



STATE OF ILLINOIS
 OFFICE OF THE
AUDITOR GENERAL

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

STATE OF ILLINOIS STATEWIDE SINGLE AUDIT REPORT

SINGLE AUDIT
For the Year Ended June 30, 2016

Release Date: March 30, 2017

FINDINGS THIS AUDIT: 73				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	2015	2, 9, 14, 19, 20, 25, 48, 50, 52, 56, 57, 60, 61, 67		
Category 1:	23	48	71	2014	8, 21, 29, 34, 42, 53, 59, 65	41	
Category 2:	1	1	2	2013	10, 13, 62, 69, 70		
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>	2012	6, 7, 23, 35, 73		
TOTAL	24	49	73	2011	11, 12, 15, 39, 68, 71		
FINDINGS LAST AUDIT: 75				2010	22		
				2009	26		
				2008	58		
				2007	3, 38		
				2005	37		
				2003	5		
				2002	1		
				2001	4		
				1999	36		

SYNOPSIS

- The State expended approximately \$28.8 billion from federal awards in FY16.
- A total of 28 programs or program clusters were classified and audited as major programs at eleven (11) State agencies. These programs constituted approximately 94.5% of all federal spending, or about \$27.2 billion. In addition, 43 State agencies expended federal financial assistance in FY16. Eleven (11) State agencies accounted for about 97.1% of federal dollars spent.

Statewide Finding – Financial Reporting

- The State of Illinois does not have an adequate process in place to permit the timely and accurate completion of the Schedule of Expenditures of Federal Awards. As a result, the State has a *material weakness* on all federal programs for financial reporting.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with laws and regulations (material noncompliance).

Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with laws and regulations.

Category 3: Findings that have **no internal control issues but are in noncompliance** with laws and regulations.

Significant Agency Findings Classified as a Material Weakness Resulting in an Auditor Qualification

- The Department of Human Services has *material weaknesses* for:
 - failing to establish adequate controls over the Integrated Eligibility System of the Supplemental Nutrition Assistance Program (SNAP) Cluster, Temporary Assistance for Needy Families (TANF) Cluster, Children’s Health Insurance Program (CHIP) and Medicaid Cluster programs.
 - inadequately maintaining and controlling beneficiary case file documents of the TANF, CHIP and Medicaid Cluster programs.
 - failing to locate case file documentation supporting eligibility determinations for beneficiaries of the TANF, CHIP and Medicaid Cluster programs.
 - failing to perform eligibility redeterminations within the timeframes prescribed by regulation for the TANF, CHIP, and Medicaid Cluster programs.
 - making improper payments to beneficiaries of the TANF program.
 - failing to maintain the required aggregate State expenditures for the maintenance of effort requirements and not providing adequate supporting documentation for the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) program.

- The Department of Healthcare and Family Services has *material weaknesses* for:
 - failing to establish adequate controls over the Integrated Eligibility System of the SNAP, TANF, CHIP and Medicaid Cluster programs.
 - failing to locate case file documentation supporting eligibility determinations for beneficiaries of the CHIP and Medicaid Cluster programs.

- The Department of Children and Family Services has *material weaknesses* for:
 - having inadequate process for supporting adjustments to the Title IV-E claiming report for the Foster Care program.
 - not maintaining complete provide licensing files, including documentation of required background checks for foster care service providers for the Foster Care program.
 - making recurring payments of adoption assistance benefits that were not properly supported by adoption assistance agreements for the Adoption Assistance program.

- The Department on Aging has *material weaknesses* for:
 - Inaccurately certifying its maintenance of effort (MOE) expenditures under the Aging Cluster program.
 - failing to perform a risk assessment of subrecipients of the Aging Cluster and not performing any on-site programmatic reviews or fiscal reviews as required.

- The Illinois State Board of Education has a *material weakness* for:
 - not performing adequate on-site subrecipient monitoring procedures in accordance with established monitoring plan for the Title I Grants to Local Educational Agencies (Title I), Special Education Cluster (IDEA)(Special Education), Twenty-First Century Community Learning Centers (21st Century), and Improving Teacher Quality State Grants programs.

- The Illinois Community College Board has a *material weakness* for:
 - failing to perform a risk assessment of subrecipients of the Career and Technical Education (CTE) program and not performing any on-site fiscal reviews of CTE Subrecipients as required.

- The Department of Employment Security has a *material weaknesses* for:
 - failing to implement Federal requirements to improve program integrity and reduce overpayments of the Unemployment Insurance program.

Findings Regarding American Recovery and Reinvestment Act (ARRA)

- The Department of Human Services failed to communicate ARRA information and requirements to subrecipients of the TANF program.

{Financial Activities and Statistical Information are summarized on the next page.}

