

**STATE OF ILLINOIS**

Single Audit Report

For the Year Ended June 30, 2003

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 Compliance and on Internal Control over Financial  
Reporting 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, 2003 was issued under separate cover.

The Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* for the Year Ended June 30, 2003 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 scope limitations and qualifications for the following programs:

#### **Disclaimer:**

Federal Family Education Loans

#### **Qualification:**

Temporary Assistance for Needy Families  
Medicaid Cluster  
State Children's Health Insurance Program  
Social Services Block Grant  
Foster Care  
Adoption Assistance  
Aging Cluster  
Low-Income Home Energy Assistance  
Community Services Block Grant  
Workforce Investment Act Cluster

### Summary of Audit Findings

	<u>This audit</u>	<u>Prior audit</u>
Number of audit findings:		
This audit	64	62
Repeated audit findings	34	26
Prior findings implemented or not repeated	28	24



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, 2003. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes 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*.

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, 2003, in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

April 28, 2004



**STATE OF ILLINOIS**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
<b>U.S. Department of Agriculture:</b>			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 538	—
Forestry Incentives Program	10.064	3	—
Conservation Reserve Program	10.069	279	—
Market News	10.153	4	—
Market Protection and Promotion	10.163	15	—
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475	5,100	—
Meat, Poultry, and Egg Products Inspection	10.477	3	—
Food Donation	10.550 *	31,985	31,985
Food Stamp Cluster:			
Food Stamps	10.551 *	\$ 1,011,836	—
State Administrative Matching Grants for Food Stamp Program	10.561 *	86,389	8,663
Total Food Stamp Cluster		1,098,225	
Child Nutrition Cluster:			
School Breakfast Program	10.553 *	39,052	38,591
National School Lunch Program	10.555 *	260,514	259,289
Special Milk Program for Children	10.556 *	2,718	2,718
Summer Food Service Program for Children	10.559 *	6,422	6,174
Total Child Nutrition Cluster		308,706	
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557 *	163,808	—
Child and Adult Care Food Program	10.558 *	92,533	91,725
State Administrative Expenses for Child Nutrition	10.560	4,533	197
Commodity Supplemental Food Program	10.565	4,749	3,590
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	10.568	2,456	2,323
Emergency Food Assistance Program (Food Commodities)	10.569	14,136	13,457
Total Emergency Food Assistance Cluster		16,592	
Nutrition Services Incentive	10.570	7,629	7,629
WIC Farmers' Market Nutrition Program (FMNP)	10.572	271	271
Team Nutrition Grants	10.574	184	184
Senior Farmers Market Nutrition Program	10.576	814	814
Cooperative Forestry Assistance	10.664	1,104	50
Schools and Roads_Grants to States	10.665	287	287
Rural Business Enterprise Grants	10.769	2	—
Preharvest Safety Module	10.XXA	6	—
Agriculture Statistics	10.XXB	44	—
Promotion of Agriculture	10.XXD	896	—
<b>U.S. Department of Agriculture Total</b>		<b>1,738,310</b>	
<b>U.S. Department of Commerce:</b>			
Interjurisdictional Fisheries Act of 1986	11.407	10	—
Technology Opportunities	11.552	468	—
<b>U.S. Department of Commerce Total</b>		<b>478</b>	

# STATE OF ILLINOIS

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed- through to subrecipients (Unaudited)
<b><u>U.S. Department of Defense:</u></b>			
Procurement Technical Assistance For Business Firms	12.002	279	195
Payments to States in Lieu of Real Estate Taxes	12.112	491	491
State Memorandum of Agreement Program for the Technical Services Reimbursement of	12.113	927	—
Military Construction, National Guard	12.400	3,981	—
National Guard Military Operations and Maintenance (O&M)	12.401	8,462	—
National Guard Civilian Youth Opportunities	12.404	5,006	—
<b>U.S. Department of Defense Total</b>		<b>19,146</b>	
<b><u>U.S. Department of Housing and Urban Development:</u></b>			
Community Development Block Grants/State's Program	14.228 *	41,229	38,883
Emergency Shelter Grants Program	14.231	2,161	2,119
Housing Opportunities for Persons with AIDS	14.241	434	432
Fair Housing Assistance Program_State and Local	14.401	115	—
Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitation	14.856	671	579
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	556	381
<b>U.S. Department of Housing and Urban Total</b>		<b>45,166</b>	
<b><u>U.S. Department of Interior:</u></b>			
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250	2,473	—
Abandoned Mine Land Reclamation (AMLR) Program	15.252	9,094	—
Fish and Wildlife Cluster:			
Sport Fish Restoration	15.605	4,027	—
Wildlife Restoration	15.611	3,074	—
Total Fish and Wildlife Cluster		7,101	
Fish and Wildlife Management Assistance	15.608	102	—
Cooperative Endangered Species Conservation Fund	15.615	38	—
Clean Vessel Act	15.616	63	—
Sportfishing and Boating Safety Act	15.622	61	—
Wildlife Conservation & Restoration	15.625	479	—
State Wildlife Grants	15.634	66	—
Historic Preservation Fund Grants-In-Aid	15.904	911	139
Outdoor Recreation_Acquisition, Development and Planning	15.916	3,490	3,490
Lewis and Clark Visitors Center	15.XXA	104	—
Lincoln Library, Museum and Interpretive Center	15.XXB	1,584	—
Crab Orchard Agreement	15.XXC	53	—
Lincoln Museum	15.XXD	2,820	—
<b>U.S. Department of Interior Total</b>		<b>28,439</b>	
<b><u>U.S. Department of Justice:</u></b>			
National Guard Drug Assistance Program	16.000	41	—
State Domestic Preparedness Equipment Support Program	16.007	9,022	6,362
Sex Offender Management Discretionary Grant	16.203	38	—
Juvenile Accountability Incentive Block Grants	16.523	9,390	6,929

# STATE OF ILLINOIS

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed- through to subrecipients (Unaudited)
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	2,912	2,246
Missing Children's Assistance	16.543	94	—
Gang-Free Schools and Communities_Community-Based Gang Intervention	16.544	63	—
Title V_Delinquency Prevention Program	16.548	1,552	1,552
Part E_State Challenge Activities	16.549	226	224
State Justice Statistics Program for Statistical Analysis Centers	16.550	37	—
National Criminal History Improvement Program (NCHIP)	16.554	1,505	250
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	369	—
National Institute of Justice Visiting Fellowships	16.561	110	—
Crime Laboratory Improvement_Combined Offender DNA Index System Backlog Reduction	16.564	529	—
Crime Victim Assistance	16.575	16,814	15,885
Crime Victim Compensation	16.576	8,716	—
Byrne Formula Grant Program	16.579	15,714	9,924
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	807	30
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	5,934	—
Violence Against Women Formula Grants	16.588	4,852	3,715
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589	219	219
Local Law Enforcement Block Grants Program	16.592	2,891	2,018
Residential Substance Abuse Treatment for State Prisoners	16.593	1,104	—
State Criminal Alien Assistance Program	16.606	26	—
Public Safety Partnership and Community Policing Grants	16.710	1,122	—
Police Corps	16.712	1,704	634
Enforcing Underage Drinking Laws Program	16.727	541	359
National Incident Based Reporting System	16.733	71	—
<b>U.S. Department of Justice Total</b>		<b>86,403</b>	
<b>U.S. Department of Labor:</b>			
Labor Force Statistics	17.002	2,929	—
Compensation and Working Conditions	17.005	129	—
Labor Certification for Alien Workers	17.203	826	—
Employment Services Cluster:			
Employment Service	17.207 *	33,569	562
Disabled Veterans' Outreach Program (DVOP)	17.801 *	3,845	—
Local Veterans' Employment Representative Program	17.804 *	2,715	—
Total Employment Services Cluster		40,129	
Unemployment Insurance	17.225 *	3,182,528	—
Senior Community Service Employment Program	17.235	3,255	3,075
Trade Adjustment Assistance_Workers	17.245	22,161	—
Welfare-to-Work Grants to States and Localities	17.253	9,904	7,421
One-Stop Career Center Initiative	17.257	261	261

**STATE OF ILLINOIS**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed- through to subrecipients (Unaudited)
Workforce Investment Act Cluster:			
Workforce Investment Act	17.255 *	9,219	6,483
WIA Adult Program	17.258 *	45,387	43,836
WIA Youth Activities	17.259 *	52,429	50,653
WIA Dislocated Workers	17.260 *	71,503	67,165
Total Workforce Investment Act Cluster		178,538	
Employment and Training Administration Evaluations	17.262	216	216
Youth Opportunity Grants	17.263	2,405	2,224
Work Incentives Grant	17.266	418	418
WIA Incentive Grants_Section 503 Grants to States	17.267	3,000	—
Occupational Safety and Health_Susan Harwood Training Grants	17.502	11	11
Consultation Agreements	17.504	2,591	—
Mine Health and Safety Grants	17.600	260	—
<b>U.S. Department of Labor Total</b>		<b>3,449,561</b>	
<b>U.S. Department of Transportation:</b>			
Boating Safety Financial Assistance	20.005	1,191	—
Airport Improvement Program	20.106 *	75,582	18,785
Highway Planning and Construction	20.205 *	693,316	169,016
Motor Carrier Safety	20.217	61	—
National Motor Carrier Safety	20.218	4,956	—
Recreational Trails Program	20.219	1,159	—
High Speed Ground Transportation_Next Generation High Speed Rail Program	20.312	5,263	—
Federal Transit Cluster:			
Federal Transit_Capital Investment Grants	20.500	6,379	5,080
Federal Transit_Formula Grants	20.507	666	—
Total Federal Transit Cluster		7,045	
Federal Transit_Metropolitan Planning Grants	20.505	3,769	—
Formula Grants for Other Than Urbanized Areas	20.509	7,795	7,289
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	5,465	—
State Planning and Research	20.515	460	256
Highway Safety Cluster:			
State and Community Highway Safety	20.600	7,044	2,109
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	2,027	578
Occupant Protection	20.602	1,123	347
Federal Highway Safety Data Improvements Incentive Grants	20.603	131	—
Safety Incentive Grants for Use of Seatbelts	20.604	2,671	1,098
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	6,248	1,846
Total Highway Safety Cluster		19,244	
Pipeline Safety	20.700	490	—
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	599	274
<b>U.S. Department of Transportation Total</b>		<b>826,395</b>	



# STATE OF ILLINOIS

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed- through to subrecipients (Unaudited)
<b><u>Equal Employment Opportunity Commission:</u></b>			
Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	30.002	2,004	—
<b>Equal Employment Opportunity Commission Total</b>		<b>2,004</b>	
<b><u>National Endowment for the Humanities:</u></b>			
Promotion of the Arts_Partnership Agreements	45.025	638	638
State Library Program	45.310	7,218	5,399
<b>National Endowment for the Humanities Total</b>		<b>7,856</b>	
<b><u>U.S. Small Business Administration:</u></b>			
Small Business Development Center	59.037	4,291	1,342
<b>U.S. Small Business Administration Total</b>		<b>4,291</b>	
<b><u>U.S. Department of Veteran's Affairs:</u></b>			
Grants to States for Construction of State Home Facilities	64.005	7,288	—
Veterans State Domiciliary Care	64.014	476	—
Veterans State Nursing Home Care	64.015	18,320	—
All-Volunteer Force Educational Assistance	64.124	591	—
<b>U.S. Department of Veteran's Affairs Total</b>		<b>26,675</b>	
<b><u>U.S. Environmental Protection Agency:</u></b>			
State Indoor Radon Grants	66.032	160	133
Surveys Studies, Investigations Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	235	—
Water Pollution Control_State and Interstate Program Support	66.419	458	—
State Underground Water Source Protection	66.433	247	—
Water Quality Management Planning	66.454	551	—
Capitalization Grants for Clean Water State Revolving Funds	66.458 *	100,306	76,027
Nonpoint Source Implementation Grants	66.460	7,217	—
Wetland Program Grants	66.461	239	—
Water Quality Cooperative Agreements	66.463	350	—
Wastewater Operator Training Grant Program (Technical Assistance)	66.467	86	—
Capitalization Grants for Drinking Water State Revolving Funds	66.468	26,800	24,715
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	478	—
Beach Monitoring and Notification Program Implementation Grants	66.472	144	—
Water Protection Grants to the States	66.474	30	—
Air Pollution Control Research	66.501	61	—
Performance Partnership Grants	66.605	18,075	—
Surveys, Studies, Investigations and Special Purpose Grants	66.606	1,872	—
Training and Fellowships for the Environmental Protection Agency	66.607	49	—
State Information Grants	66.608	66	—
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	831	—

# STATE OF ILLINOIS

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed- through to subrecipients (Unaudited)
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	10	—
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	430	—
Pollution Prevention Grants Program	66.708	63	—
Superfund State, Political Subdivision, and Indian Tribe Site- Specific Cooperative Agreements	66.802	4,833	—
State and Tribal Underground Storage Tanks Program	66.804	72	—
Leaking Underground Storage Tank Trust Fund Program	66.805	1,776	—
Solid Waste Management Assistance	66.808	3	—
Chemical Emergency Preparedness and Prevention (CEPP) Technical Assistance Grants Program	66.810	55	—
Brownfield Pilots Cooperative Agreements	66.811	12	—
<b>U.S. Environmental Protection Agency Total</b>		165,509	
<b><u>U.S. Department of Energy:</u></b>			
State Energy Program	81.041	1,751	1,009
Weatherization Assistance for Low-Income Persons	81.042	12,747	12,652
Regional Biomass Energy Programs	81.079	116	116
Conservation Research and Development	81.086	64	64
National Industrial Competitiveness through Energy, Environment, and Economics	81.105	18	—
States and Tribal Concerns, Proposed Solutions	81.106	47	—
Alternative Fuel Transportation Program	81.111	1	—
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/ Assistance	81.117	10	—
State Energy Program Special Projects	81.119	313	308
<b>U.S. Department of Energy Total</b>		15,067	
<b><u>Federal Emergency Management Agency:</u></b>			
Community Assistance Program_State Support Services Element (CAP-SSSE)	83.105	212	—
Federal Disaster Assistance - Unemployment Administration	83.516	19	—
Flood Mitigation Assistance	83.536	369	369
Individual and Family Grants	83.543	122	104
Public Assistance Grants	83.544	10,102	9,649
Hazard Mitigation Grant	83.548	1,704	1,704
Chemical Stockpile Emergency Preparedness Program	83.549	424	125
National Dam Safety Program	83.550	(2)	—
Emergency Management Performance Grants	83.552	1,545	717
Pre-disaster Mitigation	83.557	20	14
Emergency Operations Center	83.563	7	—
Community Emergency Response Teams	83.565	13	2
<b>Federal Emergency Management Agency Total</b>		14,535	

# STATE OF ILLINOIS

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed- through to subrecipients (Unaudited)
<b><u>U.S. Department of Education:</u></b>			
Adult Education_State Grant Program	84.002	24,788	23,898
Title I Grants to Local Educational Agencies	84.010 *	424,493	420,228
Migrant Education_State Grant Program	84.011	2,265	2,216
Title I Program for Neglected and Delinquent Children	84.013	1,849	—
Special Education Cluster:			
Special Education_Grants to States	84.027 *	337,080	330,373
Special Education_Preschool Grants	84.173 *	18,439	17,820
Total Special Education Cluster		355,519	
Federal Family Education Loans	84.032 *	179,218	—
Vocational Education_Basic Grants to States	84.048 *	43,352	40,674
Leveraging Educational Assistance Partnership	84.069	3,662	—
Fund for the Improvement of Postsecondary Education	84.116	83	4
Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126 *	94,287	26,232
Rehabilitation Services_Service Projects	84.128	72	—
Rehabilitation Services_Client Assistance Program	84.161	607	—
Immigrant Education	84.162	47	—
Independent Living_State Grants	84.169	726	726
Paul Douglas Teacher Scholarship Program	84.176	(73)	—
Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	84.177	818	583
Special Education_Grants for Infants and Families with Disabilities	84.181	15,307	15,265
Safe and Drug-Free Schools and Communities_National Programs	84.184	1,877	1,861
Byrd Honors Scholarships	84.185	1,605	—
Safe and Drug-Free Schools and Communities_State Grants	84.186	17,483	16,026
Supported Employment Services for Individuals with Severe Disabilities	84.187	1,342	1,308
Bilingual Education Support Services	84.194	19	—
Education for Homeless Children and Youth	84.196	1,816	1,683
Even Start_State Educational Agencies	84.213	9,025	8,835
Fund for the Improvement of Education	84.215	3,120	1,649
Private School Capital Expenses	84.216	8	8
Assistive Technology	84.224	359	359
Tech-Prep Education	84.243	4,341	3,839
Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	84.265	136	—
Goals 2000 - State and Local Education Systemic Improvement	84.276	3	—
Eisenhower Professional Development State Grants	84.281	3,241	2,396
Charter Schools	84.282	951	901
Twenty-First Century Community Learning Centers	84.287	11,874	11,635
Foreign Language Assistance	84.293	59	—
Innovative Education Program Strategies	84.298	16,214	15,229
Even Start_Statewide Family Literacy Program	84.314	59	59
Education Technology State Grants	84.318	22,503	22,149
Special Education_State Program Improvement Grants for Children with Disabilities	84.323	1,401	1,368
Special Education_Research and Innovation to Improve Services and Results for Children with Disabilities	84.324	72	—

# STATE OF ILLINOIS

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed- through to subrecipients (Unaudited)
Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	356	297
Advanced Placement Program	84.330	646	417
Grants to States for Incarcerated Youth Offenders	84.331	284	—
Comprehensive School Reform Demonstration	84.332	12,478	12,081
Teacher Quality Enhancement Grants	84.336	1,961	1,810
Reading Excellence	84.338	16,203	15,268
Learning Anytime Anywhere Partnerships	84.339	776	776
Class Size Reduction	84.340	10,825	10,823
Preparing Tomorrow's Teachers to Use Technology	84.342	593	410
Title I Accountability Grants	84.348	9,027	9,027
Transition to Teaching	84.350	285	197
Grants for School Repair and Renovation	84.352	22,485	22,394
Reading First State Grants	84.357	28,470	28,209
Rural Education	84.358	1,300	1,250
English Language Acquisition Grants	84.365	18,146	17,759
Improving Teacher Quality State Grants	84.367 *	99,386	99,137
Grants for State Assessments and Related Activities	84.369	2,858	—
Illinois School for the Deaf Grant to Study Transition of Students	84.XXX	7	—
<b>U.S. Department of Education Total</b>		<b>1,470,614</b>	
<b><u>National Archives and Records Administration:</u></b>			
National Historical Publications and Records Grants	89.003	72	—
<b>National Archives and Records Administration Total</b>		<b>72</b>	
<b><u>U.S. Department of Health and Human Services:</u></b>			
Public Health and Social Services Emergency Fund	93.003	3,135	2,929
Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	214	202
Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	93.042	571	544
Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	93.043	907	865
Aging Cluster:			
Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	93.044 *	17,930	17,054
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045 *	22,947	21,800
Total Aging Cluster		40,877	
Special Programs for the Aging_Title IV_and Title II_ Discretionary Projects	93.048	296	183
National Family Caregiver Support	93.052	6,759	6,377
Food and Drug Administration_Research	93.103	20	—
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	912	500
Maternal and Child Health Federal Consolidated Programs	93.110	136	136

# STATE OF ILLINOIS

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed- through to subrecipients (Unaudited)
Project Grants and Cooperative Agreements for Tuberculosis			
Control Programs	93.116	837	115
Redesign of Comm. Mgmt. System	93.119	61	—
Primary Care Services_Resource Coordination and Development	93.130	142	98
Injury Prevention and Control Research and State and Community Based Programs	93.136	84	84
Projects for Assistance in Transition from Homelessness (PATH)	93.150	1,814	1,814
Health Program for Toxic Substances and Disease Registry	93.161	604	—
Grants for State Loan Repayment	93.165	354	353
Alcohol and Drug Addiction Data Collection	93.179	125	—
Allied Health Special Projects	93.191	621	—
Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	702	—
Family Planning_Services	93.217	7,641	6,746
Consolidated Knowledge Development and Application (KD&A)	93.230	3,182	2,056
Loan Repayment Program for General Research	93.232	9	—
Traumatic Brain Injury_State Demonstration Grant Program	93.234	124	124
Abstinence Education	93.235	1,718	1,558
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	250	—
State Rural Hospital Flexibility Program	93.241	602	367
Innovative Food Safety Projects	93.245	49	—
Universal Newborn Hearing Screening	93.251	130	60
State Planning Grant_Health Care Access for the Uninsured	93.256	223	—
Rural Access to Emergency Devices Grant	93.259	202	192
Immunization Grants	93.268	5,288	1,152
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	18,744	7,901
Small Rural Hospital Improvement Grants	93.301	412	412
Cancer Cause and Prevention Research	93.393	2	—
Abandoned Infants	93.551	483	334
Promoting Safe and Stable Families	93.556	14,580	11,342
Temporary Assistance for Needy Families	93.558 *	613,480	280,106
Child Support Enforcement	93.563 *	112,543	27,463
Refugee and Entrant Assistance_State Administered Programs	93.566	5,662	3,278
Low-Income Home Energy Assistance	93.568 *	105,195	105,195
Community Services Block Grant	93.569 *	30,944	29,879
Community Services Block Grant Discretionary Awards_ Community Food and Nutrition	93.571	189	189
Child Care Cluster:			
Child Care and Development Block Grant	93.575 *	66,952	66,952
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596 *	117,922	66,907
Total Child Care Cluster		184,874	
Refugee and Entrant Assistance_Discretionary Grants	93.576	1,777	1,777
Refugee and Entrant Assistance_Targeted Assistance	93.584	2,085	2,085
State Court Improvement Program	93.586	278	17

