Treasury (the Treasury) which details the funding techniques to be used for the draw down of federal funds. The TSA specifies that IDOT draw funds for the Airport Improvement Program using the pre-issuance method, an advance funding technique. This method requires IDOT to request funds such that they are deposited in a State account not more than three days prior to the day the State makes a disbursement. During our review of fifty (50) expenditures totaling approximately \$16,252,500, we noted warrants were not issued for two expenditure vouchers totaling approximately \$406,000 within three business days of receiving the federal funds intended to finance these expenditures. The number of days between the receipt of federal funds and the issuance of warrants for these two expenditures was four and five business days.

The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the cash draws are performed in accordance with the US Treasury Regulations.

In discussing this condition with Department officials, they stated this was the result of an oversight.

Failure to draw funds in accordance with the US Treasury Regulations could result in an interest liability to the Federal government. (Finding Code 10-88)

**Recommendation:**

We recommend IDOT implement procedures to ensure cash draws are performed in accordance with U.S. Treasury Regulations.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**IDOT Response:**

The Department agrees with the finding. The Department has implemented procedures to ensure cash draws are performed in accordance with current U.S. Treasury Regulations by not drawing down federal funds until such time as the State's financial systems indicate the payment has been vouchered. This finding results in a 97.5% success on the expenditures and 96% success on the number of expenditures.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Department of Transportation (IDOT)

**Federal Agency:** US Department of Homeland Security (USDHS)

**Program Name:** Homeland Security Cluster

**CFDA # and Program Expenditures:** 97.067 (\$84,892,000)

**Award Numbers:** 2005GET50002/2006GET60025/2007GET70022/2008GET80012/  
2009SST90031

**Questioned Costs:** Cannot be determined

**Finding 10-89** Failure to Account For and Remit Interest Earned on Advance Funding

IDOT did not account for and remit interest earned on advance funding received under the Homeland Security Cluster program.

During the year ended June 30, 2010, IDOT received approximately \$797,300 in advance funding under the Homeland Security Cluster program. During our audit, we noted IDOT deposited the advance funding into an interest-bearing account with the State Treasurer which is commingled with other funds. However, IDOT did not account for and remit interest earned on the Homeland Security Cluster program funds to the U.S. Treasury.

According to the OMB Circular A-133 Compliance Supplement dated June 2010, grantees are permitted to draw down funds up to 120 days prior to expenditure/disbursement, but must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury. Additionally, Chapter III.B of the 2005 Homeland Security Program Guidelines and Application Kit (HSP Guidelines), Chapter II.C.3 of the 2006 HSP Guidelines, and Appendix B, Section B, of the 2007 HSP Guidelines, and Appendix F, Section C, of the 2008 HSP Guidelines applicable to the Homeland Security Cluster Grants state that funds received by both grantees and subgrantees must be placed in an interest-bearing account.

In discussing these conditions with IDOT personnel, they stated the corrective action for this repeat finding had not been fully implemented in 2010.

Failure to account for and remit interest earned results in lost interest earnings to the U.S. Treasury. (Finding Code 10-89, 09-80, 08-82, 07-75, 06-76)

**Recommendation:**

We recommend IDOT account for and remit interest earned on the Homeland Security Cluster program funds to the U.S. Treasury.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**IDOT Response:**

The Department agrees with the finding. A separate appropriation was created in 2009 to reimburse Homeland Security expenditures to vendors prior to drawing down any federal funds. This corrective action had unfortunately not been fully implemented during the audit period. We believe that the new appropriation and protocols will alleviate the concern noted in the finding.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Emergency Management Agency (IEMA)

**Federal Agency:** US Department of Homeland Security (USDHS)

**Program Name:** Homeland Security Cluster

**CFDA # and Program Expenditures:** 97.067 (\$84,892,000)

**Award Numbers:** 2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012/  
2009-SS-T9-0031

**Questioned Costs:** None

**Finding 10-90** *Inadequate On-Site Monitoring of Subrecipients*

IEMA is not sufficiently performing on-site reviews of subrecipients receiving federal awards under the Homeland Security Cluster program.

The Illinois Terrorism Task Force (ITTF) within IEMA passes through Homeland Security Cluster program funding to various local governments to develop, maintain, and improve the responsiveness of Illinois local governments to terrorist acts. A significant portion of the grants made to these subrecipients fund the purchase of special equipment to be used in the event of terrorist attacks.

ITTF monitors its subrecipients by reviewing invoices and expenditure reports, receiving OMB Circular A-133 audit reports, and requiring subrecipients annually to submit an inventory report for all equipment purchased with Homeland Security Cluster program funds. ITTF's policy statement requires staff to conduct site visits to ensure the accuracy of the inventory reports. IEMA developed an ITTF Inventory Certification Form (certification form) to document the equipment observations.

During our audit, we selected fifteen subrecipients who received site visits and noted the following:

- The certification form was not completed for site visits conducted at two subrecipients.
- The certification form for eight subrecipients identified deficiencies which were not resolved. Specifically, the certification forms for these site reviews indicated 42 of the 89 equipment items selected for observation were not located and ITTF did not perform follow-up procedures or issue a report to communicate the deficiencies.
- Evidence of a supervisory review of the certification form was not documented.

Total federal awards passed through to subrecipients of the Homeland Security Cluster program were approximately \$82,622,000 during the year ended June 30, 2010.

According to OMB Circular A-133 §\_\_.400(d), 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, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

## STATE OF ILLINOIS

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For Year Ended June 30, 2010

In discussing these conditions with IEMA personnel, they stated appropriate ITTF policies and procedures had been established and followed during the audit period. However, adequate sampling selection methodologies need to be better defined and documented.

Failure to adequately perform subrecipient monitoring procedures could result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 10-90, 09-85, 08-87)

#### **Recommendation:**

We recommend IEMA sufficiently perform on-site reviews to ensure subrecipients are administering the federal program in accordance with the applicable laws and regulations.

#### **IEMA Response:**

IEMA accepts this recommendation.

During the audit period, IEMA complied and followed the established policies for on-site monitoring. The auditors' testing identified 42 of the 89 equipment items were not located. However, according to the policy, the 42 items were not selected as part of the sample for testing and therefore would not have been reviewed. The 42 items were also certified as part of the inventory listing by the sub-recipient (per the policy).

Per the policy, a sample is to be selected prior to the on-site visit. IEMA's documentation did not adequately clarify the sample prior to the on-site review.

IEMA will select the sample prior to the visit and ensure the certification documentation is clearer in regards to which items selected were the sample versus the universe of equipment items.

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### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Emergency Management Agency (IEMA)

**Federal Agency:** US Department of Homeland Security (USDHS)

**Program Name:** Homeland Security Cluster

**CFDA # and Program Expenditures:** 97.067 (\$84,892,000)

**Award Numbers:** 2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012/  
2009-SS-T9-0031

**Questioned Costs:** None

**Finding 10-91** *Inadequate Review of Subrecipient OMB Circular A-133 Reports*

IEMA is not adequately performing the reviews of OMB Circular A-133 reports which are required to be received from subrecipients of the Homeland Security Cluster.

IEMA requires subrecipients expending more than \$500,000 in federal awards during their fiscal year to submit OMB Circular A-133 audit reports. IEMA staff is 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 IEMA records; and (3) type A programs (as defined by OMB Circular A-133) are being audited at least every three years. Additionally, IEMA staff is responsible for evaluating the type of audit opinion issued (i.e. unqualified, qualified, and adverse) and issuing management decisions on reported findings within the prescribed timeframe.