**STATE OF ILLINOIS
STATEWIDE SINGLE AUDIT
For the Year Ended June 30, 2016**

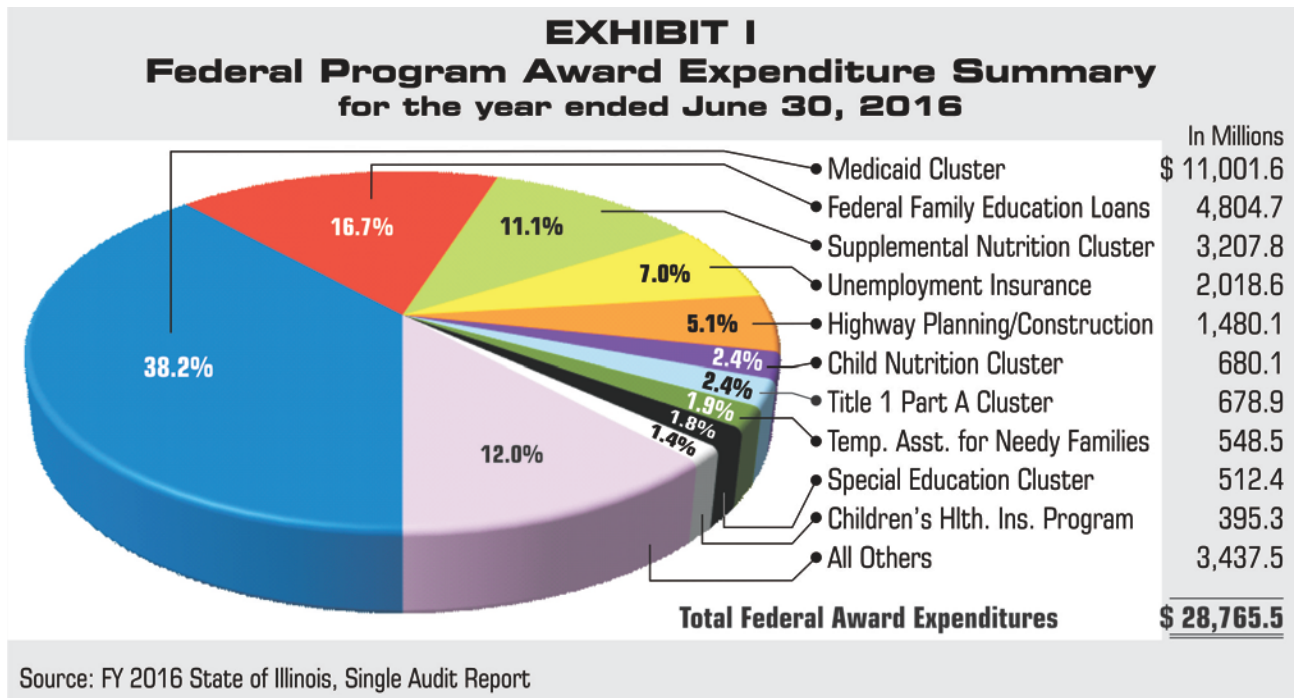
FINANCIAL ACTIVITIES (Amounts in Thousands)	Amount	Percent
EXPENDITURES BY PROGRAM		
Major Programs:		
Medicaid Cluster.....	\$ 11,001,626	38.25%
Federal Family Education Loans.....	4,804,680	16.70%
Supplemental Nutrition Assistance Program (SNAP Cluster).....	3,207,808	11.15%
Unemployment Insurance.....	2,018,581	7.02%
Highway Planning and Construction Cluster.....	1,480,121	5.15%
Child Nutrition Cluster.....	680,086	2.36%
Title I Grants to Local Educational Agencies.....	678,927	2.36%
Temporary Assistance for Needy Families.....	548,472	1.91%
Special Education Cluster.....	512,376	1.78%
Children's Health Insurance Program.....	395,328	1.37%
High Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants.....	207,656	0.72%
Special Supplemental Nutrition Program for Women, Infants & Children.....	201,023	0.70%
Foster Care - Title IV-E Program.....	191,767	0.67%
Child Care Development Funds Cluster.....	171,305	0.60%
Child and Adult Care Food Program.....	150,941	0.52%
Child Support Enforcement.....	102,982	0.36%
Rehabilitation Services - Vocational Rehabilitation Grants to States.....	99,897	0.35%
CDBG - State Administered Small Cities Program Cluster.....	91,983	0.32%
Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants).....	91,967	0.32%
Disability Insurance/SSI Cluster.....	82,055	0.29%
Adoption Assistance.....	81,012	0.28%
Block Grants for Prevention and Treatment of Substance Abuse.....	72,422	0.25%
Airport Improvement Program.....	69,025	0.24%
Social Services Block Grant.....	64,899	0.23%
Twenty-First Century Community Learning Centers.....	52,083	0.18%
Aging Cluster.....	46,607	0.16%
Career and Technical Education - Basic Grants to States.....	37,311	0.13%
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges.....	28,279	0.10%
Total Major Programs.....	27,171,219	94.47%
Non-Major Programs.....	1,594,327	5.53%
TOTAL EXPENDITURES.....	\$ 28,765,546	100.00%
FEDERAL AGENCIES PROVIDING FUNDING (Amounts in Thousands)		
	Total	Major Program Expenditures
U.S. Department of Health and Human Services.....	\$ 13,238,339	\$ 12,704,699
U.S. Department of Education.....	6,448,189	6,277,241
U.S. Department of Agriculture.....	4,303,039	4,239,858
U.S. Department of Labor.....	2,209,278	2,018,581
U.S. Department of Transportation.....	1,846,062	1,756,802
U.S. Environmental Protection Agency.....	203,196	0
U.S. Department of Homeland Security.....	120,882	-
U.S. Department of Housing and Urban Development.....	102,160	91,983
Social Security Administration.....	82,069	82,055
All Other Federal Agencies.....	212,332	0
TOTAL EXPENDITURES.....	\$ 28,765,546	\$ 27,171,219
STATISTICAL INFORMATION		
Total Number of Programs in the Schedule of Expenditures of Federal Awards.....	366	
Number of Federal Programs or Program Clusters Audited.....	28	
Total Number of State Agencies Spending Federal Funds.....	43	
Number of State Agencies for Single Audit Requirements (including finding follow-up).....	12	
Total American Recovery and Reinvestment Act (ARRA) Expenditures (in thousands).....	210,395	
Percentage of ARRA Expenditures.....	0.73%	

INTRODUCTION

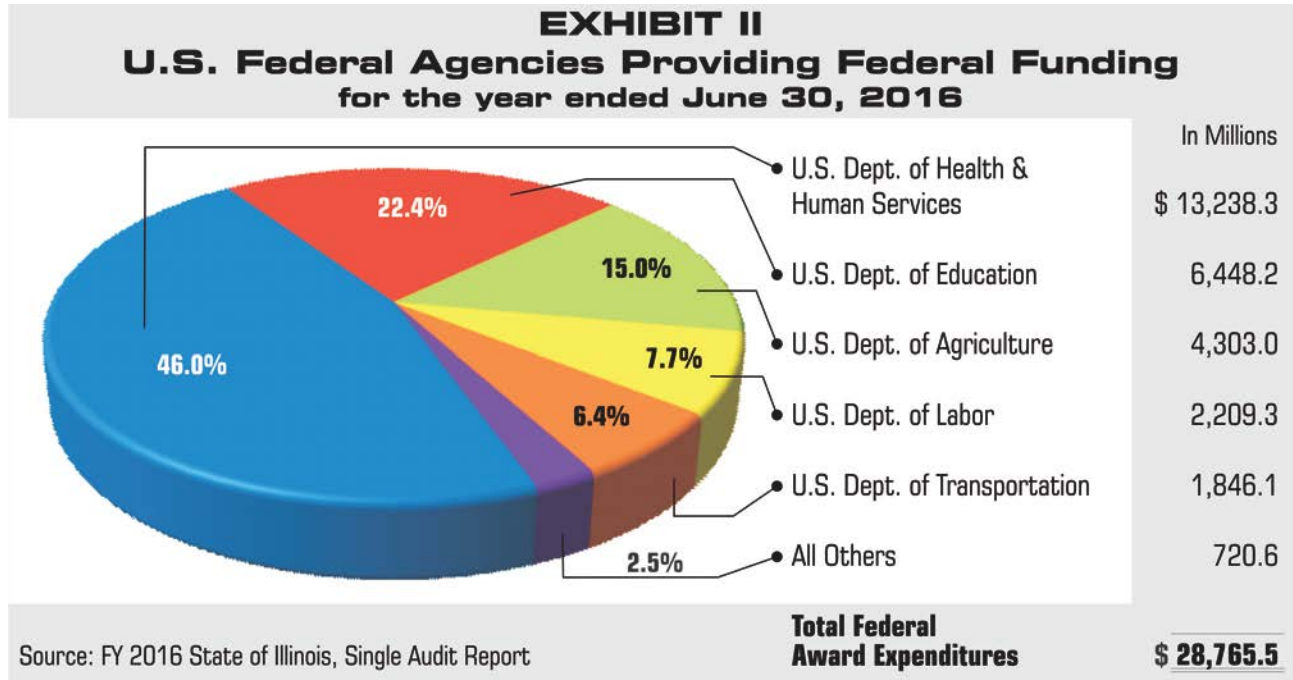
The Illinois Office of the Auditor General conducted a Statewide Single Audit of the FY16 federal grant programs. The audit was conducted in accordance with the Uniform Guidance (Title 2 U.S. Code of Federal Regulation Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards*).

The Statewide Single Audit includes State agencies that are a part of the primary government and expend federal awards. In total, 43 State agencies expended federal financial assistance in FY16. A separate supplemental report has been compiled by the Illinois Office of the Auditor General. This report provides summary information on federal spending by State agency. The Statewide Single Audit does not include those agencies that are defined as component units such as the State universities and finance authorities. The component units continue to have separate single audits when required.

The Schedule of Expenditures of Federal Awards (SEFA) reflects total expenditures of approximately \$28.8 billion for the year ended June 30, 2016. Overall, the State participated in 366 different federal programs, however, 10 of these programs or program clusters accounted for approximately 88.0% of the total federal award expenditures. (See Exhibit I)



The funding for the 366 programs was provided by 23 different federal agencies. Exhibit II shows that five federal agencies provided Illinois with the vast majority of federal funding in FY16.