# STATE OF ILLINOIS

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed- through to subrecipients (Unaudited)
Community-Based Family Resource and Support Grants	93.590	1,329	1,326
Grants to States for Access and Visitation Programs	93.597	377	377
Head Start	93.600	2,877	2,266
Runaway and Homeless Youth	93.623	150	150
Developmental Disabilities Basic Support and Advocacy Grants	93.630	2,948	1,700
Children's Justice Grants to States	93.643	684	554
Child Welfare Services_State Grants	93.645	11,399	—
Social Services Research and Demonstration	93.647	119	119
Adoption Opportunities	93.652	423	91
Foster Care_Title IV-E	93.658 *	353,371	106,258
Adoption Assistance	93.659 *	75,595	7,679
Social Services Block Grant	93.667 *	98,553	61,631
Child Abuse and Neglect State Grants	93.669	877	155
Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes	93.671	2,837	2,821
Chafee Foster Care Independent Living	93.674	7,676	5,349
State Children's Insurance Program	93.767 *	42,420	—
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	537	—
Medicaid Cluster:			
State Medicaid Fraud Control Units	93.775 *	4,900	—
State Survey and Certification of Health Care Providers and Suppliers	93.777 *	17,496	407
Medical Assistance Program	93.778 *	5,138,057	98,737
Total Medicaid Cluster		5,160,453	
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	621	228
Medical Library Assistance	93.879	8	—
Grants to States for Operation of Offices of Rural Health	93.913	154	100
HIV Care Formula Grants	93.917	27,202	24,336
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	6,194	4,309
Healthy Start Initiative	93.926	2,229	2,132
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	211	—
HIV Prevention Activities_Health Department Based	93.940	4,132	2,122
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	969	138
Assistance Programs for Chronic Disease Prevention and Control	93.945	789	174
Improving EMS/Trauma Care in Rural Areas	93.952	32	—
Block Grants for Community Mental Health Services	93.958	17,826	17,078
Block Grants for Prevention and Treatment of Substance Abuse	93.959 *	67,415	63,924
Preventive Health Services_Sexually Transmitted Diseases Control	93.977	3,187	610
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	751	486
Preventive Health and Health Services Block Grant	93.991	3,327	1,069
Maternal and Child Health Services Block Grant to the States	93.994	23,059	19,074
<b>U.S. Department of Health and Human Services Total</b>		<u>7,090,568</u>	

**STATE OF ILLINOIS**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed- through to subrecipients (Unaudited)
<b><u>Corporation for National and Community Service:</u></b>			
State Commissions	94.003	487	41
Learn and Serve America_School and Community Based Programs	94.004	862	862
AmeriCorps	94.006	5,844	5,639
Planning and Program Development Grants	94.007	104	104
Training and Technical Assistance	94.009	81	45
Volunteers in Service to America	94.013	(12)	—
<b>Corporation for National and Community Service Total</b>		<u>7,366</u>	
<b><u>Social Security Administration:</u></b>			
Social Security_Disability Insurance	96.001 *	58,370	—
Social Security_Research and Demonstration	96.007	443	178
Social Security_Benefits Planning, Assistance, and Outreach Program	96.008	592	85
<b>Social Security Administration Total</b>		<u>59,405</u>	
<b><u>U.S. Department of Homeland Security:</u></b>			
Emergency Management Performance Grants	97.042	2,253	1,611
State and Local All Hazards Emergency Operations Planning	97.051	184	34
<b>U.S. Department of Homeland Security Total</b>		<u>2,437</u>	
Total expenditures of federal awards		<u>\$ 15,060,297</u>	<u>3,542,073</u>

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 Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

#### (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 except for component units for the fiscal year ended June 30, 2003. The State of Illinois' financial reporting entity is described in note 1B of the State's basic financial statements.

The entities listed below are Discretely Presented Component Units in the State's basic financial statements, which received federal financial assistance for the year ended June 30, 2003. 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	Governors State University
Illinois State University	Northeastern Illinois University
Northern Illinois University	Eastern Illinois University
Chicago State University	Illinois Development Finance Authority
Western Illinois University	Illinois Conservation Foundation
Southern Illinois University	Illinois Housing Development Authority

##### (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).

##### (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 modified accrual basis. The modified accrual basis of accounting incorporates an estimation approach to determine the amount of expenditures incurred if not yet billed by a vendor. Thus, those Federal programs presenting negative amounts on the schedule of expenditures of federal awards are the result of prior year estimates being overstated.



## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

#### (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

###### Food Donation CFDA No. 10.550

The purpose of this program is to improve the diets of school and preschool children, the elderly, needy persons in charitable institutions, other individuals in need of food assistance, and to increase the market for domestically produced foods acquired under surplus removal or price support operations.

###### Food Stamp Cluster: Food Stamps CFDA No. 10.551 / State Administrative Matching Grants for Food Stamp Program CFDA No. 10.561

The objective of these programs is to help low-income households buy the food they need for good health.

###### 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 provide reimbursements to approved program sponsors for a portion of the cost of providing nutritious meals to eligible children and adults and encourage the consumption of fluid milk by children enrolled in schools or half-day kindergartens where they do not have access to other federally funded meal programs.

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

The objective of this program is to provide supplemental nutritious foods, nutrition education and referrals to health care 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 provide reimbursements to approved program sponsors for a portion of the cost of providing nutritious meals to children and adults in nonresidential day care facilities and children in emergency shelters.

(Continued)

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

#### **US Department of Housing and Urban Development**

##### Community Development Block Grants / State's Program CFDA No. 14.228

The purpose of this program is the development of viable urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income.

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

##### Employment Service Cluster: Employment Service CFDA No. 17.207 / Disabled Veterans' Outreach Program CFDA No. 17.801 / Local Veterans' Employment Representative Program CFDA NO. 17.804

The objective of the Employment Service program is to place persons in employment by providing a variety of placement-related services without charge to job seekers and to employers seeking qualified individuals to fill job openings.

The objective of the Disabled Veterans' Outreach program is to provide jobs and job training opportunities for disabled and other veterans through contacts with employers; promote and develop on-the-job training and apprenticeship; provide outreach; provide assistance to community-based groups; develop links with other agencies; and provide job placement, counseling, testing, and job referral.

The objective of the Local Veterans' Employment Representative program is to provide job development, placement and support services directly to veterans.

##### 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 CFDA No. 17.255/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 are 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, reduce welfare dependency, and enhance the productivity and competitiveness of the nation's economy; 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.

(Continued)

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

#### **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 CFDA No. 20.205

The objective of this program is to assist states in constructing and rehabilitating the National Highway System including Interstate highways and building or improving other Federal-aid roads and streets; provide aid for repairing the system, roads, and streets following disasters; foster safe highway design; and replace or rehabilitate unsafe bridges.

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

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

The objective of this program is to provide financial assistance to state governments in establishing a water pollution control revolving fund for constructing wastewater treatment facilities and implementing other water quality management activities.

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

##### Title I Grants to Local Educational Agencies CFDA No. 84.010

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

The purpose of the Grants to States program is to provide grants to states to assist them in providing a free appropriate public education to all children with disabilities.

The purpose of the Preschool Grants program is to provide grants to states to assist them in providing a free appropriate public education to preschool disabled children aged three through five years.

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

#### Federal Family Education Loan Programs CFDA No. 84.032

The objective of this program is the establishment of nonprofit and state guaranty agencies to guarantee student loans made by lenders and perform certain administrative and oversight functions under the Federal Family Education Loan Program, which includes the Federal Stafford Loan, Federal PLUS, Federal SLS, and Federal Consolidation Loan programs.

#### Vocational Education — Basic Grants to States CFDA No. 84.048

The purpose of this program is to assist states and outlying areas to expand and improve their programs of vocational education and provide equal access in vocational education to special needs populations.

#### Rehabilitation Services - Vocational Rehabilitation Grants to States CFDA No.84.126

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.

#### 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 academics 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.

### **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

The objective of these programs is to encourage State Agencies on Aging to concentrate resources to develop and implement comprehensive coordinated community-based systems of service for older individuals, including multipurpose senior centers and to provide grants to states to support nutrition services including nutritious meals and nutrition education for older Americans in order to maintain health and independence.

#### Temporary Assistance for Needy Families CFDA No. 93.558

The objective of this program is to provide time-limited assistance to needy families with children so the children can be cared for in their own home or in the homes of relatives; end dependence of needy parents on governmental benefits by promoting job preparation, work, and marriage;

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

prevent and reduce out-of-wedlock pregnancies, including establishing prevention and reduction goals; and encourage the formation and maintenance of two-parent families.

#### 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 CFDA No. 93.568

These grants were awarded for the purpose of operating Title XXVI of the Omnibus Budget Reconciliation Act of 1981 (Low-Income Home Energy Assistance Program). Under this Act, grants are made to assist low-income households in meeting the cost of energy consumed for heating and, where medically necessary, cooling of residences.

#### Community Services Block Grant CFDA No. 93.569

The objective of this program is to provide assistance to states and local communities toward the reduction of poverty, revitalizing low-income communities, and empowering low-income families and individuals in rural and urban areas to become self-sufficient.

#### Child Care Cluster: Child Care Development Block Grant CFDA No. 93.575 / Child Care Mandatory and Matching Funds of the Child Care and Development Fund CFDA 93.596

The objective of these programs is to provide funds to states to increase the availability, affordability, and quality of childcare services for low-income families where the parents are working or attending training or educational programs.

#### 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 facilitate the placement of hard to place children in permanent adoptive homes and prevent long, inappropriate stays in foster care.

#### Social Services Block Grant CFDA No. 93.667

The objective of this program is to provide services for individuals, families, and entire population groups in one or more of five specified social service areas.

(Continued)

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

#### State Children's 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 expansion of the Medicaid program.

#### Medicaid Cluster: State Medicaid Fraud Control Units CFDA No. 93.775 / State Survey and Certification of Health Care Providers and Suppliers CFDA No. 93.777 / Medical Assistance Program CFDA No. 93.778

The objective of these programs is to provide payments for medical assistance to low income persons who are 65 or over, blind, disabled, or members of families with dependent children or qualified pregnant women or children.

#### 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**

#### 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.

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

The State reports the following non-cash federal awards on the supplementary schedules included in this note:

- Food Donation Program (CFDA No. 10.550) — Federal expenditures for this program represent the value of the food received and distributed to other governmental agencies and are valued at the value assigned by the donor, the U.S. Department of Agriculture.
- 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.
- Emergency Food Assistance Program (CFDA No. 10.569) — Federal expenditures for this program represent the value of donated commodities received from the US Department of Agriculture (USDA). The Commodities were valued based on USDA price lists.

**STATE OF ILLINOIS**

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2003

**(4) Federally Funded Loan Programs**

Loan balances of federally funded loan programs at June 30, 2003 included the following:

<b>CFDA No.</b>	<b>Program</b>	<b>Outstanding Loans as of 6/30/03</b>
84.032	Federal Family Education Loan Program	\$2,418,505,000



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**Report on Compliance and on Internal  
Control Over Financial Reporting 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, 2003, and have issued our report thereon dated April 28, 2004. 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*.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting of the Schedule in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting of the Schedule and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting of the Schedule that, in our judgment, could adversely affect the State's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Schedule. Reportable conditions are described in the accompanying schedule of findings and questioned costs as findings 03-01 through 03-14.







A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting of the Schedule would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

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

April 28, 2004



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

**Independent Auditors' Report  
on Compliance with Requirements Applicable to  
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 *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2003. 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 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*.

Except as discussed in the following paragraph, 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.

**Disclaimer**

As described in the accompanying schedule of findings and questioned costs in finding 03-45, we were unable to express, and we do not express, an opinion on the compliance of the State of Illinois with the requirements applicable to its Federal Family Education Loan program.





Qualifications

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. 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 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	Allowable Costs/Cost Principles	03-16
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	03-17
IL Department of Human Services	State Children’s Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	03-17
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	03-17
IL Department of Human Services	Social Services Block Grant	Allowable Costs/Cost Principles	03-18
IL Department of Children and Family Services	Foster Care – Title IV-E	Allowable Costs/Cost Principles and Eligibility	03-33
IL Department of Children and Family Services	Foster Care – Title IV-E	Subrecipient Monitoring	03-34
IL Department of Children and Family Services	Adoption Assistance	Subrecipient Monitoring	03-34
IL Department of Children and Family Services	Temporary Assistance for Needy Families	Subrecipient Monitoring	03-34
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	03-36
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	03-37
IL Department of Commerce and Economic Opportunity	Low-Income Home Energy Assistance Program	Allowable Costs/Cost Principles	03-56
IL Department of Commerce and Economic Opportunity	Community Services Block Grant	Allowable Costs/Cost Principles	03-56
IL Department of Employment Security	Workforce Investment Act Cluster	Subrecipient Monitoring	03-58

In our opinion, except for the noncompliance described in the preceding paragraphs, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. 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 on pages 62 through 161.

**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 in order to determine our 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.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the State's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as findings 03-15, 03-16, 03-17, 03-18, 03-19, 03-21, 03-22, 03-23, 03-24, 03-25, 03-26, 03-27, 03-28, 03-29, 03-30, 03-31, 03-32, 03-33, 03-34, 03-35, 03-36, 03-37, 03-38, 03-39, 03-40, 03-41, 03-43, 03-44, 03-46, 03-47, 03-48, 03-49, 03-50, 03-51, 03-53, 03-54, 03-55, 03-56, 03-57, 03-58, 03-59, 03-60, 03-61, 03-62, 03-63, and 03-64.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above as findings 03-15, 03-16, 03-17, 03-18, 03-19, 03-21, 03-25, 03-33, 03-34, 03-36, 03-37, 03-38, 03-43, 03-44, 03-47, 03-50, 03-56, 03-58, and 03-64 are material weaknesses.

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

April 28, 2004, except for our disclaimer on the  
Federal Family Education Loan Program as to  
which the date is July 28, 2004

# STATE OF ILLINOIS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

### (1) Summary of Auditors' Results

- (a) The type of report issued by the Auditor General, State of Illinois, on the general purpose financial statements: **unqualified**
- (b)(1) Reportable conditions in internal control were disclosed by the audit of the general purpose financial statements by the Auditor General, State of Illinois: **yes**  
Material weaknesses: **yes**
- (b)(2) Reportable conditions in internal control were disclosed by the audit of the schedule of expenditures of federal awards: **yes**  
Material weaknesses: **no**
- (c) Noncompliance which is material to the general purpose financial statements: **no**
- (d) Reportable conditions in internal control over major programs: **yes**  
Material weaknesses: **yes**
- (e) The type of report issued on compliance for major programs: **Disclaimer for Federal Family Education Loan program. Qualified for the Temporary Assistance for Needy Families, Medicaid Cluster, State Children's Health Insurance Program, Social Services Block Grant, Foster Care – Title IV-E, Adoption Assistance, Aging Cluster, Low-Income Home Energy Assistance, Community Services Block Grant, and Workforce Investment Act Cluster programs. Unqualified for all other major programs.**
- (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**

- Food Donation
- Food Stamp Cluster
- Child Nutrition Cluster
- Special Supplemental Nutrition Program for Women, Infants and Children
- Child and Adult Care Food Program

#### **US Department of Housing and Urban Development**

- Community Development Block Grants/State's Program

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

- Employment Services Cluster
- Unemployment Insurance
- Workforce Investment Act Cluster

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

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

- Airport Improvement Program
- Highway Planning and Construction

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

- Capitalization Grants for State Revolving Funds

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

- Title I Grants to Local Educational Agencies
- Special Education Cluster
- Federal Family Education Loan Programs
- Vocational Education – Basic Grants to States
- Rehabilitation Services – Vocational Rehabilitation Grants to States
- Improving Teacher Quality State Grants

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

- Aging Cluster
- Temporary Assistance for Needy Families
- Child Support Enforcement (Title IV-D)
- Low-Income Home Energy Assistance Program
- Community Services Block Grant
- Child Care Cluster
- Foster Care – Title IV-E
- Adoption Assistance
- Social Service Block Grant
- State Children's Insurance Program
- Medicaid Cluster
- Block Grants for the Prevention and Treatment of Substance Abuse

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

- Social Security Disability Insurance Cluster

- (c) Dollar threshold used to distinguish between Type A and Type B programs:  
**\$30,000,000**
- (d) The State did not qualify as a low-risk auditee under section .530 of OMB Circular A-133.

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

A finding related to the general purpose financial statements for the year ended June 30, 2003 was reported in accordance with *Government Auditing Standards* by the Auditor General of the State of Illinois under separate cover.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

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

The findings listed below are located on pages 30 through 57.

<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	
03-01	IL Office of the Comptroller	Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards	Reportable condition
03-02	IL Department of Human Services	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
03-03	IL Department of Public Aid	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
03-04	IL Department of Children and Family Services	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
03-05	IL State Board of Education	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
03-06	IL Student Assistance Commission	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
03-07	IL Community College Board	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
03-08	IL Department of Transportation	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
03-09	IL Department of Commerce and Economic Opportunity	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
03-10	IL Department of Employment Security	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
03-11	IL Environmental Protection Agency	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
03-12	IL Department of Corrections	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
03-13	IL Department Natural Resources	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
03-14	IL Department of Public Health	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Office of the Comptroller (IOC)

**Federal Agency:** All Federal Agencies

**Finding 03-01** *Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards*

The State of Illinois (the State) does not have an adequate process in place to permit the timely compilation of a complete and accurate schedule of expenditures of federal awards (SEFA).

The State's process for compiling the SEFA requires each state agency to complete a series of manual financial reporting forms (SCO forms) which detail by fund the CFDA number, total program expenditures, funds passed through to subrecipients, and transfers of program funds between state agencies for each federal program. The SCO forms are collected by the Illinois Office of the Comptroller (IOC) and are reviewed for any discrepancies or errors. Once any of these identified errors and discrepancies have been resolved with the responsible state agency, the finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) in an electronic database for the compilation of the SEFA. As part of their compilation procedures, the OAG performs a series of analytical and verification procedures (including agreeing CFDA numbers, program expenditures, amounts passed through to subrecipients or passed to other state agencies to the reporting agency's records) to ensure amount reported are complete, accurate, and properly presented.

During fiscal year 2003, improvements were made to automate the SEFA reporting process, which allowed the IOC to provide a preliminary SEFA to the OAG in November. However, the overall reporting process for the State continues to be delayed by the complexity and manual nature of the SCO forms and delays in their submission by the state agencies. A number of the final SCO forms were not completed or available to the OAG until late January resulting in the compilation of the SEFA being completed in late March (approximately nine months after the State's fiscal year end). The current reporting process does not allow for the timely completion of an audit in accordance with OMB Circular A-133.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements (Comprehensive Annual Financial Report issued by the IOC), 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.

In discussing these conditions with the IOC, they stated the State does not have a process in place to monitor the accuracy of State agency financial reporting in relation to the State's federal awards.

(Continued)



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

Failure to prepare the SEFA in a timely manner prevents the State from completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-01, 02-01)

#### **Recommendation:**

We recommend the IOC implement an automated process for compiling the SEFA which will allow for the completion of the State's OMB Circular A-133 audit within the required timeframe.

#### **IOC Response:**

The Office of the Comptroller (IOC) agrees the State does not have an adequate process in place to permit the timely compilation of the schedule of expenditures of federal awards (SEFA). The IOC will consult with other members of the State's Executive Branch to establish and implement monitoring procedures for State agency financial reporting in relation to the State's federal awards. Executive Branch members consulted with will include:

- *The Governor.* Pursuant to the Illinois Constitution, Article V, Section 9, the Governor has the power to appoint State officers whose election or appointment is not otherwise provided. In addition, pursuant to the Illinois Constitution, Article V, Section 8, the Governor has supreme executive power and has the responsibility for the execution of laws. With such powers, the Governor is the only member of the Executive Branch who has the appropriate level of power to appropriately discipline the State officers of agencies not having adequate reporting procedures.
- *The Director of the Department of Central Management Services (Director).* The Department of Central Management Services Law (20 ILCS 405/405-10) states, "It shall be the duty of the Director and the policy of the State of Illinois to do the following: (1) Place financial responsibility on State agencies . . . and hold them accountable for the proper discharge of this responsibility. (2) Require professional, accurate, and current accounting with the State agencies."
- *The Governor's Office of Management and Budget (GOMB).* The Governor's Office of Management and Budget Act (20 ILCS 3005/5.1) specifies that the GOMB shall be responsible for approving federal grant applications for agencies under the Governor's jurisdiction upon reviewing State agency reports of program costs and other commitments resulting from the receipt of the federal grant.

The IOC will also continue to automate reporting forms and assist agencies in completing financial reporting forms. These efforts should facilitate more timely completion of the State's schedule of federal awards in the future.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

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

**Federal Agency:** All Federal Agencies

**Finding 03-02** *Inadequate Process for Accurate and Timely Financial Reporting*

IDHS does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for IDHS until January 12, 2004. Additionally, several correcting journal entries were required to accurately state amounts reported by IDHS.

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 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.

In discussing this with IDHS officials, they stated the decision for maximizing federal claiming for TANF was not determined on a timely basis. In addition, IDHS must rely on other state agencies for TANF claiming and this information is not received on a timely basis.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-02, 02-02)

**Recommendation:**

We recommend IDHS review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies.

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**IDHS Response:**

Accepted. The Department will review the current process for reporting financial information to the IOC. In the current process, all GAAP packages are reviewed to verify that the information reported in the GAAP package agrees to the back up information available at the time of the preparation of the GAAP package. Due to the complexity of the TANF, Child Care, and Title XX Grants and the desire to maximize federal funding, changes to GAAP packages are often required after additional information is received from other entities outside our control. IDHS needs to ensure expenditures incurred by all entities, which are eligible for reimbursement, are claimed on the final federal grant reports.

In addition, IDHS is participating in a workgroup with other Single Audit state agencies. The goal of the workgroup is to review the current process for financial reporting and to improve the statewide compilation process.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Department of Public Aid (IDPA)

**Federal Agency:** All Federal Agencies

**Finding 03-03** *Inadequate Process for Accurate and Timely Financial Reporting*

IDPA does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for IDPA until January 7, 2004. Additionally, several correcting journal entries were required to accurately state amounts reported by IDPA.

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 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.