During our testwork of 24 subrecipients of the Homeland Security Cluster with total expenditures of \$76,189,499, we noted the following regarding the desk review process:

- Desk reviews were not performed for two subrecipients. Amounts passed through to each subrecipient were \$11,248,484 and \$7,388 during the year ended June 30, 2010.
- IEMA did not obtain documentation from one subrecipient certifying that an OMB Circular A-133 audit was not required. Amounts passed through to this subrecipient were \$11,000 during the year ended June 30, 2010.
- Two subrecipient OMB Circular A-133 reports were received late, and IEMA did not retain documentation of its attempts to collect the reports and to follow-up with the subrecipients. Specifically, these reports were received between 231 and 290 days after the nine-month submission requirement. Total amounts passed through to each subrecipient were \$2,734,102 and \$2,364 during the year ended June 30, 2010.
- Although IEMA indicated meetings were held to discuss remediation plans for one subrecipient for which findings were reported in the OMB Circular A-133 report, IEMA did not issue a management decision relative to the findings. Amounts passed through to this subrecipient were \$13,640,884 during the year ended June 30, 2010.



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Total awards passed through to subrecipients of the Homeland Security Cluster were approximately \$81,564,000 during the year ended June 30, 2010.

According to OMB Circular A-133 \_\_\_\_400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 compliance supplement, dated June 2010, a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

In discussing these conditions with IEMA officials, they stated procedures had been established to ensure compliance with OMB Circular A-133.

Failure to obtain and adequately review subrecipient OMB Circular A-133 audit reports in a timely manner may result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 10-91)

#### **Recommendation:**

We recommend IEMA establish procedures to ensure desk reviews are performed on a timely basis for all subrecipients, and management decisions are issued for all findings affecting its federal programs in accordance with OMB Circular A-133.

#### **IEMA Response:**

IEMA accepts the recommendation.

IEMA does have established procedures in place. IEMA management will continue to work with staff to ensure compliance with established procedures.

In addition, IEMA will be implementing a tracking system to ensure all deadlines are met. This will include tracking any follow up to findings required by OMB Circular A-133 and ensuring receipt of the required documentation of the subrecipients.

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For Year Ended June 30, 2010

**State Agency:** Illinois Emergency Management Agency (IEMA)

**Federal Agency:** US Department of Homeland Security (USDHS)

**Program Name:** Homeland Security Cluster

**CFDA # and Program Expenditures:** 97.067 (\$84,892,000)

**Award Numbers:** 2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012/2009-SS-T9-0031

**Questioned Costs:** Cannot be determined

**Finding 10-92** *Failure to Advance Only the Immediate Cash Needs to Subrecipients*

IEMA provided funds to a subrecipient of the Homeland Security Cluster Program in excess of its immediate cash needs during the year ended June 30, 2010.

During a review of the subrecipient's invoices on January 28, 2010, IEMA determined a duplicate payment was made for invoices submitted by the subrecipient totaling \$22,347 on July 11, 2008. IEMA received a refund from this subrecipient on March 2, 2010, approximately 565 days after the duplicate payment was made.

According to 28 CFR 66.20(b)(7), grantees must implement procedures for minimizing the time elapsing between transfer of funds from the U.S. Treasury and disbursement whenever advanced payment procedures are used. Additionally, 28 CFR 66.37(a)(4) requires advances of grant funds to subgrantees to conform substantially to the same standards of timing that apply to cash advances by Federal agencies. Based upon discussions with Federal agencies, cash advances to subgrantees should be for immediate cash needs and should not exceed 30 days. In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include procedures in place to ensure funds are not advanced to subrecipients in excess of immediate cash needs.

In discussing these conditions with IEMA personnel, they stated agency staff identified the duplicate payment made to the subrecipient via IEMA's policies and procedures and obtained the refund from the subrecipient.

Providing subrecipients funding advances of greater than 30 days results in additional costs of financing for the U.S. Treasury. (Finding Code 10-92)

**Recommendation:**

We recommend IEMA review its advance funding policies and techniques for subrecipients and implement policies, techniques and a monitoring process to ensure subrecipients receive no more than 30 days of funding on an advance basis.

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**IEMA Response:**

IEMA accepts this recommendation.

It should be noted that IEMA does conduct a final review of all payments made to a grantee out of each grant or interagency agreement as part of a comprehensive post-grant internal reconciliation. Before this audit, IEMA staff had already identified this error through this internal review and implemented procedures to resolve the problem. This step verifies the accuracy of documentation submitted by the grantee and Single Audit submissions. In September 2009, IEMA established policy statement for grantee compliance for the management of the overpayment of funds. In January 2010, IEMA completed the business plan for the development of a comprehensive grants management system which should go online in July 2011 to consolidate all internal financial data systems used to support the federal preparedness funds awarded by the ITTF. This system will provide another level of payment tracking and reconciliation to decrease the possibility of future duplicate and over payments whereby tracking all payments to a sub-recipient between federal preparedness grants and federal fiscal years.

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### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Emergency Management Agency (IEMA)  
**Federal Agency:** US Department of Homeland Security (USDHS)  
**Program Name:** Disaster Grants – Public Assistance (Presidentially Declared Disasters)  
**CFDA # and Program Expenditures:** 97.036 (\$28,684,000)

**Award Numbers:** IL021416/1513DRILP00000001/3230EMILP00000001  
1633DRILP00000001/3269EMILP00000001/1681DRILP00000001/  
1729DRILP00000001/3283EMILP00000001/1771DRILP00000001/  
1800DRILP00000001/1826DRILP00000001

**Questioned Costs:** None

**Finding 10-93** *Failure to Draw Funds Only for Immediate Cash Needs*

IEMA did not minimize the time elapsing between the drawdown of federal funds from the U.S. Treasury and their disbursement for program purposes.

During our review of 25 expenditures (totaling \$8,298,012) related to the Disaster Grants Public Assistance (Presidentially Declared Disasters) program, we noted warrants were not issued for 19 expenditure vouchers, totaling \$7,118,750 within three business days of receiving federal funds intended to finance these expenditures. The number of days between the receipt of federal funds and the issuance of warrants ranged from four to 22 business days. Total expenditures for the Disaster Grants Public Assistance (Presidentially Declared Disasters) program administered by IEMA were \$28,684,000 during the year ended June 30, 2010.

According to 44 CFR 13.21(b), grantees are required to implement methods and procedures for payment which minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement of funds in accordance with the Treasury Regulations at 31 CFR part 205 (Treasury Regulations). The Treasury Regulations require programs with less than \$60 million in expenditures follow Subpart B – Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State agreement. According to 31 CFR 205.33(a), grantees following Subpart B are required to implement procedures to ensure that the timing and amount of fund transfers be as close as is administratively feasible to a State's actual cash outlay for program costs, which based on discussions with Federal agencies has been interpreted to be within 3 days of receipt of federal funds. In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include procedures in place to minimize the time elapsing between the receipt of federal funds and their disbursement.

In discussing these conditions with IEMA personnel, they stated the payment vouchers and federal fund draws have historically been processed simultaneously; however, processing a voucher and creating a warrant has taken more than three business days during fiscal year 2010. This process was a shared responsibility between the Public Safety Shared Services Center and IEMA (as required by Executive Order 6 (2006) and the established Interagency Agreement).

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Failure to draw and disburse federal funds in accordance with program regulations may result in an interest liability to the federal government. (Finding Code 10-93, 09-87)

**Recommendation:**

We recommend IEMA implement procedures to ensure cash drawn in advance is disbursed in accordance with program regulations.

**IEMA Response:**

IEMA accepts this recommendation.

Public Safety Shared Services Center (SS) accepts this recommendation.

The Agency and SS currently works to minimize the time between draws and payment. The current process is to submit vouchers to SS where they are entered for payment into AIS. Once the vouchers are entered, grant fiscal staff submit a request for federal funds online. It then requires at most two days for the Treasurer to receive the funds and for the Comptroller to post to their appropriate fund. An additional two days are required for assembling schedules at SS and delivering that information to the Comptroller.

Both the Agency and Shared Services will review our processes to identify opportunities for improvement. However, the Agency nor SS has control over the length of time vouchers spend at the Office of the Comptroller. We will reach out to their office to determine if the timeframe can be shortened.