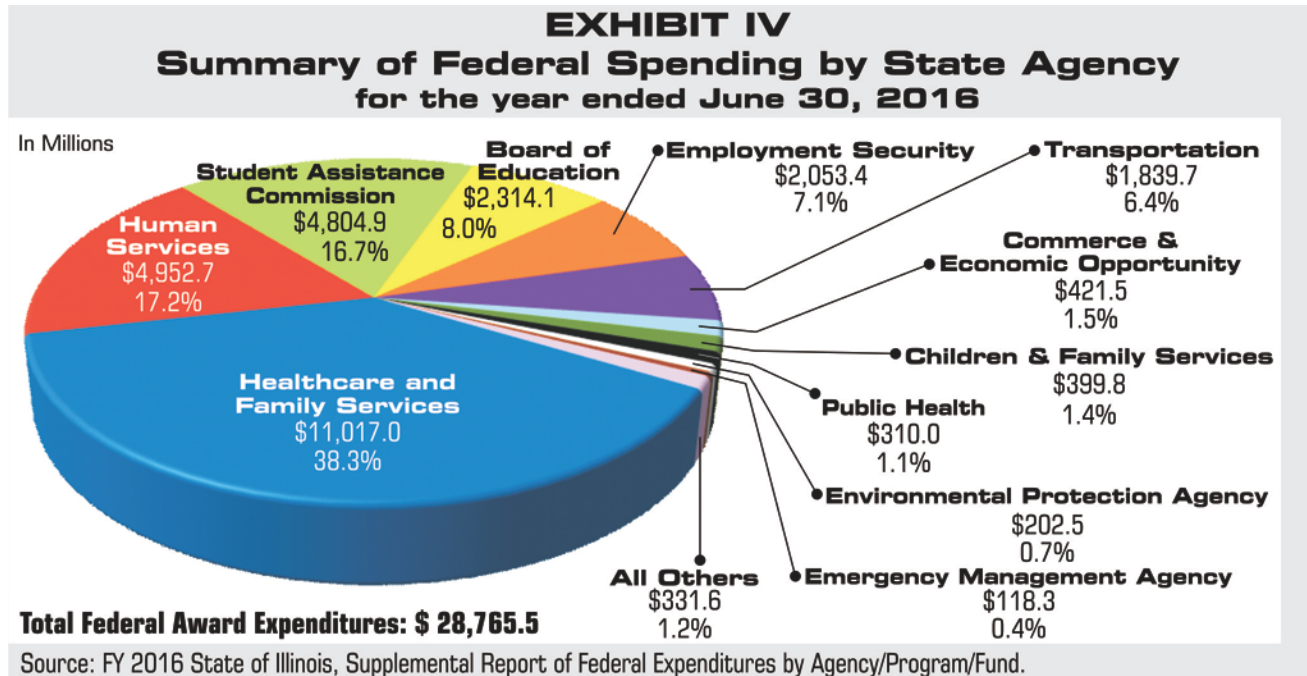


A total of 28 federal programs or program clusters were identified as major programs in FY16. A major program was defined in accordance with the Uniform Guidance as any program with federal awards expended that meets certain criteria when applying the risk-based approach. Exhibit III provides a brief summary of the number of programs classified as “major” and “non-major” and related federal award expenditures.

EXHIBIT III
Classification of Federal Programs
“Major vs. Non-Major”
and Related Federal Award Expenditures
for the year ended June 30, 2016

Audit Coverage	No.	Expenditures (in millions)	%
Major Programs (or clusters)	28	\$27,171.2	94.5%
Non-Major Programs (or clusters)	<u>338</u>	<u>1,594.3</u>	<u>5.5%</u>
Total	<u>366</u>	<u>\$28,765.5</u>	<u>100.0%</u>

Eleven State agencies accounted for approximately 98.8% of all federal dollars spent during FY16 as depicted in Exhibit IV.



AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

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

Qualifications (Noncompliance)

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

State Agency	Federal Program	Compliance Requirement	Finding Number	Page Numbers
IL Department of Human Services	Supplemental Nutrition Assistance Program Cluster	Allowable Costs/Cost Principles, Matching, and Special Tests and Provisions	2016-002	40-42
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles, Eligibility, and Maintenance of Effort	2016-002	40-42
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles, Eligibility, and Matching	2016-002	40-42
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles, Eligibility, and Matching	2016-002	40-42
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles, Eligibility, and Maintenance of Effort	2016-003	43-45

State Agency	Federal Program	Compliance Requirement	Finding Number	Page Numbers
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles, Eligibility, and Matching	2016-003	43-45
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles, Eligibility, and Matching	2016-003	43-45
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles, Eligibility, and Maintenance of Effort	2016-004	46-49
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles, Eligibility, and Matching	2016-004	46-49
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles, Eligibility, and Matching	2016-004	46-49
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles, Eligibility, and Maintenance of Effort	2016-005	50-53
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles, Eligibility, and Matching	2016-005	50-53
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles, Eligibility, and Matching	2016-005	50-53
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles, Eligibility, and Maintenance of Effort	2016-006	54-55
IL Department of Human Services	Block Grants for Prevention and Treatment of Substance Abuse	Allowable Costs/Cost Principles and Maintenance of Effort	2016-008	59-61
IL Department of Healthcare and Family Services	Supplemental Nutrition Assistance Program Cluster	Allowable Costs/Cost Principles, Matching, and Special Tests and Provisions	2016-020	92-94
IL Department of Healthcare and Family Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles, Eligibility, and Maintenance of Effort	2016-020	92-94
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost Principles, Eligibility, and Matching	2016-020	92-94
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles, Eligibility, and Matching	2016-020	92-94
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost Principles, Eligibility, and Matching	2016-021	95-97
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles, Eligibility, and Matching	2016-021	95-97

State Agency	Federal Program	Compliance Requirement	Finding Number	Page Numbers
IL Department of Children and Family Services	Foster Care – Title IV-E	Allowable Costs/Cost Principles, Matching, Period of Performance, and Reporting	2016-027	110-112
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles, Matching, Period of Performance, and Reporting	2016-027	110-112
IL Department of Children and Family Services	Foster Care – Title IV-E	Allowable Costs/Cost Principles, Eligibility, and Matching	2016-028	113-115
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles, Eligibility, and Matching	2016-029	116-118
IL Department on Aging	Aging Cluster	Allowable Costs/Cost Principles, Matching, Maintenance of Effort, and Reporting	2016-043	150-152
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	2016-044	153-155
IL State Board of Education	Title I - Grants to Local Educational Agencies	Subrecipient Monitoring	2016-048	162-164
IL State Board of Education	Special Education Cluster (IDEA)	Subrecipient Monitoring	2016-048	162-164
IL State Board of Education	Twenty-First Century Community Learning Centers	Subrecipient Monitoring	2016-048	162-164
IL State Board of Education	Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants)	Subrecipient Monitoring	2016-048	162-164
IL Community College Board	Career and Technical Education – Basic Grants to States	Subrecipient Monitoring	2016-055	180-181
IL Department of Employment Security	Unemployment Insurance	Special Tests & Provisions	2016-061	193-194

Internal Control Over Financial Reporting

We noted a matter involving internal control over financial reporting for the Schedule of Expenditures of Federal Awards (Schedule) that was considered to be a material weakness. A 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 will not be prevented, or detected and corrected on a timely basis. The auditors noted that during the past fourteen years there have been various errors identified and reported on the audits of State agencies and the Office of the State Comptroller (IOC) in its annual data gathering on the SCO forms that are used to present the Schedule. Thus, the auditors recommended the Office of the Governor and the Illinois Office of the Comptroller work together with the State agencies to establish a corrective action plan to address the quality of the accounting information provided to and maintained by the IOC as it relates to year-end preparation of the Schedule.