In discussing this with IDPA officials, they stated that the process of preparing agency-level financial statements relies heavily upon entities outside of their control. The current overall process is not efficient enough to enable agencies to accurately meet the required compressed reporting timeframes.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-03)

**Recommendation:**

We recommend IDPA review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IDPA should ensure a

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC.

**IDPA Response:**

The Department accepts the finding. It should be noted that the Department did meet all GAAP package due dates established by the IOC. Due to the compressed time frame inherent to the GAAP reporting process, Department review of financial data is necessary after they are submitted to the IOC. This continued review discovered additional entries that were needed to various GAAP packages. The Department will continue to review its GAAP and financial statement preparation processes to ensure accuracy and efficiency.

As part of this review, the Department is participating in a workgroup involving other State agencies, IOC and OAG staff. The purpose of the workgroup is to collaboratively focus on the statewide process to identify and remedy any noted deficiencies in efficiency and procedures.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

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

**Federal Agency:** All Federal Agencies

**Finding 03-04** *Inadequate Process for Accurate and Timely Financial Reporting*

DCFS does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for DCFS until January 15, 2004. Additionally, several correcting journal entries were required to accurately state amounts reported by DCFS.

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 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.

In discussing this with DCFS officials, they stated that under the current financial reporting process followed in the State and with limited staff resources, it is difficult to meet the due dates established. The Department works to comply with the schedule established by the Office of the Comptroller.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-04, 02-03)

**Recommendation:**

We recommend DCFS review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, DCFS should ensure a

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC.

**DCFS Response:**

The Department is evaluating its procedures for timely and accurate completion of the required forms. Additionally, we will be participating in the State task force for assessing the procedures followed by agencies to prepare the financial information in a timely manner.

The Department will respond timely to requests made by the Office of the Comptroller by gathering and submitting the financial information to assist the Office of the Auditor General in their review of the SEFA data.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois State Board of Education (ISBE)

**Federal Agency:** All Federal Agencies

**Finding 03-05** *Inadequate Process for Accurate and Timely Financial Reporting*

ISBE does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for ISBE until January 20, 2004. Additionally, several correcting journal entries were required to accurately state amounts reported by ISBE.

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 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.

In discussing this with ISBE officials, they stated that ISBE recognizes there were delays in the financial reporting process which were primarily due to multiple external parties' involvement.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-05, 02-04)

**Recommendation:**

We recommend ISBE review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, ISBE should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC.

(Continued)



**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**ISBE Response:**

ISBE concurs that the reporting of federal expenditures should be timely and accurate and will continue to make every effort to meet that goal. It should be noted that the agency did file the GAAP packages by the due date. However, some correcting entries will always be necessary after that initial submission as part of the reconciliation process between the IOC and the agencies, and the majority of the adjustments ISBE had to make resulted from that process. ISBE would be happy to participate in discussions with the IOC, the Auditor General and other state agencies concerning any potential reporting process improvements.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Student Assistance Commission (ISAC)

**Federal Agency:** All Federal Agencies

**Finding 03-06** *Inadequate Process for Accurate and Timely Financial Reporting*

ISAC does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for ISAC until January 15, 2004. Additionally, several correcting journal entries were required to accurately state amounts reported by ISAC.

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 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.

In discussing this with ISAC officials, they stated that the growing complexity of the programs coupled with the number of parties involved in the financial reporting process makes it difficult to finalize the financial information within the required timeframe.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-06, 02-05)

**Recommendation:**

We recommend ISAC review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, ISAC should ensure a

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC.

**ISAC Response:**

ISAC is committed to working with the Illinois Office of the Comptroller and the Illinois Office of the Auditor General to ensure timely completion of the SCO reporting requirements. To address this concern the agency is continuing to review our internal processes for reporting federal expenditures to the Office of the Comptroller and will actively participate in discussions with both the Office of the Comptroller as well as the Office of the Auditor General concerning suggested reporting process improvements.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Community College Board (ICCB)

**Federal Agency:** All Federal Agencies

**Finding 03-07** *Inadequate Process for Accurate and Timely Financial Reporting*

ICCB does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for ICCB until November 13, 2003. Additionally, correcting journal entries were required to accurately state amounts reported by ICCB.

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 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.

In discussing this with ICCB officials, they stated that the process of preparing the agency's SCO forms relies heavily upon entities outside of their control.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-07)

**Recommendation:**

We recommend ICCB review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, ICCB should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC.

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**ICCB Response:**

The Agency accepts the finding. The Agency will continue to review its GAAP and financial statement preparation processes to ensure accuracy and efficiency.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Department of Transportation (IDOT)

**Federal Agency:** All Federal Agencies

**Finding 03-08** *Inadequate Process for Accurate and Timely Financial Reporting*

IDOT does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for IDOT until January 6, 2004. Additionally, several correcting journal entries were required to accurately state amounts reported by IDOT.

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 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.

In discussing this with IDOT officials, they stated that even though review of departmental financial statements was not done until January 6, 2004, proper steps are taken to ensure the timely submission of complete and accurate forms to the IOC.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-08, 02-06)

**Recommendation:**

We recommend IDOT review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IDOT should ensure a

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC.

#### **IDOT Response:**

The Department agrees with the recommendation. The initial agency submission date of the final fund package was made by the Department to the Comptroller on October 15, 2003. Based on subsequent review, changes were made to Infrastructure on December 4, 2003, however, the changes did not have any impact on the SEFA. The SEFA is considered final once the Letter of Agreed Upon Procedures is submitted to the Office of the Comptroller. The Department's auditing firm, BKD LLP, prepared the Letter of Agreed Upon Procedures for the Comptroller on January 6, 2004.

The Department is currently involved with a GAAP workgroup with other state agencies and the IOC to discuss this process. In addition, the Department will continue to work closely with the Office of the Comptroller to improve and enhance the timing and accuracy of GAAP reporting requirements.

When fund packages are submitted, a reconciliation of the reporting package to the accounting system and report to federal agencies is completed. During FY 2003, this information was prepared by the General Accounting Unit Supervisor and then was reviewed by the Accounting Unit Manager.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Department of Commerce and Economic Opportunity (DCEO)

**Federal Agency:** All Federal Agencies

**Finding 03-09** *Inadequate Process for Accurate and Timely Financial Reporting*

DCEO does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for DCEO until November 18, 2003. Additionally, several correcting journal entries were required to accurately state amounts reported by DCEO.

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 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.

In discussing this with DCEO officials, they indicated they met all deadlines for financial reporting with the Illinois Office of the Comptroller. DCEO officials agree journal entries were made or corrected after financial statements were submitted as a result of the agency being dependent upon the Comptroller's Office to supply financial data to complete or revise the forms.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-09, 02-07)

**Recommendation:**

We recommend DCEO review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting

(Continued)



**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

system and reports submitted to federal agencies. Additionally, DCEO should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC.

**DCEO Response:**

The department agrees to continue to work closely with the Illinois Office of the Comptroller to improve timely submission of complete and accurate forms. Accounting changes were implemented during this audit period that will make it easier for the department to complete the financial statements in the future. Financial information will continue to have a supervisory review before reports are submitted to the Illinois Office of the Comptroller.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Department of Employment Security (IDES)

**Federal Agency:** All Federal Agencies

**Finding 03-10** *Inadequate Process for Accurate and Timely Financial Reporting*

IDES does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for IDES until December 11, 2003. Additionally, several correcting journal entries were required to accurately state amounts reported by IDES and subrecipient information was omitted from the SCO 563 form.

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 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.

In discussing this with IDES officials, they stated that award and grant payments to Welfare to Work (WTW) sub-recipients were missed in SCO563C (Schedule of Sub-recipients). The WTW grants were overlooked in the internal report request to Information Services, although the total amounts to sub-recipients by program was in the SCO563 schedule. The supervisor who reviewed the schedule before it was submitted to IOC missed this one item.

A revised SCO563 (Grant/Contract Analysis) was submitted to the Illinois Office of Comptroller (IOC) primarily on WIA grants to correct the erroneous allocation of allocated grants expenditures to the various formula grants, although the bottom-line June 30, CY Receivable (+) Liability (-) remained unchanged.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-10, 02-08)

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

#### **Recommendation:**

We recommend IDES review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IDES should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC.

#### **IDES Response:**

We concur. We have reviewed our procedures as a result of the prior year's audit and believe the procedures adequately address timely and accurate submission of financial information to the Illinois Office of the Comptroller.

IDES is participating in a GAAP workgroup comprising state agencies with major federal programs and participants from the Illinois Office of the Comptroller (IOC) to address how to eliminate the GAAP audit finding that most agencies received as part of the Statewide Single Audit.

Effective July 1, 2003 all WIA and NEG grants have been transferred to the Illinois Department of Commerce and Employment Opportunity (DCEO) by the Governor's Executive Order Number 11.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Environmental Protection Agency (IEPA)

**Federal Agency:** All Federal Agencies

**Finding 03-11** *Inadequate Process for Accurate and Timely Financial Reporting*

IEPA does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for IEPA until January 2, 2004. Additionally, several correcting journal entries were required to accurately state amounts reported by IEPA.

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 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.

In discussing this with Agency Management, they stated that the original submission of the SCO forms and the SEFA were submitted to the IOC and the Office of the Auditor General by due dates established by the IOC. A SFY2003 Financial audit of the Fund 270 – Water Revolving Loan Fund was conducted and finalized after the SCO forms were submitted. The Firm conducting the audit disagreed with the methodology for determining receivables and payables. These changes required a considerable manual effort of our Agency staff with assistance from the IOC staff to arrive at an acceptable receivable and payable number. This necessitated changes to the financial statements and the SEFA after several discussions which concluded in January 2004.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-11, 02-10)

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

#### **Recommendation:**

We recommend IEPA review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IEPA should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC.

#### **IEPA Response:**

Partially Accepted. The Agency has submitted GAAP packages and the SEFA in accordance with IOC deadlines. Currently, all SCO reports are reconciled to the Agency accounting records and there is a supervisory review of the package before submittal to the Comptroller. There is a need, however, for improvement in coordination between the Agency, OAG and the external auditors to ensure that adjustments are made timely to avoid late adjustments to the SEFA and financial statements.

The Agency will continue our review of the current reporting process to identify opportunities for additional improvements.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Department of Corrections (IDOC)

**Federal Agency:** All Federal Agencies

**Finding 03-12** *Inadequate Process for Accurate and Timely Financial Reporting*

IDOC does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for IDOC until December 15, 2003. Additionally, several correcting journal entries were required to accurately state amounts reported by IDOC.

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 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.

In discussing this with IDOC officials, they stated that the late submission was due in part to the decentralized nature of the grants function.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-12)

**Recommendation:**

We recommend IDOC review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IDOC should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC.

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**IDOC Response:**

Recommendation accepted. The Department is in the process of installing a centralized accounting system for the grants unit. Both grant programs will be consolidated into a single Grants Unit effective July 1, 2004. The oversight for all federal funding will be centralized. Standard reconciliation procedures will be developed. A supervisory review will be performed of reported information to help ensure accuracy and timeliness.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Department of Natural Resources (IDNR)

**Federal Agency:** All Federal Agencies

**Finding 03-13** *Inadequate Process for Accurate and Timely Financial Reporting*

IDNR does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for IDNR until November 4, 2003. Additionally, several correcting journal entries were required to accurately state amounts reported by IDNR.

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 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.

In discussing this with IDNR officials, they indicated that the delay in submitting federal expenditure information and the review of such information was due to reporting deadlines that require submission before final information is received from existing accounting systems and program personnel.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-13, 02-9)

**Recommendation:**

We recommend IDNR review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IDNR should ensure a

(Continued)



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC.

#### **IDNR Response:**

The Office of Fiscal Management established new procedures in 2003 to ensure that expenditures on the Department's Federal grant programs were accurately reported to the Comptroller. However, IDNR's "schedule of expenditures of federal awards" for FY 2003 was submitted to the Comptroller approximately one month after its due date. This occurred due to retirements and the resulting loss of staff knowledgeable in financial reporting procedures and the unavailability of data from existing automated financial systems by reporting due dates.

Fiscal Management is currently conducting a risk assessment with an accounting contractor. The contractor is to identify weaknesses and make recommendations for corrective action by September 2004. Additionally, Fiscal Management will have a financial systems assessment conducted by the end of 2004 to identify risks and recommended corrective actions that would result in more timely reporting. Until the findings and recommendations are complete, Fiscal Management plans to assign additional staff to the reporting process for FY 2004 and contract with an accounting consultant to assist in expediting the submission of future reports on Federal expenditures.

It should be noted that part of the accurate and timely reporting issues result from a systemic problem with the due dates for information. Some of the information is due before or immediately after the end of the lapse period. Since reporting must reflect lapse period activity, it is not possible to file accurate data by the current due dates.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Department of Public Health (IDPH)

**Federal Agency:** All Federal Agencies

**Finding 03-14** *Inadequate Process for Accurate and Timely Financial Reporting*

IDPH does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

The State's process for preparing the basic financial statements and the schedule of expenditures of federal awards (SEFA) requires each state agency to complete a series of both automated and manual financial reporting forms (SCO forms) which detail various information by fund. The financial statements are compiled by the IOC. The SCO forms are collected (received) by the IOC and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible state agency, the applicable finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) for the compilation of the SEFA.

During our review of the financial reporting process, we noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for IDPH until December 11, 2003. Additionally, several correcting journal entries were required to accurately state amounts reported by IDPH.

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 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.

In discussing this with IDPH officials, they stated that they are aware of the reporting requirements and the time frames but some forms were late due to delayed receipt of the SCO 567 and SCO 568 forms from other state agencies, colleges, and universities.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 03-14, 02-12)

**Recommendation:**

We recommend IDPH review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IDPH should ensure a

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC.

**IDPH Response:**

The Department concurs that the process for reporting federal expenditures to the IOC should be timely and accurate. With respect to the time period covered by the audit, it should be mentioned that the Department submitted all GAAP statements on time. Thirty three special state funds were submitted on August 22, 2003. The GRF and federal trust funds (there were five) were submitted on August 29, 2003. The SCO-563 was also submitted on time. Interfund activity forms (SCO-567 and SCO-568) were necessarily revised several times because of other agencies' corrections and delay in responding. The Departments makes every effort to accurately report expenditures to the IOC yet some correcting journal entries were necessary as part of the reconciliation process between the IOC and the agencies.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

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

The findings listed below are located on pages 62 through 166.

<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
03-15	IL Department of Human Services	Inadequate Process for Identifying and Accounting for Program Expenditures	Material weakness
03-16	IL Department of Human Services	Unallowable Costs Charged to the TANF Program	Material noncompliance and material weakness
03-17	IL Department of Human Services	Failure to Perform Eligibility Re-determinations within Prescribed Timeframes	Material noncompliance and material weakness
03-18	IL Department of Human Services	Unallowable Costs Charged to the Title XX Program	Material noncompliance and material weakness
03-19	IL Department of Human Services	Inadequate Process for Determining Maintenance of Effort Expenditures	Noncompliance and material weakness
03-20	IL Department of Human Services	Overpayment of TANF Benefits and Missing Documentation in Client Eligibility Files	Noncompliance
03-21	IL Department of Human Services	Failure to Sanction TANF Beneficiaries	Noncompliance and material weakness
03-22	IL Department of Human Services	Inaccurate Allocation of Costs	Noncompliance and reportable condition
03-23	IL Department of Human Services	Inadequate Documentation of Risk Assessments of Subrecipients	Reportable condition
03-24	IL Department of Human Services	Untimely Performance of On-Site Reviews and Communication of and Follow Up on On-Site Monitoring Findings	Noncompliance and reportable condition
03-25	IL Department of Human Services	Inadequate Peer Review Sampling Methodology	Noncompliance and material weakness
03-26	IL Department of Human Services	Inadequate Segregation of Duties Over Reporting	Reportable condition
03-27	IL Department of Human Services	Improper Recertification of Clearance Patterns	Noncompliance and reportable condition
03-28	IL Department of Public Aid	Inadequate Follow Up With Employers to Identify Third Party Liability (TPL) Insurers	Noncompliance and reportable condition
03-29	IL Department of	Failure to Properly Perform	Noncompliance and

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

	Public Aid	Non-Custodial Parent Location Procedures	reportable condition
03-30	IL Department of Public Aid	Inadequate Monitoring of Subrecipients	Noncompliance and reportable condition
03-31	IL Department of Public Aid	Inaccurate Allocation of Costs	Noncompliance and reportable condition
03-32	IL Department of Public Aid	Failure to Properly Manage and Document Interstate Cases Within KIDS	Noncompliance and reportable condition
03-33	IL Department of Children and Family Services	Failure to Ensure That Foster Care Permanency Hearings Are Performed Within Required Timeframes	Material noncompliance and material weakness
03-34	IL Department of Children and Family Services	Inadequate and Untimely Fiscal Monitoring of Subrecipients	Material noncompliance and material weakness
03-35	IL Department of Children and Family Services	Failure to Ensure Timely Preparation of Initial Case Plans	Noncompliance and reportable condition
03-36	IL Department on Aging	Inadequate Monitoring of Subrecipients	Material noncompliance and material weakness
03-37	IL Department on Aging	Failure to Review OMB Circular A-133 Audit Report	Material noncompliance and material weakness
03-38	IL State Board of Education	Untimely Return of Federal Funds to the USDA	Noncompliance and material weakness
03-39	IL State Board of Education	Unallowable Early Retirement Incentive (ERI) Employee Payout Costs	Noncompliance and reportable condition
03-40	IL State Board of Education	Untimely and Incomplete Review of OMB Circular A-133 Audit Reports	Noncompliance and reportable condition
03-41	IL State Board of Education	Inadequate On-Site Monitoring of Subrecipients	Noncompliance and reportable condition
03-42	IL State Board of Education	Failure to Advance Only the Immediate Cash Needs to Subrecipients	Noncompliance
03-43	IL State Board of Education	Untimely Reconciliation of the Grants Administration and Payment System and the Management Information Database Accounting System	Material weakness

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

03-44	IL State Board of Education	Inaccurate Reporting of the Accountability Report Consolidated Annual Performance, Accountability, and Financial Status Report	Noncompliance and material weakness
03-45	IL Student Assistance Commission	Processing and Submission of Re-insurance Claims	Disclaimer
03-46	IL Student Assistance Commission	Inadequate Controls Over Document Imaging	Noncompliance and reportable condition
03-47	IL Student Assistance Commission	Untimely Reconciliation of Cash Posting to the Loan Subsidiary Ledger	Material weakness
03-48	IL Student Assistance Commission	Inaccurate Guaranty Agency Financial Reports	Noncompliance and reportable condition
03-49	IL Student Assistance Commission	Credit Bureau Reports	Reportable condition
03-50	IL Student Assistance Commission	Inaccurate Collection Records	Noncompliance and material weakness
03-51	IL Community College Board	Inadequate On-Site Monitoring of Subrecipients	Noncompliance and reportable condition
03-52	IL Community College Board	Failure to Advance Only the Immediate Cash Needs to Subrecipients	Noncompliance
03-53	IL Department of Transportation	Contractor Weekly Payroll Certifications Were Not Obtained	Noncompliance and reportable condition
03-54	IL Department of Transportation	Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports	Noncompliance and reportable condition
03-55	IL Department of Transportation	Improper Re-certification of Administrative Clearance Patterns	Noncompliance and reportable condition
03-56	IL Department of Commerce and Economic Opportunity	Inadequate Supporting Documentation for Payroll	Material noncompliance and material weakness
03-57	IL Department of Commerce and Economic Opportunity	Failure to Monitor Earmarking Requirements	Reportable condition

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

03-58	IL Department of Employment Security	Inadequate Subrecipient Monitoring Procedures	Material noncompliance and material weakness
03-59	IL Department of Employment Security	Inadequate Cash Management Procedures	Noncompliance and reportable condition
03-60	IL Department of Employment Security	Failure to Re-certify the Accuracy of Administrative Clearance Patterns	Noncompliance and reportable condition
03-61	IL Department of Employment Security	Failure to Include a Program in the Treasury State Agreement	Noncompliance and reportable condition
03-62	IL Environmental Protection Agency	Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Noncompliance and reportable condition
03-63	IL Environmental Protection Agency	Failure to Notify Subrecipients of Federal Funding	Noncompliance and reportable condition
03-64	IL Department of Corrections	Failure to Adequately Establish a Centralized Federal Accounting Function	Noncompliance and material weakness

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**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  
Child Care Cluster  
Social Services Block Grant

**CFDA # and Program Expenditures:** 93.558 (\$613,480,000)  
93.575 / 93.596 (\$184,874,000)  
93.667 (\$98,553,000)

**Questioned Costs:** None

**Finding 03-15** *Inadequate Process for Identifying and Accounting for Program Expenditures*

IDHS does not have an adequate process for identifying and accounting for expenditures claimed under the Temporary Assistance for Needy Families (TANF), Child Care Cluster (Child Care), and Social Services Block Grant (Title XX) programs.

On an annual basis, the State of Illinois (the State) applies for and receives grant awards from USDHHS under the TANF, Child Care, and Title XX programs. As a condition of receiving the federal grant awards under the TANF and Child Care programs, the State is also required to maintain a level of state funded expenditures. The State Plans submitted to USDHHS for the TANF, Child Care, and Title XX programs generically describe the types of programs and beneficiaries on which the State plans to expend its federal and state funding. Although the grant awards received are for separate and distinct programs, there are significant overlaps in both the purposes and populations served by these three programs. Accordingly, some state programs qualify for reimbursement under more than one federal program.