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For Year Ended June 30, 2010

**State Agency:** Illinois Emergency Management Agency (IEMA)

**Federal Agency:** US Department of Homeland Security (USDHS)

**Program Name:** Homeland Security Cluster

**CFDA # and Program Expenditures:** 97.067 (\$84,892,000)

**Award Numbers:** 2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012/2009-SS-T9-0031

**Questioned Costs:** Cannot be determined

**Finding 10-94** *Failure to Deposit Funds in an Interest-Bearing Account*

IEMA did not deposit Homeland Security Cluster program funds received in advance of issuing warrants into an interest-bearing account.

During the year ended June 30, 2010, IEMA received \$93,489,318 in draws under the Homeland Security Cluster program that were not deposited into an interest-bearing account. Additionally, IEMA did not calculate or remit any potential interest owed to the U.S. Treasury on funds received in advance of disbursement.

According to the OMB Circular A-133 Compliance Supplement dated June 2010, grantees are permitted to draw down funds up to 120 days prior to expenditure/disbursement, but must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury. Additionally, Chapter III.B of the 2005 Homeland Security Program Guidelines and Application Kit (HSP Guidelines), Chapter II.C.3 of the 2006 HSP Guidelines, Appendix B, Section B, of the 2007 HSP Guidelines, and Appendix F, Section C, of the 2008 HSP Guidelines applicable to the Homeland Security Cluster Grants state that funds received by both grantees and subgrantees must be placed in an interest-bearing account.

In discussing these conditions with IEMA personnel, they stated Federal funds are currently not being deposited into an interest-bearing account. IEMA understands that Federal funds drawn for non-immediate spending should be placed in an interest bearing account for up to 120 days, as long as all interest proceeds are returned to the Federal Government. IEMA has pursued legislation to create an interest bearing account – House Bill 1316.

Failure to deposit federal advances in an interest-bearing account results in lost interest earnings to the U.S. Treasury. (Finding Code 10-94, 09-83, 08-85)

**Recommendation:**

We recommend IEMA deposit all federal funds received in an interest-bearing account and calculate and remit interest owed to the U.S. Treasury.

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**IEMA Response:**

IEMA accepts this recommendation.

This finding is repeated from the previous year's audit. In the agency's previous response, we stated we would pursue legislation needed to create interest-bearing accounts. We have done so with House Bill 1316.

However, monitoring over 30 grant accounts on a daily basis in order to track the amount of interest owed may require an additional full time headcount. This employee would track all federally drawn funds from each program account, track the number of days from receipt to expenditure and complete payment forms for voucher processing at the Public Safety Shared Services Center for the accumulation of interest payment back to the Federal Government. We estimate the cost to hire an individual to be more than five times the amount of interest that would be returned to the federal government.

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For Year Ended June 30, 2010

**State Agency:** Illinois Emergency Management Agency (IEMA)

**Federal Agency:** US Department of Homeland Security (USDHS)

**Program Name:** Homeland Security Cluster

**CFDA # and Program Expenditures:** 97.067 (\$84,892,000)

**Award Numbers:** 2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012/2009-SS-T9-0031

**Questioned Costs:** None

**Finding 10-95** *Failure to Follow Established Internal Control Procedures for Equipment*

IEMA did not follow their established internal control procedures to reconcile equipment expenditures to additions recorded in the property (equipment) records.

IEMA's internal control procedures to maintain accurate property records include a monthly reconciliation between expenditures for equipment recorded in their general ledger to equipment additions recorded in the property records. During our audit, we noted IEMA did not complete any of the monthly reconciliations during the year ended June 30, 2010.

According to the OMB Circular A-133 Compliance Supplement dated June 2010, a State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with the State's laws and procedures. According to the Illinois Compiled Statutes State Property Control Act, 30 ILCS 605/6.02, each responsible officer shall maintain a permanent record of all items of property under his jurisdiction and control. The listing shall include all property being acquired under agreements which are required by the State Comptroller to be capitalized for inclusion in the statewide financial statements. The A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include following established internal control procedures to reconcile equipment expenditures to additions recorded in the property records.

In discussing these conditions with IEMA personnel, they stated the reconciliations were not completed by the Public Safety Shared Services Center (as required by Executive Order 6 (2006) and the established Interagency Agreement).

Failure to follow established internal control procedures for equipment could result in inaccurate or incomplete property records. (Finding Code 10-95, 09-88)

**Recommendation:**

We recommend IEMA follow their established internal control procedures to reconcile equipment expenditures to additions recorded in the property records.



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Schedule of Findings and Questioned Costs

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**IEMA Response:**

IEMA cannot accept or reject this recommendation.

Public Safety Shared Services Center accepts this recommendation.

Per Executive Order (6) 2006, the fixed assets administrative functions were transferred to the Public Safety Shared Services Center (SS) at the Department of Corrections.

Per the Interagency Agreement dated September 25, 2008 between IEMA and SS, SS is responsible for performing the inventory reconciliations. The Agreement states, *“In the event either the Auditor General or the Office of Internal Audits makes recommendations or audit findings with respect to any of the administrative functions performed by Shared Services under this Agreement, it shall be the responsibility of Shared Services to ensure corrective action and to account to the affected agency or agencies with respect to such action.”*

The Public Safety Shared Services Center will perform the reconciliation of fixed assets (property) to expenditures on AIS on a monthly basis. The reconciliations will be completed for fiscal year 2011 (brought current) and then continue.

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**State Agency:** Illinois State Police (State Police)

**Federal Agency:** US Department of Homeland Security (USDHS)

**Program Name:** Homeland Security Cluster

**CFDA # and Program Expenditures:** 97.067 (\$84,892,000)

**Award Numbers:** 2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012/2009-SS-T9-0031

**Questioned Costs:** Cannot be determined

**Finding 10-96** *Failure to Deposit Funds in an Interest-Bearing Account*

State Police did not deposit Homeland Security Cluster program funds received in advance of issuing warrants into an interest-bearing account.

During the year ended June 30, 2010, State Police received approximately \$1,868,000 in draws under the Homeland Security Cluster program that were not deposited into an interest-bearing account. Additionally, State Police did not calculate or remit any potential interest owed to the U.S. Treasury on funds received in advance of disbursement.

According to the OMB Circular A-133 Compliance Supplement dated June 2010, grantees are permitted to draw down funds up to 120 days prior to expenditure/disbursement, but must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury. Additionally, Chapter III.B of the 2005 Homeland Security Program Guidelines and Application Kit (HSP Guidelines), Chapter II.C.3 of the 2006 HSP Guidelines, Appendix B, Section B, of the 2007 HSP Guidelines, and Appendix F, Section C, of the 2008 HSP Guidelines applicable to the Homeland Security Cluster Grants state that funds received by both grantees and subgrantees must be placed in an interest-bearing account.

In discussing these conditions with State Police personnel, they stated the Department has been working on legislation to amend the ISP Federal Projects Fund to be an interest-bearing account.

Failure to deposit federal advances in an interest-bearing account results in lost interest earnings to the U.S. Treasury. (Finding Code 10-96, 09-89, 08-90)

**Recommendation:**

We recommend State Police deposit all federal funds received in an interest-bearing account and calculate and remit interest owed to the U.S. Treasury.

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**State Police Response:**

Concur. House Bill 1316 will make the ISP Federal Projects Fund an interest-bearing account. Once this is accomplished, the State Treasurer will deposit all interest into this fund and then it will be remitted to the U.S. Treasury for all federal funds received.