Internal Control Over Compliance

We noted certain matters involving internal control over compliance that were considered to be significant deficiencies. A control deficiency in an entity's internal control over compliance exists when the design or operation of a control over compliance 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 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 weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. Overall, 2 of the 73 findings reported in the single audit were classified as compliance significant deficiencies.

Material weaknesses were also disclosed in our report. 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. Overall, 70 of the 73 findings reported in the single audit were classified as a material weakness.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

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

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

State Agency	Number of Findings	Number of Repeat Findings	Page References to Findings
State Comptroller/Office of the Governor	1	1	31-34
Human Services	18	15	40-91
Healthcare and Family Services	7	6	92-109
Children and Family Services	10	4	110-135
Public Health	4	3	136-144
Insurance	2	2	145-149
Aging	5	0	150-161
State Board of Education	7	4	162-179
Illinois Community College Board	3	2	180-185
Student Assistance Commission	3	3	186-192
Employment Security	9	6	193-211
Commerce and Economic Opportunity	1	1	212-213
Transportation	<u>3</u>	<u>2</u>	214-221
Totals	<u>73</u>	<u>49</u>	

Exhibit VI summarizes the total number of findings, number of repeated findings and the percentage of repeated findings for the past ten years.

**EXHIBIT VI
Ten Year Analysis of Number of Findings, Number of Findings Repeated and Percentage of Repeat Findings**

Year	Number of Findings	Number of Repeated Findings	Percentage of Repeated Findings
2016	73	49	67%
2015	75	51	68%
2014	69	47	68%
2013	74	59	80%
2012	91	63	69%
2011	101	71	70%
2010	103	64	62%
2009	93	65	70%
2008	97	58	60%
2007	87	59	68%

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

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 Schedule of Expenditures of Federal Awards in a timely manner.

Accurate 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 towards major State agencies under the organizational structure of the Office of the Governor and towards the Office of the State Comptroller (IOC).

State has not solved the problems

The IOC has made significant changes to the system used to compile financial information; however, the State has not solved all the problems to effectively remediate these financial reporting weaknesses. The process is overly dependent on the post-audit program even though the Illinois Office of the Auditor General has repeatedly informed State agency officials that the post-audit function is not a substitute for appropriate internal controls at State agencies.

Highly decentralized financial reporting process

The State of Illinois has a highly decentralized financial reporting process. The system requires State agencies to prepare financial reporting packages designed by the IOC. These financial reporting packages are completed by accounting personnel within each State agency who have varying levels of knowledge, experience, and understanding of IOC accounting policies and procedures. Agency personnel involved with this process are not under the organizational control or jurisdiction of the IOC.

Although these financial reporting packages are subject to review by the IOC's financial reporting staff during the Comprehensive Annual Financial Report preparation process and there are minimum qualifications for all new GAAP Coordinators who oversee the preparation of financial reporting forms, the current process still lacks sufficient internal controls at State agencies. As a result, adjustments relative to the SEFA continue to occur.

Errors identified at DHS, DPH, Aging, ISBE, ICCB, DES, DCEO and DOT

Errors identified in the SEFA reporting process in the current year included: (1) corrections to amounts reported or provided during the audit; (2) adjustments to accurately report loan balances; and (3) unreconciled amounts. These items have been reported in agency level findings for the Illinois Department of Human Services (Finding Code 2016-010), the Illinois Department of Public Health (Finding Code 2016-

040), the Illinois Department on Aging (Finding Code 2016-047), the Illinois State Board of Education (Finding Code 2016-053), the Illinois Community College Board (Finding Code 2016-057), the Illinois Department of Employment Security (Finding Code 2016-069), the Illinois Department of Commerce and Economic Opportunity (Finding Code 2016-070), and the Illinois Department of Transportation (Finding Code 2016-072). Additionally, other correcting entries were required in order to accurately state the financial information provided by various other State agencies.

Failure to establish effective internal controls at all agencies regarding financial reporting for the preparation of the SEFA may prevent the State from completing an audit in accordance with timelines set forth by the Uniform Guidance and may result in the suspension of federal funding. (Finding 1, pages 32-34) **This finding was first reported in the Statewide Single Audit in 2002.**

Governor's Office concurred with recommendation

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

State Comptroller accepted the recommendation

The Office of the Governor concurred with the recommendation and stated the operational Enterprise Resource Planning (ERP) will improve the State's control environment and processes to enable the State and agencies to prepare a complete and accurate Schedule of Federal Awards in a timely manner. (*For previous agency response, see Digest Footnote #1.*)

The State Comptroller's Office accepted the recommendation and stated that while it is expected the 2016 SEFA audit will be submitted prior to the March 31st deadline, the Office agrees that the existing financial reporting systems need to be upgraded with a cost-effective statewide grants management system that is designed to provide the information needed to complete the SEFA report and to improve the quality of the accounting information provided to the IOC. (*For previous agency response, see Digest Footnote #1.*)

FAILURE TO ESTABLISH ADEQUATE CONTROLS OVER THE INTEGRATED ELIGIBILITY SYSTEM

Lack of controls over Integrated Eligibility System

The Department of Human Services (DHS) and the Department of Healthcare and Family Services (HFS) did not have appropriate controls over the Integrated Eligibility System (IES) used for certain eligibility determinations performed for the Supplemental Nutrition Assistance Program (SNAP) Cluster, Temporary Assistance for Needy Families (TANF) Cluster, Children's Health Insurance Program (CHIP), and Medicaid Cluster programs.

DHS administers the SNAP Cluster, the TANF Cluster, and certain Medicaid Cluster waiver programs and HFS administers the CHIP and Medicaid Cluster programs. The Affordable Care Act of 2010 required the State to consolidate and modernize its eligibility determination functions into a single system which is known as the Integrated Eligibility System (IES). Effective October 1, 2013, the State implemented IES and began performing and documenting eligibility determinations for certain beneficiaries of its Medicaid Cluster program and later expanded the use of IES to certain eligibility determinations for beneficiaries of the SNAP Cluster, TANF Cluster, and CHIP programs. IES was developed through a partnership between IDHS and DHFS with each agency providing system requirements specific to their respective federal programs.

Auditors unable to rely on IES regarding eligibility and related allowability compliance requirements

During our testwork, we were unable to perform adequate procedures to satisfy ourselves that certain general information technology controls over the IES system were operating effectively. Specifically, we noted IDHS and DHFS could not provide all information necessary to test system access security controls and several system changes did not follow the established change management policies of either IDHS or DHFS. Accordingly, we were not able to rely on IES with respect to our testing of the eligibility and related allowability compliance requirements for beneficiary payments made under the TANF Cluster, CHIP, and Medicaid Cluster programs. We were also not able to rely on IES with respect to the special test and provision – ADP System for SNAP related to the SNAP Cluster program.

Auditor qualification due to lack of controls

As a result of DHS' and HFS' failure to have appropriate controls over the Integrated Eligibility System the auditors qualified their opinion on the SNAP, TANF, CHIP and Medicaid Cluster programs.