Federal and state expenditures under the TANF, Child Care, and Title XX 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. During our testwork we noted the state agencies expending program funds do not determine under which program IDHS reported their expenditures. Additionally, IDHS does not perform monitoring procedures to ascertain that the expenditures claimed meet the specific criteria applicable to the program for which it was claimed. During the year ended June 30, 2003, IDHS claimed expenditures from other agencies under the TANF, Child Care, and Title XX programs as follows:

(Continued)



**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

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<b>Program</b>	<b>Expending State Agency</b>	<b>Expenditures Claimed</b>	<b>Total Expenditures</b>
Federal TANF	Department of Children and Family Services	\$176,707,163	\$613,480,000
Federal TANF	Illinois Student Assistance Commission	\$46,623,148	\$613,480,000
Federal TANF	Illinois Department of Corrections	\$21,438,574	\$613,480,000
Federal TANF	Illinois Department of Public Aid	\$2,039,118	\$613,480,000
Federal TANF	Illinois State Board of Education	\$17,251,129	\$613,480,000
TANF MOE	Illinois Department of Public Aid	\$43,192,566	\$117,119,000
TANF MOE	Department of Commerce and Economic Opportunity	\$30,097,428	\$117,119,000
TANF MOE	Illinois State Board of Education	\$3,199,468	\$117,119,000
TANF MOE	Illinois Community College Board	\$4,690,242	\$117,119,000
Child Care MOE	Department of Children and Family Services	\$8,432,000	\$47,590,000
Title XX	Department of Children and Family Services	\$33,968,346	\$98,553,000

In addition, in an effort to maximize its federal funds, IDHS modified the expenditures originally reported in the claim reports for the TANF, Child Care, and Title XX programs that were submitted during the State's fiscal year ended June 30, 2003 in preparing its final federal fiscal year claims for the year ended September 30, 2003. The final federal fiscal claims for the year ended September 30, 2003 were not submitted until December 2003. Consequently, IDHS could not identify all of the federal expenditures claimed or all of the state expenditures used to meet its maintenance of effort requirements under these programs for the State's fiscal year ended June 30, 2003 until December 2003 which inhibits the ability to audit these programs in accordance with the requirements of OMB Circular A-133. This is indicative that the State does not have an adequate process or information system to identify and account for federal expenditures reported during the State's fiscal year ended June 30, 2003.

According to 45 CFR 92.20(b)(2), grantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. 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.

In discussing these conditions with IDHS personnel, they state the accounting system utilized is adequate for federal reporting needs, but budgetary planning and procedures need to be enhanced to allow for more timely

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

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reporting from the state perspective. The ability to claim only those services that were earned, rather than all services that were paid, inhibits the Department's ability to both budget and fully utilize grant funds.

Failure to properly identify and account for expenditures may result in (1) an inability to meet program and OMB Circular A-133 reporting requirements; (2) inaccurate notifications to subrecipients relative to the applicable federal program information and regulations; and (3) claiming of expenditures which are inconsistent with the objectives of the federal program. (Finding Code 03-15)

#### **Recommendation:**

We recommend IDHS review its process for accumulating TANF, Child Care, and Title XX expenditures and implement procedures to ensure that federal and state expenditures are identified and accounted for in accordance with the applicable program regulations.

#### **IDHS Response:**

Agree. IDHS will review its processes and procedures for accumulating expenditures for TANF, Child Care and Title XX. Federal and state expenditures are identified and accounted for in accordance with applicable program regulations. The real issue is related to timeliness as relates to state financial reporting needs rather than federal reporting needs. The issues surrounding timely and accurate accumulation of federal expenditures for the state year end can be resolved by standardizing procedures to enable adequate reconciliation between the federal expenditures reports, which are reported on a cash basis, and departmental financial statements that are reported on a modified accrual basis.

Additionally, the auditor notes that final federal fiscal year reports for the fourth quarter were not filed until December 2003. The Title XX Social Services Block Grant report is an annual expenditure report which is due 90 days after the end of the award period (December 30, 2003). The report was completed and submitted by the required due date. For TANF, the original quarterly report was filed December 5, 2003, but the report was due November 14, 2003. Due to the fact that expenditure information from another state agency was not available, the Department requested a 30-day extension of the due date, but this was denied by the Administration for Children and Families (ACF). However, the other state agency's request for an extension was approved, which caused them to not provide required information to IDHS in time to meet IDHS' due date. A revised report was submitted December 30, 2003. The Child Care Quarterly report was due October 30, 2003, and was filed by the due date. Subsequently, an expenditure adjustment was received from another state agency that required a revised report to be completed and submitted December 5, 2003.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**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

**CFDA # and Program Expenditures:** 93.558 (\$613,480,000)

**Questioned Costs:** \$17,300,000

**Finding 03-16** Unallowable Costs Charged to the TANF Program

IDHS claimed expenditures under the Temporary Assistance for Needy Families (TANF) program for a state operated program that did not meet one of the four purposes of the TANF program.

The TANF program is comprised of a series of programs designed and operated by each state to address the welfare needs of its residents. In order to be allowable under the TANF program, expenditures must meet one of the following TANF purposes: (1) provide time-limited assistance to needy families with children so that the children can be cared for in their own homes or in the homes of relatives; (2) end dependence of needy parents on government benefits by promoting job preparation, work, and marriage; (3) prevent and reduce out-of-wedlock pregnancies, including establishing prevention and reduction goals; and (4) encourage the formation and maintenance of two-parent families. A State Plan is required to be submitted and approved by USDHHS on a periodic basis to identify the programs the State offers under its TANF program.

During the State fiscal year ended June 30, 2003, IDHS claimed approximately \$17.3 million in expenditures under its TANF program from the Regional Safe Schools program operated by the Illinois State Board of Education. The purpose of the Regional Safe Schools program is to provide an alternative education to Illinois residents who have been expelled from local school districts for behavioral problems.

In accordance with 45 CFR 263.11, TANF program funds are required to be used to meet one of the purposes of TANF as outlined above. Additionally, according to 45 CFR 263.4(b), expenditures on the behalf of eligible families for educational services or activities provided through the public education system do not count unless they are (1) provided to increase self-sufficiency, job training, and work and (2) they are not generally available to other residents of the State without cost and without regard to their income.

In discussing these conditions with IDHS personnel, they state that in order to maximize and retain federal financial participation for Illinois programs, the department must continue to look for innovative approaches to reach families so that they get the essential supports necessary to get a job, succeed at work, and move out of poverty. Further, it is DHS' understanding that there is no requirement that a state amend its State Plan at a certain time.

Failure to properly determine the allowability of costs in accordance with program regulations may result in costs inconsistent with program objectives being claimed to federal programs. (Finding Code 03-16)

**Recommendation:**

(Continued)

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We recommend IDHS implement procedures to ensure only expenditures made for programs that are included in the State plan and that meet one of the four purposes of TANF are claimed.

#### **IDHS Response:**

Do not agree. The Regional Safe Schools expenditures do meet at least one of the four purposes of TANF. Specifically, they meet the purpose of Goal 3, which is to prevent and reduce out-of-wedlock pregnancies. These expenditures are described in the State Plan, and they are not generally available to other residents of the state.

This program is an alternative education program that is designed to help break the cycle of disruptive behavior, reduce the incidence of teen pregnancy, and provide positive career opportunities for these children, who are also at high risk for dropping out of school. Illinois recognizes that these children are at risk of becoming teen parents and entering public welfare caseloads. The program fits within TANF as it promotes work and encourages students to acquire the necessary skills to get a job and it also reduces out of wedlock births. This program is not generally available to residents of the state. It is only available to a very specific and high-risk population. This target group represents a very small proportion of students who pose serious safety concerns, who are subject to multiple out-of-school suspensions/expulsion, and who are at high risk of dropping out of school. The goal is to keep these children in an educational environment where they will receive the skills to secure good jobs rather than keep them at home or on the street where they are likely to continue behavioral patterns that will lead them toward becoming teen parents and entering public welfare caseloads.

There is no requirement that a state amend its State Plan at a certain time. The Department amended the State Plan in accordance with the Federal rules. The statute does not directly address when States must amend their plans, and ACF has not regulated in this area. The State Plan that identifies this program was approved by the United States Department of Health and Human Services (USDHHS) on March 26, 2004.

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

As previously stated, the Regional Safe Schools program is an education program available for all individuals who have been expelled from local school districts for behavior problems. We do not believe the purpose of TANF was to provide funding for broad based educational programs. Additionally, we fail to see a direct correlation between this program and its ability to prevent or reduce out-of-wedlock pregnancies and thus, these expenditures are clearly questionable.

IDHS stated in its response above that it amended the State Plan subsequent to our audit to include this program. However, the amendment does not clearly describe the program. To say that it has been approved by the USDHHS, in our view, is misleading. The State Plan is highly summarized and does not provide the details behind each State program that is included. Specifically, the descriptions included for the Regional Safe School program in the amended State Plan is as follows: "Alternative Education - Programs to help break the cycle of disruptive behavior, reduce the incidence of teen pregnancy and provide positive career opportunities."

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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  
State Children’s Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.558 (\$613,480,000)  
93.767 (\$42,420,000)  
93.775 / 93.777 / 93.778 (\$5,160,453,000)

**Questioned Costs:** Cannot be determined

**Finding 03-17** Failure to Perform Eligibility Re-determinations within Prescribed Timeframes

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

Each of the State Plans for the TANF, SCHIP, and Medicaid programs require the State to perform eligibility re-determinations 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 test work over eligibility, we noted the State, as of August 7, 2003, was delinquent (overdue) in performing the eligibility re-determinations for 6.7%, 11.9%, and 8.1% of individuals receiving benefits under the TANF, SCHIP, and Medicaid programs, respectively, as follows:

Program	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
TANF	2,556	38,234	6.7%
SCHIP	51,747	433,144	11.9%
Medicaid	31,492	388,170	8.1%

In accordance with 42 CFR section 431.10 and the OMB Circular A-133 Compliance Supplement, dated March 2003, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plans for the Medicaid, SCHIP, and TANF programs. The current State Plans require re-determinations of eligibility for all recipients on an annual basis.

In discussing these conditions with IDHS officials, they stated that the Department believes there is an adequate process in place for ensuring cases are re-determined timely. There are many offices with a 100% redetermination currency rate. Although some offices have recently fallen behind in redeterminations, it is not a function of suspect local office procedures, but rather the result of recent staffing shortages.

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Schedule of Findings and Questioned Costs

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Failure to properly perform eligibility re-determination procedures in accordance with the state plans may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 03-17)

**Recommendation:**

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

**IDHS Response:**

Agree. IDHS reviewed the process for performing eligibility re-determinations and believe that it is adequate.

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For the Year Ended June 30, 2003

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

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

**Program Name:** Social Services Block Grant

**CFDA # and Program Expenditures:** 93.667 (\$98,553,000)

**Questioned Costs:** \$1,500,000

**Finding 03-18** Unallowable Costs Charged to the Title XX Program

Adequate supporting documentation did not exist to substantiate that expenditures claimed by IDHS met the earmarking requirement for the Social Services Block Grant (Title XX) program.

During the State fiscal year ended June 30, 2003, IDHS transferred \$20 million from the TANF program to the Title XX program. Funds transferred from TANF are required to be used only for programs and services to children or their families whose income is less than 200% of the official poverty guidelines. The expenditures used by IDHS to meet the earmarking requirement are for services provided to children and families served by IDHS under its Early Intervention and Home Services programs. As the eligibility criteria for these programs are less stringent than the TANF requirements, IDHS specifically identified expenditures for individuals or families meeting the TANF requirements.

During our testwork of 60 expenditures, we noted 15 expenditures tested (totaling \$1,747) related to grants to providers of the Early Intervention program for case management which could not be directly linked to specific beneficiaries meeting the poverty level criteria. As such, IDHS was not able to provide documentation that the individuals served met the earmarking requirement. Grants for case management claimed during the year ended June 30, 2003 were approximately \$1.5 million.

In accordance with 45 CFR 92.20(a)(2), the fiscal controls of the State must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. In accordance with 42 USC 604 (d)(3)(A), the State shall use all of the amount transferred in from TANF only for programs and services to children or their families whose income is less than 200 percent of the official poverty guideline as revise annually by USDHHS.

In discussing these conditions with IDHS personnel, they state that adequate documentation does exist and was provided to the auditor.

Failure to document whether beneficiaries are at or below the required poverty level could result in the claiming of unallowable costs, which do not meet the specified income requirements. (Finding Code 03-18, 02-22)

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#### **Recommendation:**

We recommend IDHS implement procedures to ensure only expenditures made for programs or services for families or children who meet the specified income requirements of the program are claimed.

#### **IDHS Response:**

Do not agree. IDHS has procedures to ensure only expenditures made for programs or services for families or children who meet the specified income requirements of the program are claimed. In discussions with the auditors, they state that they were unable to trace the sampled expenditures to supporting documentation that was directly linked to specific beneficiaries meeting the poverty level criteria, that IDHS is using an improper allocation methodology to determine the cost, and further that the department requires federal approval of the methodology. IDHS has traced the expenditures in the sample to supporting documentation that was directly linked to specific beneficiaries meeting the poverty level criteria. Targeted Case Management (TCM) is a case coordination service, which is an allowable service under Medicaid, Early Intervention and Social Services Block Grants. IDHS calculates a client cost per service month in order to provide for consistent treatment in distributing costs among multiple federal grants. Specifically, the questioned costs are Early Intervention Program Targeted Case Management (TCM) expenditures made pursuant to contracts with Child and Family Connections (CFCs) agents. Some of these costs are claimable under Medicaid, and some under Title XX (Regular and TANF transfer). Payments are made to CFCs based on a rate that is tied to a specific child. This process takes the exact monthly amount the CFC received and divides it into the exact number of children served each month to determine cost per service month that is applied to the income eligible children and claimed.

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

We believe that IDHS is improperly treating these expenditures as direct costs similar to "fee for service". The grant award for case management is a fixed amount each quarter. The amount claimed is based on individuals that "could have been served" (including non-eligible person) instead of those who were. The allocation methodology results in significant changes in the amount claimed per individual each month which inhibits their ability to directly link an eligible individual with the amount claimed for reimbursement.



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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**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  
**CFDA # and Program Expenditures:** 93.558 (\$613,480,000)  
**Questioned Costs:** None

**Finding 03-19** *Inadequate Process for Determining Maintenance of Effort Expenditures*

IDHS does not have an adequate process to determine whether maintenance of effort expenditures for its Temporary Assistance for Needy Families (TANF) program are adequately supported.

The TANF program requires states to maintain a level of “qualified” state funded expenditures for programs or services benefiting eligible families. In Illinois, maintenance of effort (MOE) expenditures for the TANF program are required to approximate total federal expenditures. As the state agency responsible for administering the TANF program, IDHS is responsible for coordinating and reporting the expenditures used to meet the MOE requirement. The TANF MOE requirement is met through the use of a series of state programs administered by IDHS and various other state agencies including the Illinois Department of Public Aid (IDPA). During our testwork over MOE expenditures, we noted the following:

- IDHS did not maintain supporting documentation for MOE expenditures made by the Illinois Department of Public Aid (IDPA) under a State sponsored medical assistance program. As a result, the detail of expenditures used to support the MOE were required to be “recreated” during our audit and reconciled to amounts reported on the quarterly claim. Additionally, IDHS could not provide supporting documentation for \$2 million in MOE expenditures reported in the quarterly claims.
- One expenditure selected for testwork from January 2003 for \$90,000 does not appear to have been paid to the provider as it was not a valid expenditure.

According to 45 CFR 92.20(b)(2), grantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. 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.

In discussing these conditions with IDHS officials, they stated that this was the first time this level of detail was requested, so reports that were routinely deleted after a specified period of time needed to be recreated for the review.

Failure to identify and support MOE expenditures may result in the TANF MOE requirements not being met and reductions of future federal awards. (Finding Code 03-19)

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**Recommendation:**

We recommend IDHS review its current process for coordinating and reporting MOE expenditures and consider changes necessary to ensure all MOE expenditures are adequately supported.

**IDHS Response:**

Agree. Procedures now require that all MOE expenditures are adequately supported and documented. A hard copy of all supporting documentation is now provided by IDPA to IDHS and will be available for review by auditors. We are looking into the possibility of also receiving these reports on CD to address storage issues.

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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  
State Children's Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.558 (\$613,480,000)  
93.767 (\$42,420,000)  
93.775 / 93.777 / 93.778 (\$5,160,453,000)

**Questioned Costs:** \$10

**Finding 03-20** *Overpayment of TANF Benefits and Missing Documentation in Client Eligibility Files*

IDHS did not properly calculate benefits for the Temporary Assistance for Needy Families (TANF) program and could not locate case file documentation supporting client eligibility determinations for beneficiaries of TANF, State Children's Insurance Program (SCHIP), and Medicaid Cluster.

During our test work of TANF, SCHIP, and Medicaid beneficiary payments, we selected 90 eligibility files (30 for each program) to review for compliance with eligibility requirements and for the allowability of the related benefits. We noted the following exceptions during our testwork:

- In one TANF case, the beneficiary payment calculation was based upon 78 days instead of 77 days. This oversight resulted in an overpayment of \$10.
- In two Medicaid and one SCHIP case files, documentation did not exist supporting whether redeterminations and/or income verification procedures were performed within required timeframes. Additionally, signed applications were not available for these beneficiaries.
- In one TANF case, IDHS could not locate the application signed by the client in the case file records.
- In three Medicaid and three TANF case files, documentation did not exist supporting whether redeterminations and/or income verification procedures were performed within required timeframes.

In each of the case files missing documentation, each of the eligibility criteria, with the exception of the income criteria was verified through additional supporting documentation in the client's paper and electronic case files. The income information used for income calculations was available in Automated Wage Verification System. Therefore all information necessary to establish and support the client's eligibility for the period was available; 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.

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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 CFR section 431.10 and the OMB Circular A-133 Compliance Supplement, dated March 2003, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plans for Medicaid, SCHIP, and TANF. The current State Plans require re-determinations of eligibility for all Medicaid and TANF recipients on an annual basis. Additionally, 42 CFR 435.907 requires a signed application to be on file for all beneficiaries of the Medicaid program. In discussing these conditions with IDHS officials, they stated staffing shortages at the local office led to misfiling of the documentation.

Failure to properly calculate benefit payments results in overpayment of benefits and unallowable costs being charged to the TANF program. Additionally, 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 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. In addition, we recommend IDHS review its process for determining TANF benefits and consider changes necessary to ensure all benefit calculations are adequately supported and documented.

#### **IDHS Response:**

Agree. IDHS reviewed the methods and processes for determining and documenting Medicaid and TANF benefits and believe they are adequate. Policy, procedure, and policy smart computer support are methods used by IDHS to ensure benefit calculations are correctly calculated and documented. This should be resolved when sufficient staff can be hired.

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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  
**CFDA # and Program Expenditures:** 93.558 (\$613,480,000)  
**Questioned Costs:** \$35,173

**Finding 03-21** *Failure to Sanction TANF Beneficiaries*

IDHS did not enforce sanctions required by the State Plan for individuals receiving benefits under the Temporary Assistance for Needy Families (TANF) program who did not cooperate with child support enforcement efforts and who refused to work.

As a condition of receiving cash assistance under the TANF program, beneficiaries are required to assist the State in establishing paternity or establishing, modifying, or enforcing child support orders by providing information to the Illinois Department of Public Aid (IDPA) to help identify and locate non-custodial parents. Additionally, TANF beneficiaries are required to work, seek employment, or follow the educational steps outlined in his/her Responsibility Services Plan (RSP) as a condition of receiving benefits. In the event a TANF beneficiary fails to assist IDPA or fails to meet his/her work requirements without good cause, IDHS is required to reduce or deny his/her TANF benefits.

During our test work over the Child Support Non-Cooperation and Penalty for Refusal to Work Special Tests of the TANF program, we selected 30 Child Support cases referred by IDPA for non-cooperation without good cause and 30 cases in which the beneficiary was not working. We noted the following exceptions during our testwork:

- In three Child Support cases, IDHS did not sanction beneficiaries for non-cooperation. There was no evidence in these case files documenting that good cause existed for non-cooperation. Benefits paid to these individuals during the year ended June 30, 2003 were \$11,187.
- In two Child Support cases, IDHS did not reduce benefits in a timely manner after non-cooperation without good cause was reported by IDPA. In these cases, beneficiaries were not sanctioned for periods of five to six months after the non-cooperation was identified. Benefits paid to these individuals after the identification of non-cooperation during the year ended June 30, 2003 totaled \$1,685.
- In four Child Support cases, IDHS did not reduce benefits in a timely manner after non-cooperation without good cause was reported by IDPA. In these cases, beneficiaries were not sanctioned as they eventually cooperated with IDPA; however, the beneficiaries did not cooperate for time periods ranging from three and nine months after IDPA reported non-cooperation. Benefits paid to these individuals after the identification of non-cooperation during the year ended June 30, 2003 totaled \$5,818.
- In three Refusal to Work cases, IDHS did not sanction beneficiaries for failing to meet work requirements. There was no evidence in these case files documenting that the beneficiaries were (1)

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### Schedule of Findings and Questioned Costs

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exempt from the work requirement; (2) were actively seeking employment; or (3) were complying with the educational steps in the RSP. Benefits paid to these individuals during the year ended June 30, 2003 were \$12,523.

- In one eligibility case, IDHS did not sanction a beneficiary for failing to meet work activity requirements. The beneficiary's case file indicated she was required to participate in a substance abuse treatment program; however, this work activity was not documented in her RSP and she did not comply with this work activity requirement. Benefits paid to this individual during the year ended June 30, 2003 were \$3,960.

In accordance with 45 CFR section 264.30(c), if the State determines a beneficiary is not cooperating with child support enforcement efforts without good cause, the State must take appropriate action by deducting an amount equal to at least 25% of the family's assistance payment or denying the family any assistance under the program. Additionally, according to 45 CFR section 261.14, if an individual refuses to engage in required work without good cause, the State must reduce or terminate the amount of assistance payable to the family.

In discussing these conditions with IDHS officials, they stated that the problem was due to inadequate communication with IDPA in reporting child support noncompliance incidents.

Failure to sanction beneficiaries for non-cooperation with Child Support Enforcement efforts or for refusing to comply with work requirements in accordance with the provisions of the State Plan may result in the overpayment of TANF benefits or payment of TANF benefits to ineligible individuals, which are unallowable costs. Additionally, failure to sanction beneficiaries for noncompliance with these requirements may result in the loss of federal funding. (Finding Code 03-21)

#### **Recommendation:**

We recommend IDHS review its current process for sanctioning beneficiaries not cooperating with the State's child support enforcement efforts and refusing to comply with work requirements and consider changes necessary to ensure benefits are reduced or denied in accordance with the State Plan.