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**State Agency:** Illinois Environmental Protection Agency (IEPA)

**Federal Agency:** US Environmental Protection Agency (USEPA)

**Program Name:** Clean Water State Revolving Fund  
Drinking Water State Revolving Fund

**CFDA # and Program Expenditures:** 66.458 ARRA (\$92,121,000)  
66.468/66.468 ARRA (\$61,829,000)

**Award Numbers:** 2W00E77501-1 (66.458 ARRA)  
2W00E77701-1/FS98577707-0/ FS98577706-0 (66.468/66.468 ARRA)

**Questioned Costs:** None

**Finding 10-97** *Inadequate Monitoring of Subrecipient OMB A-133 Audit Reports*

IEPA does not have an adequate process in place for obtaining and issuing management decisions on subrecipient A-133 audit reports for subrecipients of the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) program.

IEPA requires subrecipients expending more than \$500,000 in federal awards during their fiscal year to submit OMB Circular A-133 audit reports. IEPA program staff are responsible for reviewing the audit 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 IEPA records; and (3) type A programs (as defined by OMB Circular A-133) are being audited at least every three years. Additionally, IEPA 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 (i.e. six months).

During our testwork over nine subrecipients of the CWSRF program and nine subrecipients of the DWSRF program who were required to submit OMB Circular A-133 reports during the year ended June 30, 2010, we noted the following:

- There were three subrecipients of the CWSRF program and two subrecipients of DWSRF program for which no OMB Circular A-133 audit reports were received. Each subrecipient file contained an initial request to obtain the audit and one follow-up letter sent approximately eight months after the first letter. However, there was no evidence of additional follow up to obtain the missing reports.
- There was one subrecipient of the CWSRF program whose OMB Circular A-133 report identified material weaknesses and questioned costs for the CWSRF program for which IEPA did not issue a management decision.

According to OMB Circular A-133 §\_\_.400(d)(3), 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, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to OMB Circular A-133 §\_\_.400(d)(5), a pass-through

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entity is required to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure subrecipient A-133 audit reports are obtained in a reasonable timeframe and management decisions are issued within required timeframes.

In discussing these conditions with IEPA officials, they stated that the existing procedures were previously considered to have been adequate, but IEPA agrees to modify the current procedures based on the response listed below.

Failure to obtain subrecipient A-133 audit reports and issue management decisions for subrecipient findings may result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 10-97)

#### **Recommendation:**

We recommend IEPA establish procedures to ensure: (1) subrecipient A-133 audit reports are obtained in a reasonable timeframe and (2) management decisions are issued for all findings affecting its federal programs in accordance with OMB Circular A-133.

#### **IEPA Response:**

Accepted. The Illinois EPA has procedures established for monitoring subrecipients. However, the Agency agrees to modify those procedures to target weaknesses identified in this audit.

Specifically, the Illinois EPA agrees to strengthen the follow-up procedure in those instances when multiple requests fail to produce audit reports as required under the Single Audit Act. The Illinois EPA will modify the notice letters to specifically reference the potential consequences of noncompliance, including the commencement of legal action. The notice letters will further state that noncompliance will be in violation of the loan agreement and that the Illinois EPA may seek all remedies as set forth in the loan rules (35 IL. Admin. Code 365.310, 35 IL. Adm. Code 662.310) and refer the matter to the Federal Clearinghouse for further action as prescribed by Circular A-133.

The Illinois EPA also agrees to modify its Single Audit review procedures to objectively address the issuance of management decisions for all material findings contained in recipient audit reports. The Agency notes that all material findings are currently reviewed under our A-133 procedures; however management decision letters have not always been issued. This modification will mandate a management decision letter to document this review for all material findings.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Environmental Protection Agency (IEPA)

**Federal Agency:** US Environmental Protection Agency (USEPA)

**Program Name:** Clean Water State Revolving Fund  
Drinking Water State Revolving Fund

**CFDA # and Program Expenditures:** 66.458 ARRA (\$92,121,000)  
66.468/66.468 ARRA (\$61,829,000)

**Award Numbers:** 2W00E77501-1 (66.458 ARRA)  
2W00E77701-1/FS98577707-0/ FS98577706-0 (66.468/66.468 ARRA)

**Questioned Costs:** None

**Finding 10-98** *Failure to Communicate ARRA Information to Subrecipients*

IEPA did not communicate American Recovery and Reinvestment Act (ARRA) information and requirements to subrecipients of the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) programs at the time of each disbursement.

During our testwork over 80 disbursements (40 for each program) to subrecipients of the CWSRF (which expended \$42,246,415) and DWSRF (which expended \$22,304,266) programs, we noted IEPA did not identify the federal award number and catalog of federal domestic assistance (CFDA) number at the time of each disbursement. IEPA passed through approximately \$92,121,000 and \$48,868,000 of ARRA funds under the CWSRF and DWSRF program, respectively, for the year ended June 30, 2010. Total subrecipient expenditures were \$92,121,000 and \$60,416,000 for the CWSRF and DWSRF, respectively, for the fiscal year ended June 30, 2010.

According to the American Recovery and Reinvestment Act, federal agencies must require recipients to agree to: (1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal Award number, CFDA number, and the amount of ARRA funds; and (2) require their subrecipients to provide similar identification in their SEFA and data collection form. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure required information is communicated to subrecipients at the time of each disbursement.

In discussing these conditions with IEPA officials, they stated that existing procedures were adequate to track, monitor and report expenditures of the program. Although the subaward communicated the necessary information, the disbursement remittance had not included the federal award number or catalog of federal domestic assistance number due to oversight.

Failure to communicate required ARRA information at the time of each disbursement could result in subrecipients not properly identifying ARRA funding in their accounting records and on the schedule of expenditures of federal awards. (Finding Code 10-98)

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Schedule of Findings and Questioned Costs

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**Recommendation:**

We recommend IEPA implement procedures to ensure ARRA information is properly communicated to its subrecipients at the time of each disbursement.

**IEPA Response:**

Accepted. Future ARRA disbursements will include the federal award number or catalog of federal domestic assistance number.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

**State Agency:** Illinois Environmental Protection Agency (IEPA)

**Federal Agency:** US Environmental Protection Agency (USEPA)

**Program Name:** Clean Water State Revolving Fund  
Drinking Water State Revolving Fund

**CFDA # and Program Expenditures:** 66.458 ARRA (\$92,121,000)  
66.468/66.468 ARRA (\$61,829,000)

**Award Numbers:** 2W00E77501-1 (66.458 ARRA)  
2W00E77701-1/FS98577707-0/ FS98577706-0 (66.468/66.468 ARRA)

**Questioned Costs:** None

**Finding 10-99** Inaccurate ARRA 1512 Reports

IEPA did not accurately report expenditures in the quarterly ARRA 1512 report for the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) programs.

The ARRA 1512 report is required to be submitted on a quarterly basis to report expenditures and other information related to the CWSRF and DWSRF programs. During our review of one of the four quarterly reports submitted during the fiscal year ended June 30, 2010, we noted the Expenditure Amount reported did not agree to IEPA's financial records or to the program expenditures reported on the SF-425 Federal Financial Report filed for the applicable question. Specifically, we noted Expenditure Amounts were erroneously reported in the ARRA 1512 reports, as follows:

<b>Program</b>	<b>Quarter End</b>	<b>Actual Expenditures</b>	<b>Reported Expenditures</b>	<b>Difference</b>
CWSRF	March 31, 2010	\$ 41,102,013	\$ 39,380,664	\$ 1,721,349
DWSRF	March 31, 2010	\$24,154,482	\$23,327,651	\$826,831

According to the OMB Circular A-133 compliance supplement, dated June 2010, IEPA is required to submit quarterly ARRA 1512 reports within 10 days after the reporting period. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure expenditure information reported on the ARRA 1512 reports are accurate and agree to supporting documentation.

In discussing these conditions with IEPA officials, they stated that they believed current procedures were adequate to properly report expenditures and receipts on the ARRA 1512 reports.