Failure to establish adequate controls over systems used to determine the eligibility of program beneficiaries inhibits the ability of the State to properly determine eligibility in accordance with program requirements and may result in ineligible beneficiaries receiving federal benefits which are unallowable costs. (Findings 2 and 20, pages 40-42 and 92-94, respectively)

We recommended IDHS and DHFS implement adequate general information technology control procedures for the IES system. We also recommended IDHS and DHFS evaluate the known IES system issues, implement monitoring procedures to identify potential noncompliance relative to its federal programs resulting from these items, and consider the changes necessary with respect to internal controls over eligibility determinations to ensure only eligible beneficiaries receive assistance under its federal programs.

DHS and HFS officials accepted the recommendation

DHS and HFS officials accepted the recommendation and stated they have taken steps since June 2015 to establish

improved controls over general information technology control procedures.

FAILURE TO PROPERLY MAINTAIN AND CONTROL CASE FILE RECORDS

Inadequate control over beneficiary records

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

Case files could not be located timely

During our testwork, we noted the procedures in place to maintain and control manual beneficiary case file records do not provide adequate safeguards against the potential for loss of such records. Specifically, in our review of case files at five separate local offices, we noted manual case files were generally available to all DHS personnel and that formal procedures have not been developed for checking hard-copy case files in and out of the file rooms or for tracking their locations. We also noted a number of case files were provided several weeks past the original date due to the fact that case files had been transferred between local offices and were not easily located by DHS. We also noted three CHIP and eight Medicaid case files for which DHS could not locate any case file documentation supporting the eligibility determinations performed on or prior to the service date sampled.

Case file documentation to support eligibility could not be located

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 3, pages 43-45) **This finding was first reported in the Statewide Single Audit in 2007.**

Auditor qualification due to shortfall in control over case file records

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

We recommended DHS 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.

DHS accepted the auditors recommendation

DHS officials accepted the recommendation and stated they are now utilizing an electronic document management system that is capturing a portion of the information that was previously printed and stored in a paper case file which is assisting in the reduction of the overwhelming size and amount of paper files in the offices. *(For previous agency response, see Digest Footnote #2.)*

MISSING DOCUMENTATION IN BENEFICIARY ELIGIBILITY FILES

Case filed documentation could not be located

The Department of Human Services (DHS) and the Department of Healthcare and Family Services (HFS) could not locate case file documentation supporting eligibility determinations for beneficiaries of the Temporary Assistance for Needy Families (TANF) Cluster, Children's Health Insurance Program (CHIP) and the Medicaid Cluster programs.

During our testwork of 50 TANF, 65 CHIP and 125 Medicaid beneficiary payments for compliance with eligibility requirements and the allowability of the relevant benefits provided we noted numerous exceptions. We noted DHS could either not locate items needed for testing, could not provide adequate support of items tested or could not provide evidence that various items had been performed or completed. We also noted HFS could not locate documentation supporting the completion of the initial eligibility determination or subsequent redetermination procedures.

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. (Findings 4 and 21, pages 46-49 and 95-97, respectively) **This finding was first reported in the Statewide Single Audit in 2001 for DHS.**

Auditors qualified their report on TANF, CHIP and Medicaid programs

As a result of DHS' and HFS' failure to locate case file documentation supporting eligibility determinations for beneficiaries, the auditors qualified their opinion on the TANF, CHIP and Medicaid Cluster programs.

We recommended DHS and HFS review their current processes for maintaining documentation supporting eligibility determinations and consider changes necessary to ensure all eligibility determination documentation is properly maintained.

DHS agreed with auditors recommendation

DHS officials agreed with the recommendation and stated the Department continues to ensure staff understands the importance of proper and accurate filing processes. In addition, DHS officials stated they are continuing the use of electronic document management systems that capture some of the information that has been traditionally printed and maintained in paper case files. *(For previous agency response, see Digest Footnote #3.)*

DHFS accepted auditors recommendation

HFS officials accepted the recommendation and stated they are working with DHS to incorporate all initial eligibility and redeterminations of eligibility into the new Integrated Eligibility System which will significantly improve record retention.

**FAILURE TO PERFORM ELIGIBILITY
REDETERMINATIONS WITHIN PRESCRIBED
TIMEFRAMES**

**DHS delinquent in performing
recipient eligibility redeterminations**

The Department of Human Services (DHS) did not perform eligibility redeterminations for individuals receiving benefits under the Temporary Assistance for Needy Families (TANF) Cluster, Children’s Health Insurance Program (CHIP), and Medicaid Cluster programs in accordance with timeframes required by the respective State Plans.

During our testwork of required eligibility criteria, we noted the State was delinquent (overdue) in performing the eligibility redeterminations of individuals for the three programs during June 2016 as follows:

TANF	3,655 of 32,849 cases	11.11%
CHIP	133,612 of 1,343,607 cases	9.94%
Medicaid	59,654 of 470,952 cases	12.67%

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 5, pages 50-53) **This finding was first reported in the Statewide Single Audit in 2003.**

**Auditor qualification due to
untimely eligibility redeterminations**

As a result of DHS’ failure to perform timely redeterminations of recipient eligibility, the auditors qualified their opinion on the TANF, CHIP and Medicaid programs.

We recommended DHS 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.

**DHS agreed with the auditors
recommendation**

DHS officials agreed with the recommendation and stated they 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. (For previous agency response, see Digest Footnote #4.)

**IMPROPER TANF CLUSTER BENEFICIARY
PAYMENT**

The Department of Human Services (DHS) made improper payments to beneficiaries of the Temporary Assistance for Needy Families (TANF) Cluster program.

**Monthly payments overstated by
\$1,252 to 6 beneficiaries**

During our testwork of 50 TANF Cluster program beneficiary payments, we noted eleven beneficiaries received payments that were improperly calculated. As a result of the calculation errors, the monthly payments for six beneficiaries (with payments of \$2,480) were overstated in total by \$1,252 and

Monthly payments understated by \$113 to 5 beneficiaries

the monthly payments for five beneficiaries (with payments of \$3,066) were understated in total by \$113. Total payments made to these beneficiaries under the TANF Cluster were \$27,856 for the year ended June 30, 2016. As of the date of our testing (January 20, 2017), the payment errors identified in our sample had not been corrected by IDHS.

Failure to properly calculate benefit payments may result in unallowable costs being charged to the TANF Cluster. (Finding 6, pages 54-55) **This finding was first reported in the Statewide Single Audit in 2012.**

Auditor qualification due to improper payments

As a result of DHS making improper payments to beneficiaries, the auditors qualified their opinion on the TANF Cluster program.

We recommended DHS review its current process for calculating beneficiary payments and consider changes necessary to ensure payments are properly calculated and paid.

DHS agreed with the auditors recommendation

DHS officials accepted the recommendation and stated the implementation of Phase 2 of the Integrated Eligibility System will reduce or eliminate the need for manual calculations of initial prorated entitlements. (*For previous agency response, see Digest Footnote #5.*)

FAILURE TO MEET AND PROVIDE ADEQUATE DOCUMENTATION FOR THE SAPT MOE REQUIREMENT

The Department of Human Services (DHS) did not maintain the required aggregate State expenditures for the maintenance of effort (MOE) requirements and was unable to provide adequate supporting documentation to substantiate DHS met the MOE requirements for the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) program.

Shortfall of \$58,207,406 to meet SAPT MOE expenditures

During the current fiscal year, we noted DHS was short \$58,207,406 of the aggregate expenditures needed to meet the SAPT MOE requirement. Additionally, during our testwork over 25 expenditures used by the State to meet the SAPT MOE requirements (totaling \$5,074,083), we noted DHS could not provide detailed supporting documentation for 16 expenditures sampled (totaling \$2,664,147). Accordingly, these expenditures are not allowable for purposes of meeting the maintenance of effort. Upon further review, we noted an additional \$41,307,973 for which detailed supporting documentation was not readily available.