#### **IDHS Response:**

Agree. Department staff are addressing the issue of compliance with non-cooperation with child support enforcement efforts.

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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  
State Children's Insurance Program  
Medicaid Cluster  
Block Grants for Prevention and Treatment of Substance Abuse

**CFDA # and Program Expenditures:** 93.558 (\$613,480,000)  
93.767 (\$42,420,000)  
93.775 / 93.777 / 93.778 (\$5,160,453,000)  
93.959 (\$67,415,000)

**Questioned Costs:** Cannot be determined

**Finding 03-22** *Inaccurate Allocation of Costs*

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

IDHS administers several federal and state programs to assist Illinois families in achieving self-sufficiency, independence, and health. In administering each of these programs, IDHS 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, IDHS has submitted a PACAP to the USDHHS 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 IDHS. IDHS has developed the methodologies for allocating costs to its programs, which IDHS believes best represent the actual costs associated with the program.

During our review of costs allocated to federal programs during the quarter ended March 31, 2003, we noted the following errors in the application of allocation methodologies:

- The allocation method used for the Office of the Associate Secretary was not consistent with the methodology defined in the PACAP. Costs were allocated to Medicaid and SCHIP, but not to Family Care which resulted in the federal programs being allocated more than their proportionate share of costs.
- Costs allocated for the Division of Mental Health and Developmental Disabilities Services (DMHDDS) were allocated directly to the Bureau of Pharmacy Clinical Support Services instead of to the three offices of DMHDDS resulting in an inaccurate allocation of costs to the state and federal programs.

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According to 45 CFR part 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.

In discussing these conditions with IDHS officials, they stated the allocation statistics were not available during the quarter reviewed to properly allocate costs associated with the Office of the Associate Secretary. This was a new statistic, so additional time was required to calculate it. Staff did not realize that the Division of Mental Health and Division of Developmental Disabilities cost allocation methodology was inaccurate.

Failure to accurately allocate costs in accordance with the PACAP may result in disallowances of costs. (Finding Code 03-22, 02-25)

#### **Recommendation:**

We recommend IDHS review the process and procedures in place to prepare cost allocation calculations and supporting schedules and implement changes necessary to ensure accurate application of the allocation methodologies.

#### **IDHS Response:**

Agree. Allocation statistics have been provided by IDPA and are now used on an ongoing quarterly basis. A prior period adjustment was submitted during the quarter ended March 31, 2004 to correct the quarter ended March 31, 2003 allocation. This adjustment shifted total costs of \$243.49 (\$121.74 FFP) from Medicaid Title XIX to Family Care, and shifted total costs of \$1,947.97 (\$1,266.18 FFP) from state non-match to Medicaid Title XXI. Prior period adjustments for DMHDDS are being calculated and are expected to be submitted for quarter ended June 30, 2004.



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

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

**Program Name:** Special Supplemental Nutrition Program for Women, Infants and Children  
Rehabilitation Services – Vocational Rehabilitation Grants to States  
Temporary Assistance for Needy Families  
Child Care Cluster  
Social Services Block Grant  
Block Grants for Prevention and Treatment of Substance Abuse

**CFDA # and Program Expenditures:** 10.557 (\$163,808,000)  
84.126 (\$94,287,000)  
93.558 (\$613,480,000)  
93.575 / 93.596 (\$184,874,000)  
93.667 (\$98,553,000)  
93.959 (\$67,415,000)

**Questioned Costs:** None

**Finding 03-23** *Inadequate Documentation of Risk Assessments of Subrecipients*

IDHS is not adequately documenting risk assessments of subrecipients.

The Office of Contract Administration (OCA) of IDHS performs on-site monitoring reviews of subrecipients to ensure that they are fiscally capable of administering federal programs. IDHS has implemented a risk-based approach for selecting subrecipients for on-site monitoring reviews. A risk assessment is performed for each subrecipient who received \$300,000 or more of funding from IDHS and is primarily based upon information in the Fiscal/Administrative Review checklist submitted by each subrecipient. The checklist includes approximately 120 (yes/no) questions relating to internal controls and procedures pertaining to general accounting, cash receipts, cash disbursements, bank reconciliations, purchasing, payroll, property and equipment, state and federal grants, fee for service programs, interest earned on grant funds, and fiduciary funds. Of the 120 questions, management of IDHS has identified 30 which they believe may indicate higher risk. Accordingly, OCA has defined a higher risk subrecipient as an entity in which responses to ten or more of the 30 questions indicate higher risk. The responses to the targeted 30 questions are entered into a database which serves as documentation of the completed official risk assessments. In addition to the Fiscal/Administrative checklist, IDHS considers other risk assessment criterion including: the level of IDHS funding, the length of time since the last review, and referrals from program staff or other sources. Subrecipients who are determined to be high risk are placed on a "High Risk Listing" which serves as the basis for scheduling on-site monitoring reviews.

During our review of 140 subrecipients of the WIC, Vocational Rehabilitation, TANF, Child Care Cluster, Title XX and SAPT programs, we noted risk assessments were not adequately documented for all

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subrecipients. Although the subrecipients in our sample appear to have met one or more of the high-risk criterion, IDHS did not document which criterion was met or the rationale for these risk assessments.

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. Good internal controls require that risk assessments be adequately documented.

In discussing these conditions with IDHS officials, they stated a risk assessment approach was used when selecting providers for site reviews but not all providers were included in that assessment. Providers receiving less than \$300,000 from DHS and those that did not have a year-end financial requirement were excluded.

Failure to properly document risk assessments could result in an ineffective on-site monitoring review process in which higher risk subrecipients are not (1) appropriately identified and/or (2) subject to established on-site monitoring reviews requirements, and lower risk subrecipients are (1) not appropriately identified and/or (2) are unnecessarily subjected to an on-site review. (Finding Code 03-23)

#### **Recommendation:**

We recommend IDHS implement procedures to ensure risk assessments are documented for each subrecipient.

#### **IDHS Response:**

Agree. IDHS revised their risk assessment procedures to include analysis of all providers and will implement beginning in FY'05. The procedures use a comprehensive set of factors (20+) that measure the relative risk of all providers. Providers that are +1 standard deviation or greater from the mean will be targeted for review. This process will be documented in the provider review protocol manual.

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

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

**Program Name:** Special Supplemental Nutrition Program for Women, Infants, and Children  
Rehabilitation Services – Vocational Rehabilitation Grants to States  
Temporary Assistance for Needy Families  
Child Care Cluster  
Social Services Block Grant  
Block Grants for Prevention and Treatment of Substance Abuse

**CFDA # and Program Expenditures:** 10.557 (\$163,808,000)  
84.126 (\$94,287,000)  
93.558 (\$613,480,000)  
93.575 / 93.596 (\$184,874,000)  
93.667 (\$98,553,000)  
93.959 (\$67,415,000)

**Questioned Costs:** None

**Finding 03-24** Untimely Performance of On-Site Reviews and Communication of and Follow Up on On-Site Monitoring Findings

IDHS did not communicate or follow up on findings from its on-site fiscal monitoring reviews for subrecipients of the Special Supplemental Nutritional Program for Women, Infants, and Children (WIC), Rehabilitation Services – Vocational Rehabilitation Grants to States (Vocational Rehabilitation), Temporary Assistance for Needy Families (TANF), Child Care Cluster, Social Services Block Grant (Title XX) or Block Grants for Prevention and Treatment of Substance Abuse (SAPT) programs in a timely manner.

IDHS has implemented procedures whereby the program and fiscal staff perform periodic on-site reviews of IDHS subrecipient compliance with state and federal regulations applicable to the programs administered by IDHS. Generally, these reviews are formally documented and include the issuance of a report of the review results to the subrecipient summarizing the procedures performed, results of the procedures, and any findings or observations for improvement noted. IDHS' policies require the subrecipient to respond to each finding by providing a written corrective action plan.

During our testwork of 140 subrecipients of the WIC, Vocational Rehabilitation, TANF, Child Care Cluster, Title XX, and SAPT programs, we noted the following:

- 37 subrecipients were not notified of findings relative to the program reviews within 60 days. Findings were not reported for timeframes ranging from 65 to 879 days after the end of the on-site review.
- Five subrecipients have not submitted corrective action plans within 60 days for program reviews. Corrective action plans were not submitted for timeframes ranging from 80 to 197 days from the date of notification.

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- Two subrecipients did not submit corrective action plans for program reviews as of the end date of our fieldwork. Additionally, we noted no evidence of follow up by IDHS relative to the missing plans.

In addition, during our testwork of expenditures to subrecipients of the Vocational Rehabilitation, TANF, Title XX and SAPT programs, we noted 231 subrecipients for whom on-site program reviews have not been performed within the last three years.

Program	Number of Subrecipients Without On-Site Reviews	Range of Years Since Last On-Site Review	Related Expenditures	Total Fiscal Year 2003 Subrecipient Expenditures	Total Fiscal Year 2003 Program Expenditures
Vocational Rehabilitation	213	None performed	\$18,207,574	\$26,232,000	\$94,287,000
TANF	4	None performed	\$5,550,000	\$280,106,000	\$613,480,000
Title XX	5	5 to 10	\$2,333,090	\$61,631,000	\$98,553,000
SAPT	9	None performed	\$4,283,442	\$63,924,000	\$67,415,000

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.

In discussing these conditions with IDHS officials, they state staffing shortages or retirements, complex and lengthy monitoring instruments and an increase in the number and type of providers requiring review affected the completion of on-site review or documentation of reviews and resulted in untimely communications and follow up.

Failure to notify subrecipients of findings and receive corrective action plans in a timely manner may result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 03-24, 02-24)

**Recommendation:**

We recommend IDHS review its process for reporting and following up on findings relative subrecipient on-site reviews to ensure timely corrective action is taken.

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**IDHS Response:**

Agree. The Department will review its processes to improve assignment, report issuance and initiation of timely corrective action. In addition some monitoring instruments have been streamlined to permit additional monitoring reviews and timely reports with less staff.

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**State Agency:** Illinois Department of Human Services (IDHS)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Block Grants for Prevention and Treatment of Substance Abuse  
**CFDA # and Program Expenditures:** 93.959 (\$67,415,000)  
**Questioned Costs:** None

**Finding 03-25** *Inadequate Peer Review Sampling Methodology*

IDHS does not have an adequate process for selecting cases for its peer reviews of service providers under the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) program.

IDHS is required to perform peer reviews of SAPT service providers in order to assess the quality, appropriateness, and effectiveness of treatment services provided to individuals (i.e. program beneficiaries). The purpose of IDHS' peer review is to ensure the provider's administrative and clinical policies and procedures are appropriate considering the objectives of the program and that the provider consistently applies its policies and procedures. As part of the peer review process, a sample of the provider's client case records are evaluated by an independent reviewer to ensure the treatment prescribed and/or provided was appropriate given the client's case and medical histories.

During our review of the sampling procedures used to select client case files for the peer review of SAPT service providers, we noted IDHS requested the service providers being reviewed to select the sample of case files. As a result, the cases evaluated during the peer reviews were not independently selected by IDHS and may not be representative of the population of clients served by the providers.

According to 45 CFR part 96.136(d), the State is required to review a representative sample of patient/client records to assess the quality and appropriateness of treatment services as part of its peer review process.

In discussing these conditions with IDHS officials, they state that they believed that the selection process was adequate because it was more important to have a representative sample that tested specific characteristics and that it was more efficient to have the service providers select the sample.

Failure to select an independent representative sample of client case records for review may result in an ineffective peer review process which does not identify deficiencies in patient treatment and provider case management. (Finding Code 03-25)

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**Recommendation:**

We recommend IDHS revise its peer review sampling procedures to require the independent reviewer to select a representative sample of client/beneficiary case files for review.

**IDHS Response:**

Agree. IDHS will require that a representative sample is independently selected.

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

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

**Program Name:** Rehabilitation Services – Vocational Rehabilitation Grants to States

**CFDA # and Program Expenditures:** 84.126 (\$94,287,000)

**Questioned Costs:** None

#### **Finding 03-26** *Inadequate Segregation of Duties Over Reporting*

IDHS does not have an adequate segregation of duties in place relative to the compilation and review of the annual RSA-2 Program Cost Report.

The RSA-2 Program Cost Report details program expenditures by type (i.e. administrative, services provided to individuals with disabilities, and services provided to groups of individuals with disabilities) and by number of individuals served. This report is used by the USDE to identify the number of individuals served and the types of services provided or purchased by the State.

During our review of the process for preparing and submitting the annual RSA-2 Program Cost Report, we noted the same individual is responsible for the compilation, review, approval, and submission of the report. An independent supervisory review of the report is not performed by anyone other than the preparer.

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 a supervisory review of all reports prepared and filed with a federal agency.

In discussing this condition with IDHS officials, they stated that staffing shortages caused by the Early Retirement Initiative have made it difficult to provide for an independent review of the RSA-2 Program Cost Report.

An inadequate segregation of duties may result in inaccurate reporting which may prevent USDE from properly monitoring and evaluating the performance of the program. (Finding Code 03-26)

#### **Recommendation:**

IDHS should implement procedures to require an independent review of the report and supporting schedules from a person knowledgeable of the reporting requirements prior to submission of the report.



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**IDHS Response:**

Agree. The Bureau of Federal Reporting, Office of Fiscal Services, will provide the required supervisory review of the RSA-2.

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

**Federal Agency:** US Department of Agriculture (USDA)  
US Department of Education (ED)  
Social Security Administration (SSA)

**Program Name:** State Administrative Matching Grants for Food Stamp Program  
Rehabilitation Services – Vocational Rehabilitation Grants to States  
Social Security Disability Insurance

**CFDA # and Program Expenditures:** 10.561 (\$86,389,000)  
84.126 (\$94,287,000)  
96.001 (\$58,370,000)

**Questioned Costs:** None

**Finding 03-27** *Improper Recertification of Clearance Patterns*

IDHS did not properly re-certify its clearance patterns specified in the Treasury-State Agreement related to cash draws for the Food Stamps, Vocational Rehabilitation (VR), and Social Security Disability Insurance (SSDI) programs.

Annually, the State of Illinois negotiates the Treasury-State Agreement (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. Certain approved funding techniques utilized by the State require the use of a clearance pattern which identifies the average number of days disbursements (warrants) take to clear the State Treasurer's account. The established clearance pattern is then used to determine the date the State should draw down funds from the federal government in order to minimize the time elapsing between the draw down and the State Treasurer's clearance of funds and to calculate the interest owed on advances of federal funds.

During the year ended June 30, 2003, IDHS improperly recertified its clearance patterns for the Food Stamps, VR, and SSDI programs. Specifically, IDHS included both federal and non-federal disbursements in its calculation instead of using just federal disbursements as required by the Money and Finance Treasury Code Regulations.

According to The Money and Finance Treasury Code Regulations (31 CFR 205.20(b)), a clearance pattern must accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied.

In discussing these conditions with IDHS personnel, they state payroll clearance patterns were not previously certified because of staffing shortages and the unavailability of payroll clearance information.

Failure to properly re-certify a program's clearance pattern violates the requirement of 31 CFR 205.20 and could result in the inaccurate calculation of IDHS' interest obligation to the Treasury. (Finding Code 03-27)

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**Recommendation:**

We recommend IDHS re-certify the accuracy of the clearance patterns for its programs in accordance with federal regulations.

**IDHS Response:**

Agree. IDHS will determine if any specific general fund appropriations/paycodes could be added to or eliminated from the calculations in order to better limit the calculation of the clearance pattern to payroll cost that is actually allocated to the federal program.

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**State Agency:** Illinois Department of Public Aid (IDPA)

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

**Program Name:** Medicaid Cluster

**CFDA # and Program Expenditures:** 93.775 / 93.777/ 93.778 (\$5,160,453,000)

**Questioned Costs:** None

**Finding 03-28** *Inadequate Follow Up With Employers to Identify Third Party Liability (TPL) Insurers*

IDPA does not adequately follow up with employers to identify third parties who may be liable for medical services provided to a beneficiary.

IDPA has developed a number of methods for identifying third party insurers who may be liable for medical payments made on the behalf of a Medicaid beneficiary. The method, which has the greatest potential for identifying third party insurers, includes performing a data match with the Illinois Department of Employment Security to identify Medicaid beneficiaries who are employed and who have earned wages in excess of \$5,000. When a potential employer for a beneficiary is identified by the quarterly match, IDPA sends a letter to the employer requesting information related to the existence of employer provided health insurance. When a response is received from an employer indicating the existence of a potential third party insurer, the information is input to the Medicaid Management Information System (MMIS).

During our test work, we noted IDPA does not have a process in place to track information requests sent to employers. As no formal record of information requests is maintained, IDPA does not have the capability to identify or investigate non-responses. Further, IDPA does not have a review process in place to ensure all responses received are entered into MMIS or information entered is accurate and complete.

42 CFR sections 433.135 through 433.154 requires the State to have a system to identify medical services that are the legal obligation of third parties, such as private health or accident insurers. Such third party resources should be exhausted prior to paying claims with program funds. Where a third party liability is established after the claim is paid, reimbursement from the third party should be sought.

In discussing these conditions with IDPA, they state that the limited staff resources were better utilized by concentrating their efforts on other areas of identifying third party insurers and maintaining the accuracy of the MMIS TPL database. The employed recipient match to which the recommendation refers is not a mandated TPL activity under 42 CFR 433.135 through 433.154. The match is one of ten or more mechanisms used by TPL to identify potential third party resources. Illinois employers have no legal obligation (state or federal) to respond to TPL's inquiries regarding possible employer-provided health insurance coverage.

Failure to identify third parties liable for medical services paid on the behalf of a Medicaid beneficiary may result in expenditures charged to the Medicaid program for which reimbursement is not sought. (Finding Code 03-28, 02-14, 01-03)

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#### **Recommendation:**

We recommend IDPA implement procedures for tracking, investigating, and reviewing employer information request responses to ensure all potential third party insurers from whom potential reimbursement should be available are identified.

#### **IDPA Response:**

IDPA considers its process to be in compliance with the federal requirement to establish a system to identify third party insurers and does not agree that the process is inadequate. The employed recipient match is only one mechanism of at least ten utilized by the Department. 42 CFR Section 433.138(a) requires the agency to take reasonable measures to determine the legal liability of the third parties. The employed recipient match was responsible for just under a quarter of IDPA TPL adds during calendar 2001. While this is a significant TPL resource, any statement made towards the entire process, when actually directed at one TPL source, is not accurate in context.

The audit finding does not address other TPL resources specifically required by law, the intake and re-determination processes. Nor does it address the DCSE Responsible Relative match, the Medical/Independent Support Order source, referrals from the Bureau of Investigations, referrals from DCFS, referrals from the BC/BS match, referrals from the DHS Bureau of Research and Analysis (City of Chicago match, Chicago Board of Education match, Cook County Hospital match), referrals from CIMRO, referrals from the Missouri match, referrals from IDPA providers or any other referral source.

To address the single source of the audit finding, the employed recipient match, one must first acknowledge three key facts:

1. The employed recipient match was developed, and is implemented and maintained exclusively by Illinois TPL staff. We are aware of no other states that perform such a match and the match itself is not required or addressed by Federal or State law.
2. Employers, Illinois or out-of-state, are not required by Federal or State law to respond to these inquiries. It is a credit to employers that we receive a response rate in the area of 75%, considering this fact.
3. The requests for TPL information are automatically generated and sent to employers for all recipients who are employed at certain income levels and are on the MMIS system.

In light of these facts, the audit finding remains that IDPA, "Does not have a process in place to track information requests sent to employers. As no formal record of information requests is maintained, IDPA does not have the capability to identify or investigate non-responses".

IDPA does have the capability to identify and investigate non-responses, which is evidenced by management's review of the employer response rate. IDPA is better served by having its TPL staff concentrate on the identification of new TPL, and on the posting and maintenance of TPL on MMIS, than it is by having its staff record or follow-up on non-responses from employers. This is particularly true when law mandates neither the project nor compliance by the employer.

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It should be noted that the federal auditor responsible for addressing this issue does not concur with this finding and stated they have submitted paperwork to close the audit, based on their non-concurrence with this audit finding and recommendation.

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

The federal regulations clearly require IDPA to have a system to identify medical services that are the legal obligation of third parties and that third party resources should be exhausted prior to paying claims with program funds. These regulations, however, do not specifically articulate what constitutes an "adequate system." As with most federal regulations, judgment must be applied in considering what is the substantive intent of the legislation and what a "prudent person" would consider is reasonable in similar circumstances. Prudent business practice suggests that simply sending a letter to an employer once every eighteen months with no follow up is not adequate. Additionally, prudent business practice suggests that IDPA should explore the potential for greater recoveries by undertaking certain simple follow up procedures with non-responsive employers.

Additionally, IDPA could not provide the auditors with the log of employer letters sent, the number of responses, and the number of third party resources added to the MMIS/TPL subsystem mentioned in the response above.

Finally, official documentation of resolution of this finding had not been provided to the auditors as of the end of fieldwork.

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**State Agency:** Illinois Department of Public Aid (IDPA)

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

**Program Name:** Child Support Enforcement

**CFDA # and Program Expenditures:** 93.563 (\$112,543,000)

**Questioned Costs:** None

**Finding 03-29** *Failure to Properly Perform Non-Custodial Parent Location Procedures*

IDPA did not conduct interviews with custodial parents in a timely manner and did not adequately document its attempts to locate non-custodial parents within the Key Information Delivery System (KIDS).

IDPA is responsible for administering the Child Support Enforcement Program. The objectives of this program are to enforce support obligations owed by a non-custodial parent, to locate the absent parent, establish paternity, and obtain child and spousal support. When an initial referral or application for services under this program has been received, IDPA opens a case record in KIDS and assesses the information received to determine if all necessary information has been received to begin location procedures. If IDPA determines additional information is required from the custodial parent to begin location services, a request is made to schedule an interview with the custodial parent.