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Failure to accurately report expenditures on the ARRA 1512 reports prevents the USEPA from effectively monitoring and evaluating the performance of the programs and could result in an improper allocation of future funding by the USEPA. (Finding Code 10-99)

**Recommendation:**

We recommend IEPA review the process and procedures in place to prepare and submit ARRA 1512 reports to ensure expenditures reported are accurate and reconcile to IEPA's financial records.

**IEPA Response:**

Accepted. The Illinois EPA utilized expenditures as reported by the Office of the Comptroller as this system was identified by the State as the public accounting system of record. Utilizing this system provided for reconciling differences for payments in transit when compared to expenditures as reported from the common accounting system used by State agencies. The Illinois EPA's internal control processes correctly identify the specific reconciling items. The Illinois EPA will investigate the feasibility and impacts of delaying payments at the end of the reporting cycle in order to have no reconcilable differences between the expenditures reported by the Office of the Comptroller and the accounting system used by agencies.

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For Year Ended June 30, 2010

**State Agency:** Illinois Environmental Protection Agency (IEPA)

**Federal Agency:** US Environmental Protection Agency (USEPA)

**Program Name:** Clean Water State Revolving Fund  
Drinking Water State Revolving Fund

**CFDA # and Program Expenditures:** 66.458 ARRA (\$92,121,000)  
66.468/66.468 ARRA (\$61,829,000)

**Award Numbers:** 2W00E77501-1 (66.458 ARRA)  
2W00E77701-1/FS98577707-0/ FS98577706-0 (66.468/66.468 ARRA)

**Questioned Costs:** None

**Finding 10-100** *Inaccurate Federal Financial Report*

IEPA does not have adequate procedures in place to ensure expenditures reported on quarterly financial reports of the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) programs are accurate.

The SF-425 Federal Financial Report is required to be submitted on a quarterly basis to report expenditures information related to the CWSRF and DWSRF grants. During our review of two of the four quarterly reports submitted for each program during the fiscal year ended June 30, 2010, we noted IEPA incorrectly reported the Federal Share of Expenditures for the DWSRF program as follows:

<b>Quarter End</b>	<b>Actual Expenditures</b>	<b>Reported Expenditures</b>	<b>Difference</b>
December 31, 2009	\$ 9,335,982	\$ 8,924,914	\$ 411,068

Upon further investigation, we noted IEPA recorded adjustments to its financial records for the DWSRF program which affected the December 31, 2009 reporting period; however, the SF-425 was not amended to reflect the adjustments made. As such, the reports submitted were incorrect and did not agree to IEPA's financial records for the period tested.

According to the June 2010 OMB Circular A-133 Compliance Supplement, IEPA is required to submit quarterly SF-425 Federal Financial reports within 30 days after the reporting period. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure financial reports submitted to federal agencies are accurate and agree to supporting documentation.

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In discussing these conditions with IEPA officials, they stated all financial records were updated, however due to oversight the SF-425 was not initially revised. It has, however, been revised subsequently and submitted to USEPA.

Failure to accurately report expenditures on federal financial reports prevents the USEPA from effectively monitoring and evaluating the performance of the programs and could result in an improper allocation of future funding by the USEPA. (Finding Code 10-100)

#### **Recommendation:**

We recommend IEPA review the process and procedures in place to prepare and submit federal financial reports to ensure expenditures are accurately reported and supported.

#### **IEPA Response:**

Accepted. A procedure will be put in place that will require review of reports and work paper documentation by the Manager of the Finance Section before reports are submitted. In addition, the checklist that the Finance Section uses to monitor report due dates will be revised to provide for a check-off for revisions to accounting data/ any revised report submissions and date.

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**State Agency:** Illinois Governor's Office of Management and Budget (GOMB)

**Federal Agency:** US Department of Treasury (USDT)  
US Department of Energy (USDOE)  
US Department of Education (USDE)  
US Department of Health and Human Services (USDHHS)

**Program Name:** Weatherization Assistance for Low Income Persons  
State Fiscal Stabilization Fund Cluster  
Low Income Home Energy Assistance Program

**CFDA # and Program Expenditures:** 81.042 (\$69,126,000)  
84.394/84.397 (\$1,015,227,000)  
93.568 (\$237,689,000)

**Award Number:** DE-FG45-04R530678, DE-FG26-04R530678, DE-EE0000490 (81.042)  
**(CFDA Number)** S394A090014 (84.394ARRA)/S397A090014 (84.397)  
G-08B2ILLIEA/G-09B1ILLIEA/G-09B01ILLIE2/G-1002ILLIEA/  
G-1002ILLIE2 (93.568)

**Questioned Costs:** None

**Finding 10-101** *Inadequate Procedures for Amending the Treasury State Agreement*

The State does not have adequate procedures in place to ensure the Treasury State Agreement (TSA) is amended in accordance with federal regulations.

Annually, the State of Illinois negotiates the TSA with the U.S. Department of the Treasury (the Treasury), which details the funding techniques to be used for the draw down of federal funds. The TSA is required to include all major federal assistance programs exceeding \$60,000,000 based on the most recent Statewide Single Audit Report; however, the State is also required to amend the TSA within 30 days of determining that the program will exceed the \$60,000,000 threshold.

During our audit, we noted the Weatherization Assistance for Low Income Persons and State Fiscal Stabilization Fund Cluster programs were expected to exceed the \$60,000,000 program expenditure threshold in fiscal year 2010 based on amounts awarded; however, the TSA was not amended to include these programs during fiscal year 2010. In addition, we noted the State did not include an amendment to update the methodology used to calculate interest for the Low Income Home Energy Assistance Program (LIHEAP) when the program transferred between State agencies. As a result, an unapproved interest rate calculation was used to calculate interest for the LIHEAP program.

According to 31 CFR 205.9(b), a State must use its most recent Single Audit report as a basis for determining the funding thresholds for major Federal assistance programs to be included in the TSA, and the TSA must be amended as needed to change or clarify its language when the terms of the existing agreement are either no longer correct or no longer applicable. According to 31 CFR 205.7(c), a State must notify the Treasury within 30 days of the time the State becomes aware of a

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change, and must describe the change in the notification. Amendments may address, but are not limited to, additions and deletions of Federal assistance programs subject to the TSA.

In discussing these conditions with GOMB personnel, they stated the noncompliance occurred due to a misunderstanding of the federal requirements.

Failure to amend the TSA when required is a violation of the Cash Management Improvement Act (CMIA) and may result in interest liabilities being assessed to the State. (Finding Code 10-101)

#### **Recommendation:**

We recommend the State establish procedures to ensure the TSA is amended for any necessary changes in accordance with federal regulations.

#### **GOMB Response:**

The Governor's Office of Management and Budget agrees with this finding. Amendments to the Treasury State Agreement (TSA) were not timely filed by GOMB for the Weatherization Assistance for Low Income Persons and the Low Income Home Energy Assistance Program as required by 31 C.F.R. Part 205. To remedy this failure, senior staff at GOMB will ensure that the appropriate staff personnel is properly trained to assure understanding and full compliance with the Department of Treasury, 31 C.F.R Part 205 – Rules for Efficient Federal-State Fund Transfers.

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**State Agency:** Illinois Governor's Office of Management and Budget (GOMB)

**Federal Agency:** US Department of Education (USDE)

**Program Name:** State Fiscal Stabilization Fund Cluster

**CFDA # and Program Expenditures:** 84.394/84.397 (\$1,015,227,000)

**Award Number:** S394A090014/ S397A090014

**Questioned Costs:** None

**Finding 10-102** *Failure to Communicate ARRA Information and Program Requirements to Subrecipients*

The State did not communicate American Recovery and Reinvestment Act (ARRA) information and program requirements to subrecipients of the State Fiscal Stabilization Fund Cluster program.