Failure to maintain required State expenditure levels for MOE and maintain adequate supporting documentation to support expenditures used to meet the MOE requirement results in unallowable costs and noncompliance with program requirements. (Finding 8, pages 59-61)

Auditor qualification due to not meeting maintenance of effort

As a result of DHS not meeting its maintenance of effort expenditures, the auditors qualified their opinion on the Block Grants for Prevention and Treatment of Substance Abuse program.

We recommended DHS review its process for monitoring compliance with the SAPT MOE and for maintaining documentation for expenditures used to meet its SAPT MOE requirement.

DHS agreed with the auditors recommendation

DHS officials accepted the recommendation.

INADEQUATE PROCESS FOR SUPPORTING ADJUSTMENTS TO THE TITLE IV-E CLAIMING REPORT

The Department of Children and Family Services (DCFS) does not have an adequate process for supporting adjustments to the Title IV-E claiming report for the Foster Care and Adoption Assistance programs.

Significant delays in providing auditors information

During our testwork over 25 adjustments to the Foster Care and Adoption Assistance programs reported on quarterly claiming reports, we experienced significant delays in receiving detailed documentation supporting the adjustments sampled. DCFS personnel informed us the original files supporting the adjustments had not been maintained and had to be recreated over a period of several weeks for our testing.

Supervisory reviews or other monitoring controls not in place

We also noted one decreasing adjustment (totaling \$45,148) was improperly reported, one decreasing adjustment (totaling \$65,080) was improper and two increasing adjustments (totaling \$30,132) were not supported by eligibility determinations. As of the date of our testing, DCFS had not evaluated whether additional errors exist or quantified the impact of these errors on the population. We also noted, DCFS has not implemented adequate supervisory reviews or other monitoring controls to determine if the adjustments being made are complete, accurate, and properly supported.

Failure to properly determine when adjustments are necessary and failure to maintain proper supporting documentation for expenditures (adjustments) claimed for the Foster Care and Adoption Assistance programs may result in payments to ineligible beneficiaries, which are unallowable costs. (Finding 27, pages 110-112)

Auditor qualification due to inadequate process for supporting adjustments

As a result of DCFS not having an adequate process for supporting adjustments to the Title IV-E claiming report, the auditor's qualified their opinion on the Foster Care and Adoption Assistance programs.

We recommended DCFS review its current process for identifying and documenting adjustments and implement procedures to ensure the adjustments claimed for the Foster Care and Adoption Assistance programs are properly

determined and supported. DCFS should also consider implementing additional monitoring controls to ensure the adjustments reported are complete, accurate, and properly supported.

DCFS agreed with auditor recommendation

DCFS officials agreed with our recommendation and stated improvements in design of our system will ensure detailed transaction information will be maintained on a permanent basis to ensure adjustments are better supported, will make changes to the manual process of reviewing requests to ensure they are properly categorized and will continue to review its procedures to ensure claiming on all judicial determinations is appropriate and that documentation of eligibility files are complete.

FAILURE TO MAINTAIN ADEQUATE PROVIDER LICENSING FILES

The Department of Children and Family Services (DCFS) did not maintain complete provider licensing files, including documentation of required background checks for foster care services programs.

Documentation could not be located for criminal background check

During our testwork of 65 Foster Care maintenance assistance payments (totaling \$134,980), we reviewed the associated provider licensing files for compliance with licensing requirements and for the allowability of related benefits paid. We noted one foster care beneficiary payment sampled (totaling \$295) with an unlicensed relative service provider whereby DCFS could not locate documentation evidencing the provider had undergone the proper criminal background checks and child abuse and neglect registry check. We also noted 33 foster care beneficiary payments sampled (totaling \$119,218) with child-care institution service providers, whereby the licensing files did not contain documentation that verified the safety considerations with respect to staff of the institution had been addressed. Lastly, as of the date of our testing, DCFS has not evaluated whether additional errors exist or quantified the impact of these errors on the population.

Documentation could not be located that verified safety considerations had been addressed

Failure to maintain complete provider licensing files for foster family homes and child-care institutions, including documentation that required criminal records checks and child abuse and neglect registry checks have been performed for all prospective foster parents, child-care institution applicants, employees, volunteers, or non-licensed service providers, could result in payments being made to ineligible service providers, which are unallowable costs. (Finding 28, pages 113-115)

Auditor qualification for incomplete information

As a result of DCFS not maintaining complete information, the auditors qualified their opinion on the Foster Care program.

We recommended DCFS implement procedures to ensure the provider licensing files are complete, including documentation

that all required background checks have been performed and documentation that verifies safety considerations with respect to the staff of child-care institutions has been properly addressed. Additionally, we recommended DCFS evaluate its process for ensuring providers are properly licensed and meet program requirements prior to placing Foster Care beneficiaries in their care and claiming payments to these providers for federal reimbursement.

DCFS agreed with auditor recommendation

DCFS officials agreed with our recommendation and stated based on similar recommendations from the Title IV-E Foster Care Eligibility Review conducted in June, 2016, the Department has made significant changes to their processes.

FAILURE TO PROPERLY DOCUMENT AND EXECUTE ADOPTION ASSISTANCE AGREEMENTS

The Department of Children and Family Services (DCFS) made recurring payments of adoption assistance benefits that were not properly supported by adoption assistance agreements.

Subsidy payments not adequately supported

During our testwork of adoption assistance beneficiary payments, we reviewed 50 case files and related benefit payments (totaling \$33,092) for compliance with eligibility requirements and allowability of related benefits. We noted two beneficiary assistance subsidy payments were not supported by adequate documentation resulting in payments made that differed from the adoption assistance agreements. As of the date of our testing, DCFS has not evaluated whether additional errors exist or quantified the impact of this error on the population.

Failure to maintain case file documentation, including documentation to support changes in the amount of the subsidy paid, may result in payments to ineligible beneficiaries, which are unallowable costs. (Finding 29, pages 116-118)

Auditor qualification due to lack of supporting documentation

As a result of DCFS not maintaining case file documentation supporting payments made, the auditors qualified their opinion on the Adoption Assistance program.

We recommended DCFS implement procedures to ensure adoption assistance subsidy payments are consistent with the approved subsidy payment amount in the adoption assistance agreement and to obtain and include proper supporting documentation for subsidy payment changes in the adoption assistance case files. Additionally, we recommended DCFS evaluate its process for ensuring subsidy payments are consistent with executed agreements or changes are adequately documented prior to paying adoption subsidies and claiming payments for federal reimbursement.

DCFS agreed with the auditors recommendation

DCFS officials agreed with the recommendation and stated the Department has implemented a quality assurance review completed by the data entry supervisor to assure that the amount entered for payment matches the approved amounts listed in the approve subsidy agreement.

INACCURATE CERTIFICATION OF MAINTENANCE OF EFFORT (MOE) EXPENDITURES

The Department on Aging (DOA) did not accurately certify its maintenance of effort (MOE) expenditures under the Aging Cluster program to USDHHS.

Maintenance of effort expenditures not properly certified

During our testwork of the MOE requirement, we noted DOA passed through a total of \$20,380,075 to Area Agencies on Aging (subrecipients) for both services and administration under the Title III program but only reported and certified that \$5,305,727 was spent for MOE expenditures. The amount reported for MOE expenditures was equal to the amount certified to USDHHS as the average expenditures for the past three years. Upon further discussion with IDOA management, we noted the MOE expenditures reported for the past four federal fiscal years have been determined in a similar manner. As a result, the average expenditures in the three year period have been consistent and does not properly reflect the actual expenditures incurred for the respective periods which would have resulted in a higher MOE requirement.