During our testwork of 50 child support cases, we noted the following:

- 9 cases (20%) in which interviews with custodial parents were not scheduled for timeframes ranging from 21 to 127 days after the referral or application had been received.
- 1 case (2%) in which interviews were never scheduled or performed and for which further location procedures do not appear to have been performed.
- 5 cases (14%) in which interviews with custodial parents were performed; however, location procedures for the noncustodial parent were not performed or adequately documented.

According to 45 CFR 303.2(b), within 20 calendar days of the receipt of a referral of a case or an application for services the State IV-D agency must open a case and determine necessary action, including to solicit necessary and relevant information from the custodial parent and other relevant sources and initiate verification of information. If there is inadequate location information to proceed with the case, the Title IV-D agency must request additional information or refer the case for further location attempts. According to 45 CFR 303.3(b)(3), within no more than 75 calendar days of determining that location is necessary, the State IV-D agency must access all appropriate location sources, including transmitting appropriate cases to the Federal Parent Locator Service, and ensure that location information is sufficient to take the next appropriate action in a case.

In discussing these conditions with IDPA officials, they state all cases automatically go into a scheduling queue by priority. The scheduling queue is used to avoid notifying clients too far in advance. Experience

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shows that scheduling too far in advance leads to clients forgetting their appointments. Appointments are scheduled three weeks out to give the client time to make arrangements to attend.

Failure to conduct interviews and properly perform parent location procedures could result in child support payments not being collected and remitted to the custodial parent. (Finding Code 03-29, 02-15, 01-04)

#### **Recommendation:**

We recommend IDPA follow procedures established to ensure interviews with custodial parents are performed on a timely basis. We also recommend IDPA ensure the results of interviews with custodial parents are documented along with attempts to obtain additional information or locate the non-custodial parent.

#### **IDPA Response:**

IDPA accepts the finding. As of April 2004 the reengineering plan has been implemented for intake processing. The KIDS system has been automated to ensure the new interview and locate processes will occur timely.



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**State Agency:** Illinois Department of Public Aid (IDPA)

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

**Program Name:** Medicaid Cluster

**CFDA # and Program Expenditures:** 93.775 / 93.777/ 93.778 (\$5,160,453,000)

**Questioned Costs:** None

**Finding 03-30** *Inadequate Monitoring of Subrecipients*

IDPA is not adequately monitoring subrecipients of the Medicaid Cluster.

IDPA passed through approximately \$93,944,000 in Medicaid funding to the Local Education Agencies (LEAs) during the year ended June 30, 2003 to assist IDPA in identifying students whose families may need Medicaid assistance and to monitor the coordination of the student's medical care. IDPA's 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 on-site reviews of subrecipient operations; and (5) performing desk reviews of single audit reports. However, during our review of the monitoring procedures performed by IDPA for 30 subrecipients, we noted the following:

- On a quarterly basis, LEA's are required to submit electronic claim data to support amounts claimed for reimbursement. The quarterly claims are subject to data analysis performed by the claims system. In order to identify erroneous claims data, an exception report is generated from the data analysis which details all claims which are outside parameters set by IDPA. However, during our review of the claims selection process used by IDPA, we noted the rationale for claims selection was not documented, nor were all claims identified on the exception report selected for further review procedures. Additionally for the reviews that had been performed, the specific procedures performed were not documented, nor were adjustments identified during the review made in a timely manner.
- There are no comprehensive procedures for performing on-site reviews. Additionally, on-site reviews were performed for only three out of approximately 900 LEA's during the year ended June 30, 2003.

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 IDPA officials, they stated that staffing and resource limitations have resulted in the low number of on-site visits and inadequate documentation of all monitoring activities.

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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 03-30)

#### **Recommendation:**

We recommend IDPA:

- Implement procedures to ensure that (1) the rationale for selecting claims data for further review is documented; (2) formal claims data review procedures are documented; and (3) any claiming errors identified are resolved in a timely manner.
- Develop comprehensive written procedures for on-site reviews which includes the methodology for determining which subrecipients should be reviewed, required documentation, and procedures to be performed. If a risk based approach is utilized for selecting subrecipients for review, we recommend IDPA establish formal risk criteria and ensure that all risk assessments are adequately documented.

#### **IDPA Response:**

The Department accepts the finding and is implementing steps to improve documentation. A comprehensive method by which subrecipients are monitored is in place. This finding is primarily due to inadequate documentation of instances in which no corrective action was warranted. The Department will, however, implement steps to document all monitoring activity, regardless of action taken against a subrecipient, as well as improve documentation of monitoring criteria. The Department also agrees to increase on-site monitoring, within existing budgetary constraints.

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**State Agency:** Illinois Department of Public Aid (IDPA)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Child Support Enforcement  
State Children's Health Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.563 (\$112,543,000)  
93.767 (\$42,420,000)  
93.775 / 93.777 / 93.778 (\$5,160,453,000)

**Questioned Costs:** \$1,008,200

**Finding 03-31** *Inaccurate Allocation of Costs*

IDPA did not accurately allocate costs to its federal programs in accordance with the statewide Early Retirement Incentive (ERI) Cost Allocation Plan.

Illinois Public Act 92-0556 offered qualified employees that terminated employment by December 31, 2002 incentives to retire early, which included lump sum payments for accrued vacation, sick leave, and personal leave. As these costs were a direct result of the ERI program, they were considered to be mass severance pay and were required to be approved by the cognizant federal agency. Accordingly, the Governor's Office of Management and Budget (formally the Bureau of the Budget) negotiated a cost allocation plan with USDHHS which detailed how each participating state agency would allocate ERI related costs to its federal programs and other operations. The ERI cost allocation plan was approved by USDHHS as submitted with an amendment affecting the allocation of costs to Child Support Enforcement, State Children's Health Insurance Program (SCHIP), and the Medicaid Cluster.

During our review of the ERI costs allocated to Child Support Enforcement, SCHIP, and the Medicaid Cluster, we noted the costs were allocated in accordance with the methodology included in the cost allocation plan originally submitted instead of the revised methodology approved by USDHHS. The differences between the costs IDPA allocated to Child Support Enforcement, SCHIP, and the Medicaid Cluster and the costs that should have been allocated to the programs were approximately \$47,400, \$737,800, and \$223,000, respectively.

According to 45 CFR part 95.517, a State must claim costs associated with a program in accordance with its approved cost allocation plan.

In discussing this occurrence with IDPA officials, IDPA states that the agency inadvertently allocated the ERI costs incorrectly.

Failure to allocate costs in accordance with the approved ERI cost allocation plan may result in disallowances of costs. (Finding Code 03-31)

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**Recommendation:**

We recommend IDPA review the process and procedures in place to communicate cost allocation plan amendments and implement changes necessary to ensure the proper allocation methodologies are used.

**IDPA Response:**

Accepted. The Department allocated the ERI costs based on what was thought to be the correct allocation. As soon as it was discovered that the costs had been allocated in error, the Department corrected the allocation in accordance with the revised methodology approved by USDHHS. This correction occurred in the quarter ending September 30, 2003 and there was no disallowance of costs.

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**State Agency:** Illinois Department of Public Aid (IDPA)

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

**Program Name:** Child Support Enforcement

**CFDA # and Program Expenditures:** 93.563 (\$112,543,000)

**Questioned Costs:** None

**Finding 03-32** *Failure to Properly Manage and Document Interstate Cases Within KIDS*

IDPA 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).

The Child Support Enforcement program requires the State to provide additional support services related to cases in which the child and custodial parent live in one state and the non-custodial parent lives in another state. IDPA has established an interstate central registry, which is charged with the responsibilities of initiating and responding to interstate case requests and documenting related information in KIDS. The interstate central registry's responsibilities relative to interstate cases are different depending on whether the interstate case is an initiating or responding case.

In initiating cases, the custodial parent and child are living in Illinois and the non-custodial parent resides in another state. IDPA is required to:

- refer the case to the appropriate responding state within twenty calendar days of determining the non-custodial parent lives in another state;
- provide the responding state sufficient and accurate information to act on the case;
- provide additional information to the responding state as requested or notify the responding state when requested information will be provided within thirty calendar days of receipt of the request;
- notify the responding state of any new information obtained within ten working days of receipt; and
- request reviews of child support orders by other states within twenty days of determining a review by the other state should be requested.

In responding cases, the non-custodial parent lives in Illinois and the custodial parent and child live in another state. IDPA is required to:

- provide location services, notify the initiating state if inadequate documentation has been provided, and process the case to the extent possible if documentation is inadequate within 75 calendar days;
- forward the documentation to the appropriate jurisdiction or state, if the non-custodial parent is located in another jurisdiction or state, and notify the initiating state of actions within 10 working days of locating the non-custodial parent;
- provide child support services including establishing obligations, processing and enforcing orders, collecting and monitoring support orders, reviewing and adjusting support orders in accordance with intrastate child support case timeframes;
- provide notice of formal hearings to the initiating state in a timely manner;

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### Schedule of Findings and Questioned Costs

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- notify the initiating state of any new information within ten working days of receipt;
- notify the initiating state when the case is closed.

During our test work of 25 initiating and 25 responding cases (total of 50 cases), we noted the following:

- Two initiating cases were not referred to the responding state within the twenty day federal timeframe after IDPA had determined the non-custodial parent was located in another state. The delay in referring these cases were 53 and 77 days, respectively, after the required federal timeframe.
- Three initiating cases were not referred to the responding state after IDPA had determined the non-custodial parent was located in another state.
- In four responding cases, IDPA did not forward the case to the State Parent Locator Services for action or acknowledge receipt of the case

According to 45 CFR 303.7, the State IV-D agency must provide the appropriate child support services needed for interstate cases and meet the related required timeframes pertaining to the child support service provided.

In discussing these conditions with IDPA officials, they state new procedures have been implemented to help eliminate these oversights.

Failure to (1) properly manage interstate child support cases and (2) accurately and adequately document case activity may result in IDPA failing to provide required and appropriate child support services. (Finding Code 03-32, 02-19, 01-08)

#### **Recommendation:**

We recommend IDPA follow procedures established to ensure initiating interstate cases are properly referred to the responding state and to provide accurate and adequate documentation of its actions, determinations, and communications related to responding cases.

#### **IDPA Response:**

The Department accepts the finding. A workgroup has been developed as of May 2004 to address potential reengineering processes in regards to initiating and responding case procedures.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**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 (\$353,371,000)

**Questioned Costs:** \$4,940

**Finding 03-33** *Failure To Ensure That Foster Care Permanency Hearings Are Performed Within Required Timeframes*

DCFS did not ensure that foster care permanency hearings were performed within the federally required timeframes.

DCFS is required to prepare a “permanency plan” for each child in the Foster Care program which includes goals for placement of the child in a permanent living arrangement, which may include reunification, adoption, legal guardianship, placement with a fit and willing relative, or placement in another planned permanent living arrangement. This plan must also include the services that DCFS expects to perform to achieve these goals. Currently, each child’s permanency plan is reviewed on a periodic basis at a permanency hearing which serves as the judicial determination that reasonable efforts to finalize the permanency plan have been made.

During our testwork over 50 case files of the Foster Care program, we noted permanency hearings were not performed within the required timeframe for three of the beneficiaries tested. The delay in performing the permanency hearings ranged from 35 days to more than 365 days after the required timeframe rendering these beneficiaries ineligible until the permanency hearing was held. DCFS claimed reimbursement for foster care maintenance payments made on the behalf of the three beneficiaries during the “period of ineligibility” totaling \$4,940. Additionally, DCFS does not have an adequate process in place to ensure permanency hearings were completed within required timeframes for all beneficiaries or to identify beneficiaries for whom permanency hearings had not been conducted.

According to 45 CFR 1356.21(b), the State agency must obtain a judicial determination that it has made reasonable efforts to finalize the permanency plan that is in effect within twelve months of the date the child is considered to have entered foster care and at least once every twelve months thereafter while the child is in foster care. If such a judicial determination regarding reasonable efforts is not made in accordance with these requirements, the child becomes ineligible under Title IV-E at the end of the month in which the judicial determination was required to have been made and remains ineligible until such a determination is made.

In discussing these conditions with DCFS officials, they stated the delay caused when the federal requirement for specific language for permanency hearings changed, which required further clarification by ACF, resulted in confusion as to the timeframe specifics of those requirements. The delays being experienced, as indicated in the sample, may be attributed in part to one or more court-related issues with which the Department has taken steps to work with the Illinois Courts to ensure required language is used.

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Failure to ensure permanency hearings are completed in a timely manner may result in payments being claimed for ineligible beneficiaries, which are unallowable. (Finding Code 03-33, 02-29)

**Recommendation:**

We recommend DCFS implement procedures to monitor whether or not permanency hearings have been performed for all beneficiaries within federally prescribed timeframes. Such procedures should include identifying children who are not eligible for assistance under the Foster Care program as a result of permanency hearings not being performed within required timeframes.

**DCFS Response:**

The Department agrees and has developed and implemented a procedure for identifying and notifying foster and adoptive caretakers of hearings and reviews for permanency hearings. The Department will continue to work with Illinois Court system to ensure permanency hearings meet the federal requirements. The Department has made the appropriate claiming adjustment for the questioned cost noted.



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### Schedule of Findings and Questioned Costs

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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:** Temporary Assistance for Needy Families  
Foster Care Title IV-E  
Adoption Assistance  
Social Services Block Grant

**CFDA # and Program Expenditures:** 93.558 (\$613,480,000)  
93.658 (\$353,371,000)  
93.659 (\$75,595,000)  
93.667 (\$98,553,000)

**Questioned Costs:** None

**Finding 03-34** *Inadequate and Untimely Fiscal Monitoring of Subrecipients*

DCFS is not adequately performing fiscal monitoring procedures for subrecipients who receive awards under the Temporary Assistance for Needy Families, Foster Care, Adoption Assistance, and Social Services Block Grant programs.

In our sample of 50 subrecipient monitoring files out of a total of 108 subrecipients (totaling \$61,759,797 of \$455,674,000 in total subrecipient expenditures), we noted the following items of noncompliance:

- 23 subrecipients had submitted their required audit reports (OMB Circular A-133, financial statement, program-specific) after the 180-day deadline. These files contained no documentation of an extension of the timeframe requirement by DCFS.
- 25 subrecipient audit reports were reviewed in excess of 60 or more days after their receipt. The time elapsed between the receipt and review of these reports ranged from 82 to 292 days.
- Seven subrecipient files did not evidence any review of the A-133 audit reports received.

Additionally, DCFS is not performing on-site monitoring visits to review internal controls or the fiscal and administrative capabilities of its subrecipients. We noted none of the 50 subrecipients selected for testwork had been subject to a fiscal on-site review within the last three years.

Per OMB Circular A-133 Compliance Supplement, dated March 2003, 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 state procedures are in place to notify subrecipients of audit requirements, track the receipt of all required audits, to ensure all required components are received,

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

and to follow-up on all audits that are not received within the required time frame. The portion of the plan to increase staffing to complete quick reviews of all audits that are received has yet to be completed.

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 03-34, 02-30, 01-18, 00-18, DCFS 99-6, DCFS 99-9)

#### **Recommendation:**

We recommend DCFS implement procedures to ensure:

- OMB Circular A-133 Reports are received within 180 days subsequent to subrecipient's year-end.
- Desk reviews are performed on a timely basis for OMB Circular A-133 reports including review of reports, follow up on subrecipient findings and implementation of corrective action plans, receipt and review of applicable management letters, and documentation of such review.

Additionally, we recommend that DCFS evaluate the current staffing of the fiscal monitoring department to ensure resources are adequate. DCFS should also consider revising its on-site monitoring policy for federal programs to use a risk based approach for selecting subrecipients for on-site visits.

#### **DCFS Response:**

The Department has developed and implemented a procedure to track the receipt of all required audits, and follow up on all audits that are not received within the required time frame. An initial screening process takes place to let the subrecipients know if any documents are missing. The size of the audit staff is to be increased by the start of the next fiscal year. The audit staff is to grow from three auditors to ten auditors, with a manager, and clerical support person. Subrecipients selected for audit are generated from the desk reviews completed the prior year that have notable negative issues.

The Department also has programmatic units that perform on-site compliance reviews of subrecipients. As part of their on-site review/field audit process, the auditors meet with the programmatic monitors and the licensing representatives to learn about any potential problems at the subrecipients prior to beginning the audit to aid in determining overall risk and aid in the assignment of resources.

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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:** Child Welfare Services – State Grants

**CFDA # and Program Expenditures:** 93.645 (\$11,399,000)

**Questioned Costs:** None

**Finding 03-35** *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. Part I of Title IV-B, Child Welfare Services requires that an initial case plan must be developed for each child within 60 days of placement. During a review of fifty case files selected for testwork, we noted five of the initial case plans being completed within a range of seven to 44 days over the 60 day federal requirement. Additionally, in one case an initial case service plan was not included in the child's case file nor could it be located by DCFS personnel.

Part I of Title IV-E, Child Welfare Services requires that an initial case plan must be developed for each child within 60 days of placement. Per 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 state timely preparation of case plans is an ongoing concern. Unfortunately, due to staff reductions and placement changes, 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 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. DCFS should consider disciplinary action for those caseworkers that do not comply with this requirement.

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**DCFS Response:**

The Department continues to stress the importance of adequate and timely documentation for child case files. The Department has been developing Best Practices for Child Welfare, which is being used in the design of the federally funded SACWIS project. SACWIS will be an integrated system that will automate the preparation of case plans and other required documentation. In the interim, 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 the Year Ended June 30, 2003

**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 (\$40,877,000)

**Questioned Costs:** None

**Finding 03-36** *Inadequate Monitoring of Subrecipients*

IDOA is not adequately monitoring subrecipients receiving federal awards under the Aging Cluster.

IDOA passes through federal funding to thirteen area agencies 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 evaluations (on-site reviews), reviewing periodic financial, programmatic, and single audit reports, and providing training and guidance to subrecipients as necessary.

During our testwork of seven subrecipients of the Aging Cluster with total expenditures of \$29,866,000, we noted no on-site monitoring procedures had been performed since 1998. Total awards passed through to subrecipients of the Aging Cluster were \$38,854,000 during the year ended June 30, 2003.

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 establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring documentation of on-site review procedures adequately supports procedures performed and the results obtained.

In discussing these conditions with IDOA officials, they state they believe the current monitoring procedures are adequate and that on-site monitoring procedures are not necessary.

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 03-36)

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#### **Recommendation:**

We recommend IDOA perform periodic on-site reviews 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 above recommendation to IDOA states: “We recommend IDOA perform periodic on-site reviews which include ...” The heading to this finding above states: “Inadequate Monitoring of Subrecipients.” There is a difference between monitoring and reviews (or evaluations). IDOA staff members have been on-site many times over the past years with all the AAAs. During the time staff members are at an AAA, they provide technical assistance to help the AAA meet its requirements both programmatically and fiscally.

IDOA staff members are puzzled as to why the auditors are requesting that on-site financial reviews be conducted. The AAAs already have independent auditors on-site each year conducting this sort of a review as a part of the A-133 Audit. This would appear to be a costly duplication of effort.

IDOA would like to propose that Chapter 1000 of the Department’s “Policies, Procedures and Standards for Area Agencies on Aging” Manual be revised to clearly state that Monitoring and Evaluations may be conducted on-site, if desired by IDOA, but do not have to be done on-site.

#### **Auditors’ Comment:**

IDOA has indicated that the performance of on-site procedures would be a duplication of the effort performed by the area agency external auditors; however, due to the nature of the major program selection criteria required by the single audit, the Aging Cluster may or may not be audited as part of the area agency’s single audit. Additionally, on-site monitoring procedures typically cover program requirements in more detail than single audit procedures and are included in IDOA’s policies and procedures for monitoring its subrecipients.

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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 (\$40,877,000)

**Questioned Costs:** None

**Finding 03-37** Failure to Review OMB Circular A-133 Audit Report

IDOA did not review the OMB Circular A-133 audit report received from one of its subrecipients.

IDOA passes through federal awards to thirteen area agencies throughout the State. Each of these agencies is required to submit an audit report in accordance with OMB Circular A-133. IDOA has developed a desk review checklist that is used to assist IDOA personnel in evaluating whether the single audit report meets the requirements of OMB Circular A-133 and in evaluating findings reported. Additionally, the desk review process includes a reconciliation of expenditures reported in the schedule of expenditures of federal awards to the annual grant close out report submitted by each subrecipient and to IDOA records.

During our testwork of seven subrecipients of the Aging Cluster with total expenditures of \$29,866,000, we noted IDOA did not perform a desk review of the OMB Circular A-133 for its largest subrecipient. Although IDOA had received the audit report within the required timeframe, the report had not been reviewed to 1) ensure the audit was properly performed, 2) identify any findings that could have impacted the Aging Cluster, and 3) reconcile federal expenditures reported to IDOA records. Total awards passed through to subrecipients of the Aging Cluster were \$38,854,000 during the year ended June 30, 2003.

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 establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring documentation of on-site review procedures adequately supports procedures performed and the results obtained.

In discussing the desk review process with IDOA officials, they state the A-133 is just one part of the overall monitoring that the Department does for fiscal compliance and IDOA relied on the audit review presumed to have been performed by the area agency's federal cognizant agency.

Failure to adequately obtain and 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 the federal programs in accordance with laws, regulations and the grant agreement. (Finding Code 03-37)

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**Recommendation:**

We recommend IDOA review its procedures for performing desk reviews of OMB Circular A-133 reports to ensure desk reviews are performed and documented in a timely manner for all subrecipients.

**IDOA Response:**

The IDOA will review its procedures.