The State of Illinois passed through approximately \$86,963,000 of funding to public institutions of higher education under the State Fiscal Stabilization Fund Cluster program during the year ended June 30, 2010. The Illinois Governor's Office of Management and Budget (GOMB) was designated by the USDE as the recipient of the State Fiscal Stabilization Fund Cluster program funding. In an effort to use existing processes within the State to administer the program, GOMB entered into a Memorandum of Understanding with the Illinois State Board of Education (ISBE) and the Illinois Board of Higher Education (IBHE) to assign responsibilities for the administration of the applicable compliance requirements. The Memorandum of Understanding designated ISBE as the fiscal agent for the program and assigned IBHE the responsibilities of awarding program funds and monitoring subrecipients for compliance with applicable program requirements.

During our testwork over disbursements to four subrecipients (with expenditures of \$63,645,300) of the State Fiscal Stabilization Fund Cluster program, we noted the State did not identify the federal award number, catalog of federal domestic assistance (CFDA) number, or the amount attributable to ARRA at the time of each disbursement for any of the disbursements sampled. Upon further review, we noted the State did not communicate the required ARRA information for any disbursements to public institutions of higher education.

According to the American Recovery and Reinvestment Act, Federal Agencies must require recipients to agree to: (1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal Award number, CFDA number, and the amount of ARRA funds; and (2) require their subrecipients to provide similar identification in their SEFA and data collection form.

Additionally, the A-102 Common Rule also requires nonfederal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure subrecipient award communications contain all required information.

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In discussing these conditions with GOMB officials, they stated the noncompliance is a result of a misunderstanding of communication responsibilities by the IBHE.

Failure to communicate required ARRA information could result in subrecipients not properly administering the program in accordance with federal regulations. (Finding Code 10-102)

#### **Recommendation:**

We recommend the State implement procedures to ensure required ARRA information is properly communicated to its subrecipients.

#### **GOMB Response:**

The Governor's Office of Management and Budget agrees with the finding that the State Board of Higher Education did not properly notify subrecipients of the requirements contained in the American Recovery and Reinvestment Act (ARRA) related to providing necessary funding information described above. With the implementation of ARRA, the Governor's Office set up procedures for agencies to follow with respect to ARRA guidelines. Every agency had at least one representative who participated in monthly meetings. Included in the instructions was a list of what must be included in the agreements between the agencies and their subrecipients. These instructions included identifying to each subrecipient the required information of the Federal Award number, CFDA number, and the amount of ARRA funds. The Office of Accountability worked with the Office of Internal Audit to set up internal controls assuring compliance with ARRA regulations.

The State Board of Higher Education and the State Board of Education shared responsibilities for the Administration of the State Fiscal Stabilization Fund Cluster. Unfortunately, despite internal controls, it appears the State Board of Higher Education did not provide proper information to its subrecipients. The efforts of internal control were concentrated on ISBE, the fiscal agent for the grants. The Governor's Office will review its procedures for the administration of special federal grants to assure that all agencies provided funding are included in the review to assure compliance.

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**State Agency:** Illinois Department of Central Management Services (DCMS)

**Federal Agency:** US Department of Agriculture (USDA)  
US Department of Housing and Urban Development (USHUD)  
US Department of Labor (USDOL)  
US Department of Transportation (USDOT)  
US Environmental Protection Agency (USEPA)  
US Department of Energy (USDOE)  
US Department of Education (USDE)  
US Election Assistance Commission (USEAC)  
US Department of Health and Human Services (USDHHS)  
US Social Security Administration (USSSA)  
US Department of Homeland Security (USDHS)

**Program Name:** SNAP Cluster  
Child Nutrition Cluster  
Special Supplemental Nutrition Program for Women, Infants and Children  
Child and Adult Care Food Program  
CDBG – State-Administered Small Cities Program Cluster  
Employment Services Cluster  
Unemployment Insurance  
Trade Adjustment Assistance – Workers  
Workforce Investment Act Cluster  
Airport Improvement Program  
Highway Planning and Construction Cluster  
Capitalization Grants for Clean Water State Revolving Funds  
Capitalization Grants for Drinking Water State Revolving Funds  
Weatherization Assistance for Low-Income Persons  
Title I, Part A Cluster  
Special Education Cluster  
Federal Family Education Loans – Guaranty Program  
Career and Technical Education – Basic Grants to States  
Vocational Rehabilitation Cluster  
Early Intervention Services (IDEA) Cluster  
Twenty-First Century Community Learning Centers  
Reading First State Grants  
Improving Teacher Quality State Grants  
State Fiscal Stabilization Fund Cluster  
Help America Vote Act Requirements Payments  
Aging Cluster  
Public Health Emergency Preparedness  
Immunization Cluster  
Centers for Disease Control and Prevention – Investigations and Technical Assistance  
Temporary Assistance for Needy Families Cluster  
Child Support Enforcement  
Low Income Home Energy Assistance Program  
Community Services Block Grant Cluster  
Child Care Development Funds Cluster  
Foster Care – Title IV-E  
Adoption Assistance



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Social Services Block Grant  
Children's Health Insurance Program  
Medicaid Cluster  
HIV Care Formula Grants  
Block Grants for the Prevention and Treatment of Substance Abuse  
Disability Insurance/SSI Cluster  
Homeland Security Cluster  
Disaster Grants – Public Assistance (Presidentially Declared Disasters)

**CFDA # and Program Expenditures:** 10.551/10.561/10.561ARRA (\$2,814,110,000)  
10.553/10.555/10.556/10.559 (\$495,332,000)  
10.557/10.557ARRA (\$230,403,000)  
10.558 (\$116,208,000)  
14.228/14.255ARRA (\$33,295,000)  
17.207/17.801/17.804 (\$37,932,000)  
17.225/17.225ARRA (\$8,554,955,000)  
17.245 (\$12,416,000)  
17.258/17.258ARRA/17.259/17.259ARRA/17.260/  
17.260ARRA (\$231,737,000)  
20.106/20.106ARRA (\$73,551,000)  
20.205/20.205ARRA/20.219 (\$1,609,558,000)  
66.458ARRA (\$92,121,000)  
66.468/66.468ARRA (\$61,829,000)  
81.042/81.042ARRA (\$69,126,000)  
84.010/84.389ARRA (\$696,276,000)  
84.027/84.173/84.391ARRA (\$742,808,000)  
84.032G (\$238,016,000)  
84.048 (\$42,690,000)  
84.126/84.390ARRA (\$94,080,000)  
84.181/84.393 (\$28,282,000)  
84.287 (\$41,474,000)  
84.357 (\$19,835,000)  
84.367 (\$106,583,000)  
84.394ARRA/84.397ARRA (\$1,015,227,000)  
90.401 (\$2,521,000)  
93.044/93.045/93.053/93.705ARRA/93.707ARRA (\$52,083,000)  
93.069 (\$73,334,000)  
93.268/93.712ARRA (\$94,937,000)  
93.283 (\$13,815,000)  
93.558/93.714ARRA (\$573,086,000)  
93.563/93.563ARRA (\$141,897,000)  
93.568 (\$237,689,000)  
93.569/93.710ARRA (\$61,943,000)  
93.575/93.596/93.713ARRA (\$234,446,000)  
93.658/93.658ARRA (\$197,283,000)  
93.659/93.659ARRA (\$106,425,000)  
93.667 (\$109,613,000)  
93.767 (\$274,279,000)  
93.775/93.777/93.778/93.778ARRA (\$8,612,823,000)

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93.917 (\$39,814,000)  
93.959 (\$63,779,000)  
96.001 (\$78,512,000)  
97.036 (\$28,684,000)  
97.067 (\$84,892,000)

**Questioned Costs:** Cannot be determined

**Finding 10-103** *Inadequate Process for Monitoring Internal Service Fund Balances*

DCMS did not establish adequate procedures to identify fund balances in excess of maximum amounts allowed under OMB Circular A-87.