Failure to accurately certify and report the level of maintenance of effort expenditures prevents the USDHHS from effectively monitoring and evaluating the performance of the Title III Program, and could result in USDHHS improperly allocating future funding. (Finding 43, pages 150-152)

Auditor qualification due to not accurately certifying MOE expenditures

As a result of not accurately certifying its maintenance of effort (MOE) expenditures, the auditors qualified their opinion on the Aging Cluster.

We recommended IDOA review the process and procedures in place to prepare the certification of the maintenance of effort and its financial reports required for the Aging Cluster program and implement procedures necessary to ensure that actual expenditures incurred during the period are reported and certified. We also recommended IDOA implement procedure to financial reports are subject to documented supervisory reviews prior submission.

DOI officials disagree with portion of finding

DOI officials disagree with the portion of the finding referring to MOE not accurately being certified.

Auditor's comment

In an auditor's comment, we stated the DOA could not provide authoritative guidance supporting its position that the State is only required to report and certify an amount equal to the average expenditures for the past three years.

**FAILURE TO PERFORM REQUIRED RISK
ASSESSMENT AND ADEQUATELY MONITOR
SUBRECIPIENTS OF THE AGING CLUSTER
PROGRAM**

**Failed to perform risk assessment of
subrecipients**

The Department on Aging (DOA) did not perform a risk assessment of subrecipients of the Aging Cluster program as required by the Uniform Guidance. Additionally, IDOA did not perform any on-site programmatic reviews during the fiscal year for Aging Cluster subrecipients and further did not perform fiscal on-site reviews as required by its established monitoring procedures.

**Existing approach not modified
based on new requirements**

Beginning for all new federal awards (as well as any amendments to existing awards as identified by the federal agency) with effective dates on or after December 26, 2014, IDOA was required to perform a risk assessment to establish appropriate monitoring procedures based upon the risks inherent at each subrecipient. During our audit procedures, we noted IDOA had not amended its existing approach to monitoring its subrecipients. We noted deficiencies whereby DOS did not perform programmatic on-site reviews for any of the program's 13 subrecipients, fiscal on-site reviews were not performed for 2 of 6 subrecipients sampled, and corrective action plans were not obtained for 2 of 6 subrecipients sampled and as of the date of our testing (February 16, 2017) DOA had not followed up with the subrecipient to obtain the corrective action plans.

Failure to implement required risk assessments and to adequately monitor subrecipients results in noncompliance and may result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the terms and conditions of the award. (Finding 44, pages 153-155)

**Qualification due to lack of risk
assessment**

As a result of not performing risk assessments of subrecipients, the auditors qualified their opinion on the Aging Cluster program.

We recommend DOA: (1) implement the risk assessment procedures required by the Uniform Guidance; (2) review its current policies and procedures for monitoring Aging Cluster program subrecipients and implement changes necessary to implement any changes required by the Uniform Guidance; and (3) implement procedures to ensure on-site reviews are appropriately performed and completed as planned.

**DOA officials concurred with
recommendation**

DOA officials agreed with our recommendation and stated the Department is working to make sure they are in compliance with all requirements of the Uniform Guidance.

FAILURE TO FOLLOW ON-SITE MONITORING PLAN FOR SUBRECIPIENTS

Monitoring procedures not performed according to plan

The Illinois State Board of Education (ISBE) did not perform adequate on-site subrecipient monitoring procedures in accordance with its established monitoring plan for the Title I Grants to Local Educational Agencies (Title I), Special Education Cluster (IDEA) (Special Education), Twenty-First Century Community Learning Centers (21st Century), and Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants) (Title II) programs.

No monitoring of 21st Century program subrecipient

During our review of the subrecipients selected for review, we noted one subrecipient common across all Education programs which represented the single largest subrecipient for each program. As we reviewed the monitoring procedures performed for this subrecipient, we noted the procedures performed were limited to on-site reviews of nine schools and analytical expenditure reviews at additional schools for the purpose of determining whether further on-site reviews were deemed necessary, within the school district which has in excess of 600 schools. We also noted no on-site monitoring procedures were performed for the 21st Century program at this subrecipient. Given the significance of this individual subrecipient, we do not believe the on-site monitoring procedures performed by ISBE during the year ended June 30, 2016 were adequate. We also noted ISBE did not follow timeframes established in its on-site monitoring plan for communicating findings and closing out monitoring files.

Failure to properly monitor subrecipients and communicate monitoring results may result in undetected noncompliance and subrecipients not properly administering Federal programs in accordance with laws, regulations, and grant agreements. (Finding 48, pages 162-164)

Qualification due to subrecipient monitoring

As a result of inadequate monitoring of subrecipients, the auditors qualified their opinions on the Title I, Special Education, 21st Century and Title II grants.

We recommended ISBE review its monitoring procedures relative to individually significant subrecipients and implement additional procedures as necessary to ensure proper monitoring procedures are performed for all programs. Additionally, we recommended ISBE review its procedures for communicating monitoring results and closing out audit files and implement additional procedures to ensure timely completion of these activities.

ISBE officials agreed with the auditors

ISBE officials agreed with the finding and stated they have modified the risk scoring process to ensure individually significant subrecipients are adequately monitored and they have also worked to establish procedures related to communicating monitoring results and closing out audit files to ensure timely completion of these activities.

FAILURE TO PERFORM REQUIRED RISK ASSESSMENT AND ADEQUATELY MONITOR SUBRECIPIENTS OF THE CTE PROGRAM

Risk Assessment not performed for subrecipients of the CTE program

The Illinois Community College Board (ICCB) did not perform a risk assessment of subrecipients of the Career and Technical Education (CTE) program as required by the Uniform Guidance. Additionally, ICCB did not perform any on-site fiscal reviews of CTE subrecipients as required by its established monitoring procedures.

Beginning for all new federal awards (as well as any amendments to existing awards as identified by the federal agency) with effective dates on or after December 26, 2014, ICCB was required to perform a risk assessment to establish appropriate monitoring procedures based upon the risks inherent at each subrecipient. During our audit procedures, we noted ICCB had not amended its existing approach to monitoring its subrecipients. We also noted ICCB did not perform any on-site fiscal reviews of CTE subrecipients as identified and planned within ICCB's monitoring policies and procedures.

Failure to implement required risk assessments and to adequately monitor subrecipients results in noncompliance and may result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the terms and conditions of the award. (Finding 55, pages 143-144)

Qualification due to subrecipient monitoring

As a result of inadequate monitoring of subrecipients, the auditors qualified their opinion on the CTE program.

We recommend ICCB implement the risk assessment procedures required by the Uniform Guidance, review its current policies and procedures for monitoring CTE program subrecipients and implement changes necessary to implement any changes required by the Uniform Guidance and implement procedures to ensure on-site reviews are appropriately performed and completed as planned.

ICCB officials agreed with the recommendation

ICCB officials agreed with the recommendation and stated the Board has implemented risk assessment procedures as required by the Uniform Guidance in FY17. In addition, ICCB stated the Board will perform on-site fiscal monitoring for all grantees designated as high-risk each fiscal year.

FAILURE TO IMPLEMENT UNEMPLOYMENT INSURANCE (UI) PROGRAM INTEGRITY AND OVERPAYMENT REDUCTION REQUIREMENTS

The Illinois Department of Employment Security (IDES) did not implement Federal requirements to improve program integrity and reduce overpayments.