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For the Year Ended June 30, 2003

**State Agency:** Illinois State Board of Education (ISBE)

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

**Program Name:** Child Nutrition Cluster  
Child and Adult Care Food Program

**CFDA # and Program Expenditures:** 10.553 / 10.555 / 10.556 / 10.559 (\$308,706,000)  
10.558 (\$92,533,000)

**Questioned Costs:** None

**Finding 03-38** Untimely Return of Federal Funds to the USDA

ISBE does not have adequate procedures to reconcile the “cash position” of the Child Nutrition Cluster (CNC) and Child and Adult Care Food programs (CACFP). Additionally, ISBE did not return excess funds to the USDA in a timely manner.

ISBE does not have adequate procedures to reconcile financial status reports to claiming reports (FNS 44, 410, and 418) submitted to the USDA on a timely basis for the CNC and CACFP programs. Additionally, ISBE does not have adequate procedures to review the cash position of prior grant years that have been closed out. As a result, ISBE had excess cash on hand that had not been returned to the USDA as of the date of our audit report relating to grant years 1996 through 2002 as follows:

<b>Grant Year</b>	<b>Cash on Hand at 6/30/03</b>
1996	\$ 8
1997	\$ 7,823
1998	\$ 17,569
1999	\$ 53,411
2000	\$ 6,883
2001	\$ 5,993
2002	\$ 556,253
<b>TOTAL</b>	<b>\$ 647,940</b>

The A-102 Common Rule requires that program income, rebates, refunds, and other income and receipts are to be disbursed before requesting additional cash payments. 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 a timely review and reconciliation of cash on hand and federal cash requests to ensure that federal cash on hand is appropriately returned to the federal government.

In discussing these conditions with ISBE officials, they state that the excess funds for fiscal years 1996-2002 is due to refunds received from subrecipients after the close out of the grant year. There is no procedure in place to ensure that ISBE staff regularly review the cash position of closed-out grants, therefore, they are often times unaware of the issue.

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Failure to return excess funds results in lost interest to the U.S. Treasury and result in non-compliance with the Treasury-State Agreement. (Finding Code 03-38)

**Recommendation:**

We recommend ISBE review the cash position for closed-out grant years on a quarterly basis, and return any excess cash on hand to the USDA.

**ISBE Response:**

ISBE agrees and will implement procedures to review the cash position for closed-out grant years on a quarterly basis and return any excess cash on hand to the USDA.

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**State Agency:** Illinois State Board of Education (ISBE)

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

**Program Name:** Child Nutrition Cluster  
Child and Adult Care Food Program  
Title One Grants to Local Educational Agencies  
Special Education Cluster  
Vocational Education Basic Grants to States  
Improving Teacher Quality State Grants

**CFDA # and Program Expenditures:** 10.553 / 10.555 / 10.556 / 10.559 (\$308,706,000)  
10.558 (\$92,533,000)  
84.010 (\$424,493,000)  
84.027/84.173 (\$355,519,000)  
84.048 (\$43,352,000)  
84.367 (\$99,386,000)

**Questioned Costs:** \$558,366

**Finding 03-39** Unallowable Early Retirement Incentive (ERI) Employee Payout Costs

ISBE did not obtain approval from the State of Illinois' (State) cognizant federal agency (US Department of Health and Human Services) prior to claiming reimbursement for the lump sum payouts of accrued vacation and sick and personal leave for employees who terminated employment under an early retirement program of the State.

The Illinois Public Act 92-566 offered qualified employees an incentive for early retirement (ERI). As part of this program, employees that terminated employment by December 31, 2002 received lump sum payments for accrued vacation, sick leave, and personal leave (ERI payout costs). During our review of these ERI payout costs, we noted ISBE included these costs in an indirect cost pool which was allocated (claimed) to federal programs under ISBE's cost allocation plan. Therefore, ERI payout costs for employees working on federal grants were claimed for reimbursement under various federal programs. However, prior approval was not obtained from the State's cognizant federal agency.

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. According to OMB Circular A-87 Attachment B 11(g)(3), abnormal or mass severance pay will be considered on a case-by-case basis and is allowable only if approved by the cognizant Federal agency.

In discussing these conditions with ISBE officials, they state the severance costs are classified as fringe benefits as described in the Cost Allocation Plan approved by USDE and therefore determined to be allowable without prior approval under OMB Circular A-87 Attachment B 11(f).

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

Failure to obtain prior approval from the State's cognizant federal agency for claiming severance costs under an early retirement program results in unallowable costs being claimed to federal programs. (Finding Code 03-39)

#### **Recommendation:**

We recommend ISBE obtain prior approval from the State of Illinois' cognizant federal agency prior to claiming reimbursement for severance costs under early retirement programs.

#### **ISBE Response:**

ISBE allocated the lump sum payouts as required under the indirect cost allocation agreement with its federal cognizant agency for indirect costs, the U.S. Department of Education (USDE). This agreement specifies that such costs should be treated as fringe benefits as stated in OMB Circular A-87, Attachment B, 11.d, rather than severance pay, which requires specific approval under OMB Circular A-87, Attachment B, 11.g (3). Under ISBE's agreement with USDE the lump sum payouts are to be allocated to the individual federal programs as required under the regular cost allocation plan, and the agency followed this requirement.

The Illinois Bureau of the Budget submitted to the Department of Health and Human Services (USDHHS), the cognizant federal agency for the State of Illinois, A Cost Allocation Plan for State of Illinois Early Retirement Incentive (ERI) Accrued Benefit Payout Costs (State Plan) as required under OMB Circular A-87, Attachment B, 11.g (3) for abnormal or mass severance pay. ISBE was not aware of any requirement to obtain special approval for lump sum payouts from the State's cognizant agency. USDHHS approved the State Plan as proposed, which includes the same treatment ISBE used under its agreement with USDE. In the event that early retirement will become available again, ISBE will make efforts to have its treatment of lump sum payouts incorporated in any state-wide agreement with USDHHS.

ISBE has asked the USDE to determine whether charging ERI payouts pursuant to its agreements were appropriate or how this issue should best be resolved.

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**State Agency:** Illinois State Board of Education (ISBE)

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

**Program Name:** Food Donation  
Child Nutrition Cluster  
Child and Adult Care Food Program  
Title One Grants to Local Educational Agencies  
Special Education Cluster  
Vocational Education Basic Grants to States  
Improving Teacher Quality State Grants

**CFDA # and Program Expenditures:** 10.550 (\$31,985,000)  
10.553 / 10.555 / 10.556 / 10.559 (\$308,706,000)  
10.558 (\$92,533,000)  
84.010 (\$424,493,000)  
84.027/84.173 (\$355,519,000)  
84.048 (\$43,352,000)  
84.367 (\$99,386,000)

**Questioned Costs:** None

**Finding 03-40** Untimely and Incomplete Review of OMB Circular A-133 Audit Reports

ISBE did not review OMB Circular A-133 audit reports received from its subrecipients on a timely basis. Additionally, ISBE did not determine whether subrecipients which received less than \$300,000 from ISBE were required to have an OMB Circular A-133 audit performed.

Subrecipients who receive more than \$300,000 in federal awards from ISBE are required to submit an OMB Circular A-133 audit report. The funding and disbursements division initially reviews these reports. A "single audit desk review sheet" checklist is used to assist in evaluating whether the OMB Circular A-133 audit was properly performed and in evaluating the impact of findings. If findings are reported, a review form is completed and forwarded with the OMB Circular A-133 audit report to the respective ISBE program fiscal consultant for follow-up and resolution. The findings are also logged and tracked in a database.

We selected a total sample of 280 subrecipient monitoring files to review from the above programs. During our review of the subrecipient monitoring files, we noted that for 195 subrecipient files ISBE had not completed the desk review of the subrecipient OMB Circular A-133 reports within 60 days of their receipt by ISBE. These reviews were completed as follows:

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<b>Desk Review Period</b>	<b>Number of Subrecipients</b>
61-90 days after receipt	13
91-120 days after receipt	24
121-150 days after receipt	27
151-180 days after receipt	11
180 + days after receipt	120

Of the 120 subrecipients reviewed six months after the date of receipt of the audit report, ISBE was required to issue management decisions on seven.

Additionally, we noted that 66 of the sampled subrecipients were not required by ISBE to submit an OMB Circular A-133 report because they received less than \$300,000 in federal awards from ISBE. However, OMB Circular A-133 requires a single audit if a recipient expended more than \$300,000 in total federal awards during a year. Accordingly, even if ISBE provided less than \$300,000 in federal awards, the subrecipient may have received other federal awards which when combined would exceed the \$300,000 threshold.

Subrecipient expenditures under the federal programs for the year ended June 30, 2003 were as follows:

<b>Program</b>	<b>Total Fiscal Year 2003 Subrecipient Expenditures</b>	<b>Total Fiscal Year 2003 Program Expenditures</b>	<b>%</b>
Food Donation	\$31,985,000	\$31,985,000	100%
Child Nutrition Cluster	\$306,772,000	\$308,706,000	99.4%
Child and Adult Care Food	\$91,725,000	\$92,533,000	99.1%
Title One Grants to Local Educational Agencies	\$420,228,000	\$424,493,000	99.0%
Special Education Cluster	\$348,193,000	\$355,519,000	98.0%
Vocational Education Basic Grants to States	\$24,017,000	\$43,352,000	55.4%
Improving Teacher Quality State Grants	\$99,137,000	\$99,368,000	99.8%

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, a pass-through entity is required to issue a management decision on audit findings within six months after the receipt of the subrecipient's audit report. According to 34 CFR Sections 80.40 and 80.42, ISBE is required to have an effective internal control structure in place to ensure proper monitoring of subrecipients and retain supporting documentation of its subrecipient monitoring activities for a minimum of three years from the date of submission of the final annual report.

In discussing the desk review process with ISBE officials, they state untimely reviews were due to a lack of staffing. One person in the ISBE staff was performing desk reviews during the current fiscal year.

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### Schedule of Findings and Questioned Costs

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Failure to adequately obtain and 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 the federal programs in accordance with laws, regulations and the grant agreement. (Finding Code 03-40, 02-38)

#### **Recommendation:**

We recommend ISBE establish a review period of not more than 60 days from the receipt of the OMB Circular A-133 audit reports. For subrecipients that are not required to have an OMB Circular A-133 audit performed, we recommend ISBE require the subrecipients to certify that less than \$300,000 was expended in total federal awards.

#### **ISBE Response:**

For the current review cycle, the agency has assigned additional staff for this function to ensure the procedures for the reviews of Single Audit reports meet the requirements under OMB Circular A-133. Desk reviews are performed and follow-up on findings occurs within the time period set forth under the Circular. All subrecipients are now required to either file an audit or certify that an audit is not required for their organization.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois State Board of Education (ISBE)

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

**Program Name:** Special Education Cluster

**CFDA # and Program Expenditures:** 84.027 / 84.173 (\$355,519,000)

**Questioned Costs:** None

**Finding 03-41** *Inadequate On-Site Monitoring of Subrecipients*

ISBE is not adequately performing on-site reviews of subrecipients receiving federal awards for the Special Education Cluster.

ISBE monitors its subrecipients by performing on-site reviews and inspections, examining annual external audit reports, and comparing budget to actual expenditures. However, the on-site reviews for the Special Education Cluster do not include any fiscal and administrative review procedures. During the year ended June 30, 2003, ISBE passed through \$348,193,000 to subrecipients of the Special Education Cluster.

In accordance with CFR Title 34, Subpart C, Section 80.40, grantees are responsible for managing the day-to-day operations of the grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program function or activity.

In discussing these conditions with ISBE officials, they stated that due to lack of staffing this function could not be implemented during FY03.

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 03-41, 02-39, 01-29, 00-21)

**Recommendation:**

We recommend ISBE include fiscal and administrative review procedures when performing on-site monitoring procedures for the Special Education Cluster.

**ISBE Response:**

The agency's division of External Assurance has begun conducting fiscal reviews of Individuals with Disabilities Education Act (IDEA) grants in FY2004 as part of its monitoring.



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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois State Board of Education (ISBE)  
**Federal Agency:** US Department of Education (USDE)  
**Program Name:** Special Education Cluster  
Vocational Education Basic Grants to States  
**CFDA # and Program Expenditures:** 84.027 / 84.173 (\$355,519,000)  
84.048 (\$43,352,000)

**Questioned Costs:** None

**Finding 03-42** *Failure to Advance Only the Immediate Cash Needs to Subrecipients*

ISBE provided funds to subrecipients of the Special Education Cluster and Vocational Educational Basic Grants to States (Vocational Education) programs in excess of their immediate cash needs.

We reviewed payments to 50 subrecipients of both the Special Education and Vocational Education programs for timely monitoring of cash advance payments. We noted 7 subrecipients in the Special Education program and 28 subrecipients in the Vocational Education program that received payments on a quarterly basis totaling \$1,198,279 and \$9,252,523, respectively, for the year ended June 30, 2003. Thus, advances to subrecipients were for more than 30 days of funding needs. Total subrecipient expenditures for the Special Education and Vocational Educational programs were \$348,193,000 and \$24,017,000, respectively, for the year ended June 30, 2003.

When funds are provided in advance of expenditure, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. Specifically, 34 CFR 80.20 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 discussing these conditions with ISBE personnel, they stated this issue was initially reported in the previous year's audit report. Time did not allow for new procedures to be implemented in FY 03; however, adequate procedures are now in place for FY04 to address this finding.

Providing subrecipients funding advances of greater than 30 days results in additional costs of financing for the U.S. Treasury. (Finding Code 03-42, 02-40)

**Recommendation:**

We recommend ISBE 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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For the Year Ended June 30, 2003

**ISBE Response:**

The agency agrees and has implemented monthly disbursements to recipients of Vocational Education funding. Additionally, the Special Education Department's grant review and approval process has been modified to ensure that subrecipients receive only immediate cash needs.

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## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois State Board of Education (ISBE)  
**Federal Agency:** US Department of Education (USDE)  
**Program Name:** Title One Grants to Local Educational Agencies  
Special Education Cluster  
Vocational Education Basic Grants to States  
Improving Teacher Quality State Grants

**CFDA # and Program Expenditures:** 84.010 (\$424,493,000)  
84.027 / 84.173 (\$355,519,000)  
84.048 (\$43,352,000)  
84.367 (\$99,386,000)

**Questioned Costs:** None

**Finding 03-43** *Untimely Reconciliation of the Grants Administration and Payment System and the Management Information Database Accounting System.*

ISBE did not complete all of its monthly reconciliation between the Federal Grants Administration and Payment System (GAPS) and the Agency's Management Information Database Accounting System (MIDAS).

ISBE draws its Department of Education funding using GAPS. GAPS is a web-based program which requires the user to enter data consisting of the draw amount, date, grant number, etc. The information entered into GAPS is also entered into the Agency's internal accounting system MIDAS. ISBE's procedures require that a reconciliation between these two systems be prepared on a monthly basis by the fiscal consultant (employee) and reviewed by the division administrator.

During our testwork over the reconciliation process between the GAPS and MIDAS systems, we noted ISBE did not prepare the reconciliations on a monthly basis. Specifically, ISBE only performed two reconciliations during the year ended June 30, 2003: the first on March 25, 2003 and the second on June 30, 2003.

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 reconciling Federal grant payments from GAPS to ISBE accounting records in MIDAS.

In discussing this with ISBE personnel, they state that monthly reconciliations were not performed due to change in staffing and shortage of personnel.

Failure to perform monthly reconciliations could result in an improper draw of federal awards. (Finding Code 03-43, 02-42)

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For the Year Ended June 30, 2003

**Recommendation:**

We recommend ISBE reconcile the monthly GAPS reports to its accounting records within MIDAS on a timely basis throughout the year to ensure that cash draws are properly accounted for and recorded in MIDAS.

**ISBE Response:**

The Agency has assigned additional staff for this function and the GAPS to MIDAS reconciliations are now performed on a monthly basis.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois State Board of Education (ISBE)

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

**Program Name:** Vocational Education Basic Grants to States

**CFDA # and Program Expenditures:** 84.048 (\$43,352,000)

**Questioned Costs:** None

**Finding 03-44** *Inaccurate Reporting of the Accountability Report Consolidated Annual Performance, Accountability, and Financial Status Report*

ISBE did not accurately prepare the fiscal year 2002 “Accountability Report Consolidated Annual Performance, Accountability, and Financial Status Report” (Accountability Report).

We obtained and reviewed ISBE’s Annual Accountability Report for fiscal year 2002, prepared and submitted in December 2002. This report contains data to be used in determining whether ISBE met its adjusted performance levels for the following core indicators 1) attainment of academic and vocational skills; 2) attainment of diploma or credential; 3) placement and retention; and 4) participation in, preparation for, and completion of program leading to non-traditional occupation, and contains narrative, status of funds, and performance indicators. We noted that expenditures reported in the Status of Funds were underreported by \$233,026 and \$279,226 for the State Programs (total) and Subrecipient Payments line items, respectively. Additionally, we noted that ISBE did not reconcile the amounts included in the Accountability Report to supporting documentation.

20 USC 2323(b)(2)(a) requires ISBE to submit an Annual Accountability Report containing data to be used in determining whether it met its adjusted performance levels for each of its core indicators of performance and any State indicators of performance. The information provided in this report is incorporated into ISBE’s state plan, and used to determination eligibility for future funding. 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 reconciling amounts reported to the granting agencies to amounts included in ISBE’s accounting records.

In discussing these conditions with ISBE officials, they stated that this was a clerical error. Written correspondence from U.S. Department of Education officials indicated amendments to the interim Financial Status Report were not required. Necessary adjustments were made to the final FSR.

Failure to accurately report expenditures in the Accountability Report prevents the USDE from effectively monitoring and evaluating the performance of the Vocational Education Program and could result in an improper future allocation of funding by the USDE (Finding Code 03-44)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**Recommendation:**

We recommend ISBE review the process and procedures in place to prepare the Accountability Report. Additionally, the report and supporting documentation (schedules) should be reviewed by an individual who is independent of the preparation process and is knowledgeable of the reporting requirements.

**ISBE Response:**

ISBE agrees to implement controls to ensure that interim reports are accurate. After the interim report was submitted, a correct final report has been filed and accepted by the Department of Education, and no amended interim report was required.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Student Assistance Commission (ISAC)

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

**Program Name:** Federal Family Education Loan Program

**CFDA # and Program Expenditures:** 84.032 (\$179,218,000)

**Questioned Costs:** Cannot be determined

**Finding 03-45** Processing and Submission of Re-insurance Claims

ISAC has significant unresolved issues regarding compliance with federal laws and regulations related to the processing and submission of reinsurance claims to the USDE under the Federal Family Education Loan Program which were identified during an audit by the U.S. Department of Education Office of the Inspector General (ED-OIG).

During 2003, the ED-OIG conducted an audit of the Federal Family Education Loan program to determine if, for the period October 1, 2002 through June 30, 2003, ISAC (1) adequately processed post-default collections related to administrative wage garnishments, and (2) properly submitted eligible reinsurance claims to USDE for defaulted student loans (default claims). Based on communications received from ISAC, the draft audit report received from ED-OIG indicated ISAC did not comply with the regulations regarding the submission of eligible reinsurance claims. The draft report stated ED-OIG reviewed 50 reinsurance claims, totaling \$123,521, selected from a universe of 21,732 reinsurance claims submitted during the audit period. Of the 50 claims tested, the report indicated 32 claims, totaling \$75,077, should have been returned to the lenders because the claim packet was missing accurate collection and/or payment histories or contained evidence of a due diligence violation(s). In addition, the draft report stated ISAC's claims review process is not adequate as it is limited to a brief review of summary information reported on the claim form submitted by the lender which does not provide adequate assurance that only claims submitted by lenders exercising required due diligence in servicing the loan were paid.

According to 34 CFR 682.406(a), a guaranty agency may make a claim payment from the Federal Fund and receive a reinsurance payment on a loan only if:

- (1) The lender exercised due diligence in making, disbursing, and servicing the loan as prescribed by the rules of the agency;
- (2) With respect to the reinsurance payment on the portion of a loan represented by a single disbursement of loan proceeds—
  - (i) The check for the disbursement was cashed within 120 days after disbursement; or
  - (ii) The proceeds of the disbursement made by electronic funds transfer or master check in accordance with §682.207(b)(1)(ii) (B) and (C) have been released from the restricted account maintained by the school within 120 days after disbursement;

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

- (3) The lender provided an accurate collection history and an accurate payment history to the guaranty agency with the default claim filed on the loan showing that the lender exercised due diligence in collecting the loan through collection efforts meeting the requirements of §682.411, including collection efforts against each endorser;
- (4) The loan was in default before the agency paid a default claim filed thereon;
- (5) The lender filed a default claim thereon with the guaranty agency within 90 days of default;
- (6) The lender resubmitted a properly documented default claim to the guaranty agency not later than 60 days from the date the agency had returned that claim due solely to inadequate documentation, except that interest accruing beyond the 30th day after the date the guaranty agency returned the claim is not reinsured unless the lender files a claim for loss on the loan with the guarantor together with all required documentation, prior to the 30th day;
- (7) The lender satisfied all conditions of guarantee coverage set by the agency, unless the agency reinstated guarantee coverage on the loan following the lender's failure to satisfy such a condition pursuant to written policies and procedures established by the agency;
- (8) The agency paid or returned to the lender for additional documentation a default claim thereon filed by the lender within 90 days of the date the lender filed the claim or, if applicable, the additional documentation, except that interest accruing beyond the 60th day after the date the lender originally filed the claim is not reinsured;
- (9) The agency submitted a request for the payment on a form required by the Secretary no later than 45 days following payment of a default claim to the lender;
- (10) The loan was legally enforceable by the lender when the agency paid a claim on the loan to the lender;
- (11) The agency exercised due diligence in collection of the loan in accordance with §682.410(b)(6);
- (12) The agency and lender, if applicable, complied with all other Federal requirements with respect to the loan including—
  - (i) Payment of origination fees;
  - (ii) For Consolidation loans disbursed on or after October 1, 1993, and prior to October 1, 1998, payment on a monthly basis, of an interest payment rebate fee calculated on an annual basis and equal to 1.05 percent of the unpaid principal and accrued interest on the loan;
  - (iii) For Consolidation loans for which the application was received by the lender on or after October 1, 1998 and prior to February 1, 1999, payment on a monthly basis, of an interest payment rebate fee calculated on an annual basis and equal to 0.62 percent of the unpaid principal and accrued interest on the loan;
  - (iv) For Consolidation loans disbursed on or after February 1, 1999, payment of an interest payment rebate fee in accordance with paragraph (a)(12)(ii) of this section; and
  - (v) Compliance with all default aversion assistance requirements in §682.404(a)(2)(ii).
- (13) The agency assigns the loan to the Secretary, if so directed, in accordance with the requirements of §682.409; and
- (14) The guaranty agency certifies to the Secretary that diligent attempts have been made by the lender and the guaranty agency under §682.411(h) to locate the borrower through the use of effective skip-tracing techniques, including contact with the schools the student attended.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

The ED-OIG draft audit reports states that ISAC's process is not sufficient to fulfill their administrative responsibility contained in 34 CFR 684.406(a)(1) and (3) as stated above. The ED-OIG draft audit report recommends that ISAC require its claims analysts to verify lender due diligence activities shown on the claim form's summary of lender due diligence against all detailed collection history information, support for periods of deferments/forbearances, and dates and amount of borrow payments. ISAC officials contend that the regulations do not specifically require such a review or "audit" during the claims review process. Further, they contend that the period of time which should be evaluated during the claims review process is that period occurring after the initial date of delinquency through the period ending in a lender filing a claim. ISAC indicates that their current procedures conform with industry practice and federal regulations as interpreted in the Common Manual.