Certain administrative functions of the State, including communications, statistical services, and facilities management, are coordinated on a statewide basis through the use of internal service funds. DCMS is responsible for administering the internal service funds and determining the rates to be charged for the services provided. In determining the rates, DCMS estimates the costs of providing the administrative services on a statewide basis and the level of service to be provided. Because these rates are estimates and may be charged to the State's federal programs, DCMS is required to evaluate the fund balances within the internal service funds to ensure they do not exceed 60 days of cash expenses for normal operations incurred for the period.

During our audit, we noted DCMS had accumulated fund balances in its Communications Revolving Fund (CRF) and Statistical Services Revolving Fund (SSRF) funds in excess of amounts allowed under OMB Circular A-87. The excess fund balances, including prior year carryforward balances were estimated to be \$3,276,605 and \$7,582,053 as of June 30, 2010 for the CRF and SSRF, respectively.

Additionally, we noted DCMS is not properly reconciling federal internal service fund reports to its GAAP based financial statements as evidenced by the following unidentified reconciling items:

- Commission income totaling \$88,000 earned in CRF was reported as revenue in the 2009 GAAP basis financial statements, but was reported for federal purposes in 2008;
- Lease payments in the Facilities Management Revolving Fund (FMRF) totaling \$220,000 were reported for the 2008 GAAP basis financial statements but was reported for federal purposes in 2009;
- Accounts payable in the SSRF and FMRF totaling \$2,555,000 and \$1,121,100, respectively, was reported for the 2008 GAAP basis financial statements but was reported for federal purposes in 2009;
- Accounts payable in the SSRF totaling \$4,675,900 was reported in the 2009 GAAP basis financial statements but was not reported for federal purposes in 2009.
- Equipment totaling \$4,140,000 and \$1,453,000 purchased in the CRF and SSRF, respectively, during the fiscal year 2008 lapse period was reported in the fiscal year 2009 GAAP basis financial statements, but was expensed in fiscal year 2008 for federal purposes;

The majority of the differences identified above represent timing differences which may have significantly altered the annual calculation of excess fund balances. As the reconciling items

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identified above have not been associated with a specific billed service, we are unable to determine the impact of these items on the federal share of the excess fund balances.

According to the OMB Circular A-133 Compliance Supplement dated June 2010, working capital reserves (fund balances) are generally not allowed to exceed more than 60 days of cash expenses for normal operations. A working capital reserve exceeding 60 days may be approved by the cognizant federal agency. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal control should include establishing procedures to evaluate and reconcile the fund balances of internal service funds on a periodic basis to identify whether amounts in excess of those allowed under federal regulations exist.

In discussing these conditions with DCMS officials, they stated that they believe their practices are in compliance with A-87 requirements. Timing differences do exist between the audited GAAP basis financial statements and federal reporting as a result of the required completion timeframes and as a result of past practices and related acceptance by the federal Department of Health and Human Services.

Failure to properly monitor fund balances of internal service funds may result in claiming of unallowable costs. (Finding Code 10-103, 09-92, 08-94, 07-84, 06-95)

#### **Recommendation:**

We recommend DCMS establish a process for evaluating internal service fund balances and implement the necessary procedures to ensure these fund balances do not exceed the 60 day threshold allowed under OMB Circular A-87. DCMS should also implement procedures to ensure only expenditures meeting allowable cost criteria are used in establishing rates for expenditures charged to federal programs.

#### **DCMS Response:**

##### **Excess Balances**

The Department has long employed an ongoing process to evaluate and address allowable balances for its internal service funds. Our annual SWCAP Section II submission is the culmination of a continuous annual process involving rate development, revenue and expense projections, capturing and matching of costs and revenues and truing up revenues and expenses.

The existence of excess balances is not in itself a violation of A-87. The federal requirement is that excess balances be remedied. The Department asserts that its adjustment methods, Per A-87 Attachment C, G.4., which include negotiated settlements, are appropriate and allowable.

The Department does agree that adjustments should be made as timely as possible, but there is no clear definition of timeliness in A-87. The Department does not simply wait for federal negotiations on excess balances to be completed. We proactively adjust rates annually to reduce exposure to excess balances. However, these adjustments cannot guarantee that all prior excess balances will be entirely eliminated for all services in any given year, since rates, usage and costs are projections.

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Therefore, direct negotiated paybacks have always been, and will likely continue to be, a part of the federally provided and federally sanctioned remedy for excess balances.

The timeliness of direct paybacks is dependent on the federal review cycle. The paybacks are negotiated during the federal review of the annual SWCAP. The federal review cycle is not completed annually, and in some cases stretches out several years. The refunds, which are negotiated, are formally set through the federal letter of determination at the end of the review process.

We also refer to the ASMB C-10 reference to making adjustments in the “next open fiscal period.” At the time our SWCAP Section II filing is completed, we are typically in the late third or early fourth quarter of the new FY. The State’s interpretation of the “next open fiscal period” is the next full fiscal year in which the State has the ability to adjust agency budgets to handle rate changes due to over/under billings.

Currently there are no carry-forward excess balances from prior fiscal years. The State has settled with DHHS for fiscal year 2009.

#### **Reconciling Items:**

The finding states that the Department is “*not properly reconciling federal internal service fund reports to its GAAP based financial statements as evidenced by the following unidentified reconciling items*”. In fact, the reconciliations are performed and accepted by DHHS, and the items are both identified and explained. In addition:

- Inmate Commissions have no federal impact. These are revenues generated from inmate usage of payphones at State correctional facilities. There is no Section I or II service provided by CMS. There is no service billed to any state or federal entity. There is no cost or claimable expense.
- Other Reconciling Items: Internal financial statements are reconciled to GAAP and the federal cost recovery data is reconciled to internal financial statements. This reconciliation process is completed in accordance with requirements outlined by the cognizant federal agency responsible for review of the SWCAP. The timing differences result in reconciling items in a single year and are always caught up within the next reporting period, which is the timeframe the State is allowed to correct excess balance situations.

The Department does agree that fewer reconciling items would be preferable, and will continue ongoing efforts to minimize the type and number of reconciling items in future fiscal years.

#### **Auditors’ Comment:**

DCMS has acknowledged the existence of excess fund balances, but believes that it is not a violation of federal regulations. Specifically, they state that negotiated settlements are appropriate and allowable. However, we believe federal regulations require DCMS to adjust rates or remit excess fund balances back to the applicable federal programs on a timely basis.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2010

DCMS' past practice of protracted negotiations and waiting for its cognizant agency to "agree to a settlement" is inconsistent with federal regulations.

## STATE OF ILLINOIS

Prior Year Findings Not Repeated

For Year Ended June 30, 2010

### **State Agency: Illinois Department of Human Services (IDHS)**

#### **Prior Year Finding 09-08**

IDHS made unallowable expenditures on behalf of eligible beneficiaries of the Rehabilitation Services – Vocational Rehabilitation Grants to States program. In the current audit period, IDHS re-emphasized its policies and procedures for documenting the services provided to program beneficiaries. No exceptions were identified in our current year testing.

#### **Prior Year Finding 09-09**

IDHS did not determine the eligibility of Rehabilitation Services – Vocational Rehabilitation Grants to States program in accordance with federal regulations. In the current audit period, IDHS re-emphasized its policies and procedures for determining the eligibility of program beneficiaries. No exceptions were identified in our current year testing.

#### **Prior Year Finding 09-10**

IDHS did not establish adequate procedures to ensure controls were operating effectively at its third party service organization for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program. In the current audit period, IDHS obtained the SAS 70 report and evaluated the report and its impact on the controls established for the WIC program.

#### **Prior Year Finding 09-12**

IDHS did not obtain written documentation from beneficiaries of the Medicaid Cluster program documenting they had assigned their rights to medical support payments to the State. Although the specific deficiencies and noncompliance matters identified in the prior year finding were not identified in the current audit period, additional exceptions have been reported over the eligibility determination process for the Medicaid Cluster. See finding 10-05, 10-06, 10-13, and 10-14.