Federal requirements not implemented

The State is required to establish written procedures for: (1) identifying overpayments, (2) classifying overpayments into categories based on the reason the overpayment occurred (i.e. employer error, non-response from employers, beneficiary fraud, etc.), and (3) establishing appropriate methods for following up on each category of overpayment. In establishing these procedures, the State is required to enter into three agreements prior to commencing recoveries. The first agreement permits the State to offset State UI from Federal UI overpayments (Cross Program Offset and Recovery Agreement). The second agreement permits the State to recover overpayments from benefits being administered by another State (Interstate Reciprocal Overpayment Recovery Agreement). The third agreement permits the State to utilize the Treasury Offset Program to recover overpayments that remain uncollected one year after the debt was determined to be due. Additionally, the State is (1) required to impose a monetary penalty (not less than 15 percent) on claimants whose fraudulent acts resulted in overpayments, and (2) prohibited from providing relief from charges to employer's UI account when overpayments are the result of the employer's failure to respond timely or adequately to a request for information.

During our testwork, we noted that while IDES has developed the written procedures relative to overpayments and entered into the required agreements described in the previous paragraph, the written procedures did not address the requirement to impose a monetary penalty on fraud overpayments. Additionally, we noted the policies do not address the prohibition of providing employers relief resulting from an employer failing to provide timely or adequate information.

Qualification due to not implementing federal requirements

Failure to implement Federal requirements could result in noncompliance with laws, regulations and the grant agreement. (Finding 61, pages 193-194)

As a result of not implementing federal requirements, the auditors qualified their opinion on the Unemployment Insurance program.

We recommended IDES develop and implement procedures to improve UI program integrity and reduce overpayments that incorporate the required monetary penalty on fraud overpayments and prohibit providing relief to employers who fail to provide timely and adequate responses to information requests.

IDES agreed with the auditors recommendation

IDES officials accepted our recommendation and stated they are currently integrating their current overpayment tracking system into their benefit payment system scheduled for completion by December 2017.

ISSUES INVOLVING AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)

FAILURE TO COMMUNICATE ARRA INFORMATION AND REQUIREMENTS TO SUBRECIPIENTS

The Department of Human Services (DHS) did not communicate American Recovery and Reinvestment Act (ARRA) information and requirements to subrecipients of the Temporary Assistance for Needy Families (TANF) program.

ARRA not communicated to subrecipients

During our testwork over one ARRA disbursement of \$1,492,345 to a subrecipient of the TANF Cluster program, we noted the subrecipient agreement did not identify the Federal award number, CFDA number, the amount of ARRA funds, or the requirement to separately report ARRA program expenditures on the Schedule of Expenditures of Federal Awards (SEFA) and the data collection form. During the audit period, DHS sent a letter to the subrecipient identifying that the award was funded by ARRA and communicating the CFDA number; however, DHS could not provide evidence that they had communicated any of the other requirements. DHS passed through ARRA funds of approximately \$8,215,859 to one subrecipient of the TANF Cluster program.

Failure to communicate required ARRA information could result in subrecipients not properly administering the federal programs in accordance with federal regulations. (Finding 14, pages 78-79)

We recommended DHS implement procedures to ensure ARRA information and requirements are properly communicated in writing to its subrecipients.

DHS agreed with the auditors recommendation

DHS officials agreed with the recommendation and stated they will review and implement procedures to ensure that all award information and requirements is properly communicated in writing to its subrecipients.

OTHER FINDINGS

The remaining findings pertain to other compliance and internal control matters. We will follow up on the status of corrective action on all findings in our next Statewide Single Audit for the year ended June 30, 2017.

AUDITORS' OPINION

The auditors state the Schedule of Expenditures of Federal Awards for the State of Illinois as of and for the year ended June 30, 2016 is presented fairly in all material respects.

This single audit was conducted by the firm of KPMG LLP.

SIGNED ORIGINAL ON FILE

BRUCE L. BULLARD
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JC

DIGEST FOOTNOTES

Previous response by the Office of the Governor and the Office of the State Comptroller

#1 Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards

2015: (Office of the Governor) The Office of the Governor concurs with the auditor's finding and recommendation. The Office of the Governor will continue to work with the Office of the State Comptroller to address the core issues and establish sufficient internal control processes in State agencies regarding the quality of the accounting information provided to and maintained by the IOC as it relates to year-end preparation of the SEFA. Both offices have begun a multi-year implementation of an Enterprise Resource Planning (ERP) system to develop an integrated enterprise-wide application system for financials, which is an aspect of the Governor's Executive Order that created the Illinois Department of Innovation and Technology to transform Illinois' IT systems to be more responsive to state employees and taxpayers. An operational ERP system will improve the State's control environment and processes to allow the State and agencies to prepare a complete and accurate Schedule of Expenditures of Federal Awards in a timely manner.

2015: (Office of the State Comptroller) The Office accepts the recommendation. While the 2014 SEFA audit was submitted prior to the March 31st deadline, the Office agrees that the existing financial reporting systems need to be replaced with a new statewide accounting and grants management system that is designed to provide the information needed to complete the SEFA report and to improve the quality of the accounting information provided to the IOC. The Office is engaged in a project with the Governor's Office and other stakeholders and outside consultants to design, program and implement a new statewide financial accounting and grants management system to better meet the State's financial tracking and reporting needs.

Previous responses by the Department of Human Services

#2 Failure to Properly Maintain and Control Case File Records

2015: The Department accepts the recommendation. Following are some of the steps taken since June 2015 to establish improved controls over general information technology control procedures:

- Implemented observation sessions to validate results of System Test stage before moving into User Acceptance Test stage.
- Extended timeline for Phase 2 to increase User Acceptance Test stage from 12 to 43 weeks.
- Created detailed requirements traceability matrix to enable thorough due diligence of defects and workarounds.
- Refocusing on quality by requiring vendor quality reviews and joint quality review meetings with vendor.
- Redefining project deliverables jointly with vendor to focus on quality and acceptable defect levels for deployment.
- Revamping change management, decision management and documentation of deliverable approvals.

The Department has implemented a sophisticated system for documenting, tracking and prioritizing correction of all identified defects. Because of the size and complexity of the benefit programs IES controls, the Department will review IES on an ongoing basis to assure accuracy of all eligibility determinations. The Department will continue to work with the IES vendor to develop plans to resolve all currently identified control weaknesses, vulnerabilities and other deficiencies noted during this audit.

#3 Missing Documentation in Beneficiary Eligibility Files

2015: The Department agrees with the recommendation. The Department continues to ensure staff understands the importance of proper and accurate filing processes. The Department is increasing the use of electronic document management systems that capture some of the information that has been traditionally printed and maintained in paper case files.

#4 Failure to Perform Eligibility Redeterminations within Prescribed Timeframes

2015: The Department agrees with the recommendation. IDHS will continue to work with the Department of Healthcare and Family Services (HFS) to review current processes for performing eligibility redeterminations and consider changes necessary to ensure all redeterminations are performed within the prescribed timeframes.

IDHS and DHFS have set up four specialized central redetermination units across the state to handle most medical only redeterminations. Staff in these units specialize in working in a new electronic storage system, developed by a vendor that records and stores redetermination information, forms, and verifications.

#5 Improper TANF Cluster Beneficiary Payments

2015: We accept the recommendation. The implementation of Phase 2 of the Integrated Eligibility System will reduce or eliminate the need for manual calculations of initial prorated entitlements.