#### **Prior Year Finding 09-13**

IDHS did not amend the allocation methodology included in the most recently submitted Public Assistance Cost Allocation Plan (PACAP) to accurately include all cost centers assigned to its administrative offices. The cost allocation plan was amended effective January 1, 2009.

### **State Agency: Illinois Department of Healthcare and Family Services (DHFS)**

#### **Prior Year Finding 09-27**

IDHS did not obtain written documentation from beneficiaries of the Medicaid Cluster program documenting they had assigned their rights to medical support payments to the State. Although the specific deficiencies and noncompliance matters identified in the prior year finding were not identified in the current audit period, additional exceptions have been reported over the eligibility determination process for the Medicaid Cluster. See finding 10-05, 10-06, 10-13, and 10-14.

## STATE OF ILLINOIS

Prior Year Findings Not Repeated

For Year Ended June 30, 2010

### **Prior Year Finding 09-29**

DHFS did not include a method for calculating interest for the Low Income Home Energy Assistance Program in the Treasury State Agreement. In the current period, this program was transferred to another agency; however, a request to include the interest methodology was not made. See finding 10-101.

### **Prior Year Finding 09-31**

DHFS did not conduct interviews with custodial parents in a timely manner. In the current audit period, DHFS scheduled and completed interviews within required timeframes for our sample.

### **Prior Year Finding 09-32**

DHFS did not adequately perform case management procedures for initiating interstate cases and failed to accurately and adequately document interstate cases within the Key Information Delivery System (KIDS). In the current audit period, DHFS properly performed and documented interstate case activities for our sample.

### **Prior Year Finding 09-33**

DHFS did not adequately perform procedures to ensure support orders were established within required timeframes. In the current audit period, DHFS established support orders within required timeframes for our sample.

### **Prior Year Finding 09-34**

DHFS did include an allocation methodology in the Public Assistance Cost Allocation Plan (PACAP) to allocate certain cost centers to the CHIP and Medicaid programs. The cost allocation plan was amended effective April 1, 2009.

### **State Agency: Illinois Department of Children and Family Services (DCFS)**

#### **Prior Year Finding 09-38**

DCFS did not separately identify expenditures from the American Recovery and Reinvestment Act (ARRA) awards under the Foster Care and Adoption Assistance programs. In the current audit period, ARRA expenditures were separately identified and reported on the SEFA by DCFS.

### **State Agency: Illinois Department of Public Health (IDPH)**

#### **Prior Year Finding 09-46**

IDPH did have an adequate process for monitoring interagency expenditures used to satisfy the maintenance of effort (MOE) requirement for the HIV Care Formula Grant (HIV) program. In the current audit period, IDPH did not include expenditures incurred by IDHS in calculating its 2010 MOE expenditures.

## STATE OF ILLINOIS

Prior Year Findings Not Repeated

For Year Ended June 30, 2010

### **State Agency: Illinois State Board of Education (ISBE)**

#### **Prior Year Finding 09-52**

ISBE did not accurately report federal expenditures in the quarterly financial status reports during the year ended June 30, 2009. In the current audit period, ISBE implemented additional review procedures. No exceptions were noted in our current year testing of the financial status reports.

#### **Prior Year Finding 09-53**

ISBE did not communicate the requirement to register, or verify whether subrecipients were registered, with the Central Contractor Registration (CCR) database prior to making subawards for programs under the American Recover and Reinvestment Act (ARRA). In the current period, the CCR requirements were communicated and verified by ISBE during the award period.

### **State Agency: Illinois Community College Board (ICCB)**

#### **Prior Year Finding 09-54**

ICCB did not have adequate procedures to monitor the cash needs of subrecipients and to determine whether subrecipients are minimizing the time elapsing between the receipt and disbursement of funding for the Career and Technical Education – Basic Grants to States program. In the current audit period, ICCB revised its subrecipient cash request system to require subrecipients to report the amount of cash on hand at the time of each request.

#### **Prior Year Finding 09-55**

ICCB did not follow-up on programmatic on-site monitoring review findings for subrecipients receiving federal awards under the Career and Technical Education – Basic Grants to States program. In the current audit period, ICCB revised its subrecipient monitoring procedures to require corrective action plans for any findings identified in on-site reviews.

### **State Agency: Illinois Department of Employment Security (IDES)**

#### **Prior Year Finding 09-67**

IDES did not accurately report expenditures in the Alternative Trade Adjustment Activities (ATAA) Special Report. In the current year, no exceptions were identified in our testing of the ATAA Special Report.

### **State Agency: Illinois Department of Commerce and Economic Opportunity (DCEO)**

#### **Prior Year Finding 09-71**

DCEO did not accurately report financial information in the Performance and Evaluation Reports for the Community Development Block Grant program. In the current year, no exceptions were identified in our testing of the Performance and Evaluation reports.



## STATE OF ILLINOIS

Prior Year Findings Not Repeated

For Year Ended June 30, 2010

### **Prior Year Finding 09-72**

DCEO did not communicate the resulting findings on a timely basis for the Workforce Investment Act Cluster. In the current period, we noted DCEO implemented procedures to communicate findings as part of its exit conferences. No exceptions were noted in the sample of subrecipients tested.

### **State Agency: Illinois Department of Transportation (IDOT)**

#### **Prior Year Finding 09-74**

IDOT did not accurately report federal expenditures under the Airport Improvement program, Highway Planning and Construction Cluster, the Homeland Security Cluster, and the Disaster Grants – Public Assistance programs. During the current year audit, IDOT appropriately reported amounts on the schedule of expenditures of federal awards.

#### **Prior Year Finding 09-78**

IDOT did not obtain required certifications that subrecipients were not suspended or debarred from participation in federal assistance programs for the Highway Planning and Construction Cluster program. In the current period, IDOT verified vendors were not listed on the Excluded Party List System.

#### **Prior Year Finding 09-81**

IDOT did not have adequate access, change management, and computer operations controls over the key systems that support the IDOT Integrated Transportation Project Management system. During the current year audit, IDOT implemented compensating manual and IT controls to address the deficiencies identified.

### **State Agency: Illinois Emergency Management Agency (IEMA)**

#### **Prior Year Finding 09-82**

IEMA did not have an adequate financial reporting process to identify programs reported under the Homeland Security Cluster program. In the current period, IEMA properly identified programs reported under the Homeland Security Cluster in the SEFA.

#### **Prior Year Finding 09-84**

IEMA did not obtain required certifications that vendors were not suspended or debarred from participation in Federal assistance programs for the Homeland Security Grant program. In the current period, IEMA modified its contracts and obtained the required suspension and debarment certifications from its vendors.

## **STATE OF ILLINOIS**

Prior Year Findings Not Repeated

For Year Ended June 30, 2010

### **Prior Year Finding 09-86**

IEMA did not accurately report expenditures in the Federal Emergency Management Agency (FEMA) financial status report (FEMA Form 20-10). In the current year, no exceptions were identified in our testing of the financial status reports.

**State Agency: State Board of Elections (SBOE)**

### **Prior Year Finding 09-90**

SBOE did not perform on-site reviews of subrecipients receiving federal awards under the Help America Vote Act program. In the audit current period, SBOE performed on-site monitoring procedures and received communication from US Election Assistance Commission that its on-site monitoring procedures were appropriate.

### **Prior Year Finding 09-91**

SBOE did not review OMB Circular A-133 audit reports for subrecipients of the Help America Vote Act program. In the audit current period, as the award has decreased significantly, most subrecipients no longer require single audits; however, SBOE obtained subrecipient audit reports, if applicable for the subrecipients tested in our sample.

**State Agency: Illinois Department of Central Management Services (DCMS)**

### **Prior Year Finding 09-93**

DCMS recorded costs that are not allowed under OMB Circular A-87 in its internal service funds. In the current period, no exceptions were identified in our testing.