Due to the differences in the interpretation of the regulations and our inability to evaluate ISAC's compliance with the provisions of laws and regulations related to the processing and submission of reinsurance claims to the USDE, we were not able to perform sufficient audit procedures to satisfy ourselves whether ISAC complied with the requirements that are applicable to the Federal Family Education Loan Program. (Finding Code 03-45)

#### **Recommendation:**

We recommend ISAC consult with the USDE to interpret the federal laws and regulations relating to the processing and submission of reinsurance claims to the USDE and make any necessary changes, if any, to conform with those requirements.

#### **ISAC Response:**

ISAC, in conjunction with the guaranty agency industry, is currently engaged in meetings and discussions with the U.S. Department of Education concerning the interpretation of regulations related to the processing and submission of reinsurance claims which arose from the Department of Education, Office of the Inspector General's draft audit report. ISAC strongly believes that current industry practice for the processing and submission of reinsurance claims as outlined in the Common Manual, combined with the agency's lender review process clearly fulfill the regulations in question. ISAC will, however, modify our claims process, if necessary, based on any agreed upon interpretations of the regulations and final guidance concerning this issue which result from discussions with the Department of Education.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Student Assistance Commission (ISAC)

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

**Program Name:** Federal Family Education Loan Program

**CFDA # and Program Expenditures:** 84.032 (\$179,218,000)

**Questioned Costs:** Cannot be determined

**Finding 03-46** *Inadequate Controls Over Document Imaging*

ISAC does not have an adequate process to ensure that original documentation submitted by lenders for reinsurance claims are accurately and completely imaged for document retention requirements of the Federal Family Education Loan Program.

During our audit of the Federal Family Education Loan Program, we noted ISAC's policies and procedures do not include written procedures that require verification of imaged documents for lender claims packet to determine they were completely and accurately imaged. ISAC officials stated they have an unwritten rule requiring imaging personnel to verify the first ten pages of each claim packet were imaged correctly.

During our review of the supporting documentation for 30 claims submitted for re-insurance, we found the following:

- Two of the files were missing the second page of the claim form. This page includes the collection history which summarizes the 270-day period prior to default. This page is comprised of four columns of dates and codes corresponding to various collection activities, such as letters to borrowers and telephone contacts performed by the lender. Information which corresponds to page two was, however, available through a review of the collection history supporting documentation which was submitted with the claim form by the lender.
- Thirteen of the files included collection histories (supporting documentation) for which date information was cut off. The date information on these collection histories was on the far left of the page in the form of MM/DD/YY. The month was cut off. However, by reviewing other information (e.g., page two of the claim form and other supporting documents) the "cut off" dates in question could be reconstructed.
- Five of the files included date stamps on the claims forms that were not clearly legible.
- Three of the files were missing one or more pages from supporting documents included in the claims packet including transaction histories.

According to 34 CFR 682.406(a)(3), a guaranty agency is entitled to a reinsurance payment on a loan only if the lender provided accurate collection and payment history. The histories must be sufficient to support guaranty review for claim payment and show that the lender exercised due diligence in collecting the loan meeting the requirements in 34 CFR 682.411.

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According to 34 CFR 682.414(a)(ii)(A) and (G) state a guaranty agency shall maintain all documentation supporting the claim filed by the lender and any additional records that are necessary to document its right to receive or retain payments made by the Secretary. 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 documented written procedures for document imaging to ensure that claims packet information is accurately and completely imaged.

In discussing these conditions with ISAC officials, they state a combination of factors contributed to the situation including malfunction of aging imaging equipment and clerical errors.

Failure to establish adequate controls over document imaging could result in inadequate documentation to support lender claims submitted to the USDE for reinsurance. (Finding Code 03-46)

#### **Recommendation:**

We recommend ISAC establish written policies and procedures requiring the completeness and accuracy of imaging be verified before claims packets are destroyed and establish controls to ensure polices and procedures are followed.

#### **ISAC Response:**

ISAC management has documented operating policies and procedures for imaging claim packets and has communicated the policies and procedures to staff. A specific effort is being made to ensure that adequate controls are in place to address imaging exceptions. Staff has also received additional training in this area.

An internal reconciliation process has been established to ensure that a complete claim file resides on ISAC's imaging system. Staff from the Imaging and Claims Services departments is working collaboratively with this quality assurance process for claim file documentation. Follow-up is occurring on irregularities and exceptions to determine cause and implement corrective action.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**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 (\$179,218,000)

**Questioned Costs:** None

**Finding 03-47** *Untimely Reconciliation of Cash Postings to the Loan Subsidiary Ledger*

ISAC did not reconcile cash receipts to cash posting in the loan subsidiary ledger system (Odyssey) on a timely basis.

ISAC initially reconciles cash receipts to cash postings in the loan subsidiary ledger on a daily basis (daily reconciliations) to ensure that daily cash receipts are accurately posted. However, subsequent to the initial posting, there often are adjustments that are required to the loan subsidiary ledger including returned "NSF" checks. Accordingly, ISAC has also established procedures to reconcile cash receipts to the loan subsidiary ledger on a monthly basis (monthly reconciliations) to ensure that all adjustments have been properly recorded and loan balances are accurately stated.

During the year ended June 30, 2003, ISAC implemented a new loan subsidiary ledger (Odyssey). With this implementation, ISAC was not able to perform the monthly reconciliations on a timely basis. As of the time of our audit, monthly reconciliations had not been prepared for the months of October 2002 through February 2003.

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 the timely reconciliation of cash receipts to cash postings to ensure that all cash receipts and adjustments have been accurately recorded.

In discussing these conditions with ISAC officials, they state monthly reconciliations were not performed on a timely basis due to the implementation of the new loan subsidiary ledger system (Odyssey). Odyssey reports used to prepare the monthly cash reconciliations could not be generated. Also, staff performing the reconciliations were unfamiliar with the new reporting formats generated by the new system. ISAC officials also state that a Reconciliation Activity Definition Report was developed subsequent to the fiscal year end (June 30, 2003) which describes its new procedures to reconcile cash receipts to the Odyssey Accounting System. These procedures were implemented in October 2003.

Failure to perform monthly reconciliations of cash receipts to the loan subsidiary ledger on a timely basis could result in inaccurate loan balances and the inaccurate reporting of loans in the ED Form 2000, *Guaranty Agency Financial Report*, which is submitted to the USDE. (Finding Code 03-47)

(Continued)

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**Recommendation**

We recommend ISAC follow the newly developed reconciliation procedures and perform the monthly reconciliations within 15 days after month end.

**ISAC Response:**

Although ISAC agrees that the reconciliation activities were not completed at the time of the audit, it should be noted that considerable effort and resources have been and continue to be devoted to reconciling information produced through Odyssey, ISAC's new information system. ISAC staff have underway a set of activities which will result in a comprehensive reconciliation of financial information for all of the months beginning from October 2002 and continuing through June 2004 (the present month). All reconciliations are now current.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**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 (\$179,218,000)

**Questioned Costs:** None

**Finding 03-48** *Inaccurate Guaranty Agency Financial Reports*

ISAC is not accurately reporting loan information in the quarterly Guaranty Agency Financial Reports (ED Form 2000).

During our review of the quarterly report and supporting documentation, we noted amounts reported in the Form 2000 consistently do not agree to the USDE's National Student Loan Data System (NSLDS). Specifically, the reported loan information as of September 30, 2002 was as follows:

<b>Line #</b>	<b>Description</b>	<b>Amount per Form 2000</b>	<b>Amount per NSLDS</b>	<b>Difference</b>
A-1	Loans Guaranteed	\$14,027,501,952	\$13,621,896,057	\$405,605,895
A-4	Other Loans Cancelled	1,205,085,084	1,099,306,587	105,778,497
A-8	Total Loan Guarantees	1,066,011,905	1,066,011,905	-
A-15	Default Claims Paid	1,709,749,948	1,419,507,425	290,242,523
A-17	Bankruptcy Claims Paid	77,366,262	53,833,975	23,532,287
A-28	Paid in full	6,380,307,873	6,340,433,101	39,874,772

The Form 2000 report, which reflects internal agency data, did not reconcile to the NSLDS because the agency's internal data was cumulative; whereas, the NSLDS was current. It was recommended (and implemented) that ISAC use the NSLDS when preparing its Form 2000. Thus, the discrepancies that were prevalent in the early 1990's still exist, as ISAC continues to add the actual data per quarter to prior reported amounts when preparing its Form 2000 report. ISAC is working to identify the various reconciling items between the reports.

ISAC is required to submit detailed loan information in the ED Form 2000 (OMB No. 1845-0026), Guaranty Agency Financial Report, to USDE on a quarterly basis through September 30, 2002. The data in this form is used by USDE to maintain accounting and loan databases and for various program management purposes. Also ISAC is required to submit loan level information to the NSLDS pursuant to OMB No. 1845-0036.

In discussing the above condition with ISAC officials, they state the discrepancies between the Form 2000 report and NSLDS report are attributable to the change in the collection and reporting of data, which occurred in the early 1990s. ISAC management has indicated that the implementation of the new Odyssey system has ensured that the agency is now using the same base data for reporting to both systems.

(Continued)

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

Failure to report accurate loan information prevents the USDE from effectively monitoring and evaluating the performance of the Federal Family Education Loans Program. (Finding Code 03-48, 02-45, 01-33, 00-25)

#### **Recommendation:**

We recommend ISAC work with the USDE to reconcile and eliminate the carryforward differences in its quarterly Guaranty Agency Financial Report (Form 2000) and the USDE's NSLDS report.

#### **ISAC Response:**

ISAC is currently working to resolve this historical data discrepancy through a series of reconciliation activities.

The implementation of the new Odyssey information system has resolved this issue going forward. Data reported to the federal NSLDS system and the federal financial management system via Form 2000 has been reconciled for the most recent two years.

ISAC will work with the US Department of Education to resolve any remaining discrepancies once our reconciliation activities are complete.

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For the Year Ended June 30, 2003

**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 (\$179,218,000)

**Questioned Costs:** None

**Finding 03-49** Credit Bureau Reports

ISAC does not maintain documentation to support Credit Bureau Reports.

ISAC does not maintain any documentation support to verify the accuracy of the information located on the Credit Bureau Reports. The information on the credit bureau reports issued by ISAC was not supported by internal documentation.

The Education Code Regulations (34 CFR 682.208 (b)(2)) states that an eligible lender (ISAC) that has acquired a Federal Family Education Loan (FFEL) shall report to at least one national credit bureau. Also, prudent business practice requires that adequate and reliable supporting documentation be maintained to substantiate the validity of the credit bureau reports.

In discussing these conditions with ISAC officials, they state that although the current system does now identify that information was sent to credit bureaus, the re-creation of the data submitted to the credit bureaus is not yet in production.

Failure to maintain such support results may result in the loss of the federal funds. (Finding Code 03-49, 02-46, 01-34, 00-26, ISAC 99-5, ISAC 97-5)

**Recommendation:**

We recommend ISAC substantiate all credit bureau reports by establishing a separated database that has the capability to retain all appropriate supporting documentation.

**ISAC Response:**

ISAC has developed a separate database for credit reporting. The credit bureau report detail history database is currently in the testing phase. Once testing is complete, this database will be moved to production which should occur by the end of July 2004.



**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**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 (\$179,218,000)

**Questioned Costs:** None

**Finding 03-50** *Inaccurate Collection Records*

ISAC student loan account records do not agree/reconcile to the collection agencies' reports.

In accordance with 34 CFR section 682.410(b)(6), ISAC is allowed to use collection tools and activities such as engaging a collection agency, once the loan is between 31 and 180 days past due and ISAC has performed its due diligence.

ISAC uses six collection agencies to assist collection efforts of past due loans under the Federal Family Education Loans program. Once ISAC has completed its due diligence activities, which includes (1) calling the borrower and (2) sending collection letters to the borrower, the past due loan is forwarded to one of the collection agencies. The collection agency then performs its collection efforts in an attempt to collect on the past due amount. During our compliance testwork, we noted ISAC loan records do not agree to the monthly reports prepared by the collection agencies. We noted discrepancies between the ISAC reports and the collection agencies in terms of the total number of borrowers and accounts assigned for collection. ISAC has deemed a 4% variance between their records and those of the collection agencies acceptable. Below are the loan amounts per ISAC and the loan amounts per the collection agencies as of June 30, 2003.

<b>Collection Agency</b>	<b>Loan amounts per ISAC</b>	<b>Loan amounts per Agency</b>	<b>Variance Percentage</b>
<b>GC Services Corporation</b>	\$ 3,762,608	\$ 3,360,628	10.7%
<b>Van Ru Credit</b>	\$13,947,356	\$12,518,148	10.2%
<b>Windham Prof.</b>	\$68,611,069	\$63,793,511	7.0%
<b>GRC</b>	\$67,455,659	\$67,776,123	0.4%
<b>OSI</b>	\$69,773,915	\$70,197,590	-0.6%
<b>Diversified Collection Services</b>	\$73,525,471	\$75,280,123	-2.4%

A comprehensive reconciliation of the students' accounts assigned to collection agencies should be performed on a monthly basis. Also, this duty should be performed by a person independent from a duty of assigning accounts to the collection agencies. Any differences in reconciling should be investigated and resolved in a timely manner.

In discussing the variances with ISAC officials, they state reconciliations are being prepared on a monthly basis. Additionally, they have enlisted the assistance of ISAC information systems personnel to assist in identifying reconciling items between ISAC loan records and the monthly collection agency reports.

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

Failure to maintain accurate loan records and adequately reconcile to collection agency reports could result in inaccurate loan records and an inability to collect delinquent student loans. (Finding Code 03-50, 02-47, 01-35, 00-27, ISAC 99-2)

**Recommendation:**

We recommend the Agency adopt formal guidelines and standards for timely reconciliation of the students' loan accounts assigned to the collection agencies and resolution of differences.

**ISAC Response:**

ISAC has revised our reconciliation procedures, and processes are currently in place to conduct monthly reconciliations of collection agency portfolios. Reconciliations from the most recent five months have indicated that in all cases the portfolio balance variances fall within the acceptable established standards.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Community College Board (ICCB)

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

**Program Name:** Vocational Education Basic Grants to States

**CFDA # and Program Expenditures:** 84.048 (\$43,352,000)

**Questioned Costs:** None

**Finding 03-51** *Inadequate On-Site Monitoring of Subrecipients*

ICCB is not adequately performing on-site reviews of subrecipients receiving federal awards for the Vocational Education (post-secondary education) program.

The Illinois State Board of Education provided ICCB with an interagency grant of \$17,190,000 to establish vocational education programs at community colleges throughout the State of Illinois. As a pass through entity, ICCB monitors its subrecipients (community colleges) by performing on-site reviews, inspections, and implementation visits, examining annual external audit reports, and comparing budget to actual expenditures. However, the on-site reviews for the Vocational Education (post-secondary education) program do not include any fiscal and administrative review procedures.

During the year ended June 30, 2003, ICCB passed through the following amounts to subrecipients of the Vocational Education program:

<b>Program</b>	<b>Total Fiscal Year 2003 ICCB Subrecipient Expenditures</b>	<b>Total Fiscal Year 2003 ICCB Program Expenditures</b>	<b>%</b>
Vocational Education Basic Grants to States	\$16,657,000	\$17,190,000	96.9%

In accordance with CFR Title 34, Subpart C, Section 80.40, grantees are responsible for managing the day-to-day operations of the grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program function or activity.

In discussing these conditions with ICCB officials, they believed that their programmatic reviews procedures were adequate and addressed all the applicable federal 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 03-51)

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**Recommendation:**

We recommend ICCB include fiscal and administrative review procedures when performing on-site monitoring procedures for the Vocational Education program.

**ICCB Response:**

The Agency agrees, and staff resources will be reallocated in FY2004 to develop an on-site fiscal monitoring system for postsecondary Perkins subrecipients to be implemented in FY2005.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Community College Board (ICCB)

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

**Program Name:** Vocational Education Basic Grants to States

**CFDA # and Program Expenditures:** 84.048 (\$43,352,000)

**Questioned Costs:** None

**Finding 03-52** *Failure to Advance Only the Immediate Cash Needs to Subrecipients*

ICCB provided funds to subrecipients of the Vocational Educational Basic Grants to States (post secondary education) program in excess of their immediate cash needs.

We reviewed payments to twelve subrecipients of Vocational Education (post secondary education) program for timely monitoring of cash advance payments. We noted eight subrecipients of the Vocational Education (post secondary education) program that received payments on a quarterly basis, for the year ended June 30, 2003. Thus, advances to subrecipients were for more than 30 days of funding needs. Total subrecipient expenditures for the Vocational Education (post secondary education) program administered by the ICCB were \$16,657,000 for the year ended June 30, 2003.

When funds are provided in advance of expenditure, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. Specifically, 34 CFR 80.20 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 discussing these conditions with ICCB personnel, they were of the opinion that funding Vocational Education (post secondary education) on a quarterly basis qualified as advancing only immediate cash needs as the timelines for immediate cash needs are not clearly defined in the regulations.

Providing subrecipients funding advances of greater than 30 days results in additional costs of financing for the U.S. Treasury. (Finding Code 03-52)

**Recommendation:**

We recommend ICCB 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.

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**ICCB Response:**

The Agency agrees. For postsecondary subrecipients quarterly payments will be disbursed at the beginning of the third month of each quarter.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**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 (\$75,582,000)

**Questioned Costs:** \$902,000

**Finding 03-53** Contractor Weekly Payroll Certifications Were Not Obtained

IDOT did not obtain weekly payroll certifications prior to payment to contractors for the Airport Improvement 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. The Department's process to comply with these requirements includes informing their contractors of the applicability of these requirements through communications in the bid documents and the final contract, which provides specifics as to the actual prevailing wage amounts and payroll certification requirements. The Department keeps a "two week calendar" that indicates the job that each contractor is completing, and monitors the submission of the required certified payrolls.

During our review of the certified payroll reports, we noted that the weekly payroll certification reports were not obtained for four of the thirty contractor payments selected for test work, totaling approximately \$902,000. IDOT paid approximately \$44,541,000 for construction contracts subject to the Davis-Bacon Act during the year ended June 30, 2003.

According to 29 CFR Section 5.5 (3)(ii)(A), the contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the sponsor. Each payroll submitted shall be accompanied by a "Statement of Compliance" signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract.

In discussing these conditions with IDOT personnel, they stated that the Division would not have released retainage on the project until all payrolls were received, but they were not aware that they were required to receive the weekly payrolls prior to any payment to the contractor.

Failure to obtain certified payrolls could result in contractors not paying the prevailing wage rate to employees. (Finding Code 03-53)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**Recommendation:**

We recommend IDOT establish procedures to ensure weekly payroll certifications are received prior to payments to the contractors.

**IDOT Response:**

The Department agrees with the recommendation. The Division of Aeronautics, after meeting with the Consultant Engineering Council of Illinois (CECI), decided that the Resident Engineer, for Airport Construction projects, would ensure that weekly payroll certifications are received prior to submitting his request for payment to the contractor. The Resident Engineer will attest that he has done this on the payment request document and he will then mail the payrolls for filing to the Aeronautics Office.



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Department of Transportation (IDOT)

**Federal Agency:** U.S. Department of Transportation (USDOT)

**Program Name:** Airport Improvement Program  
Highway Planning and Construction Program

**CFDA # and Program Expenditures:** 20.106 (\$75,582,000)  
20.205 (\$693,316,000)

**Questioned Costs:** None

**Finding 03-54** *Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports*

IDOT does not have an adequate process to follow up on delinquent OMB Circular A-133 reports from subrecipients. Additionally, IDOT is not reviewing the OMB Circular A-133 audit reports received within sixty days and is not requesting OMB Circular A-133 reports for all subrecipients.

IDOT passed through \$169,015,177 and \$18,785,449 to subrecipients of the Highway Planning and Construction and Airport Improvement programs, respectively, during the year ended June 30, 2003. Of the 44 subrecipients who received greater than \$300,000 from IDOT, the required current year OMB Circular A-133 reports were not received for 26 subrecipients (59%) as of the date of our testwork (September 30, 2003). Additionally, there was no documentation of its attempts to collect these reports and follow up with subrecipients, and IDOT requests OMB Circular A-133 Audit Reports from only those subrecipients who receive \$300,000 or more of federal awards from IDOT.

We selected a sample of 10 of the 44 subrecipients and noted that five reports were received late and five reports were not reviewed within sixty days. The time elapsed between receipt and review of the five delinquent reports ranged from 63 days to 150 days.

Per OMB Circular A-133 Compliance Supplement, dated March 2003, 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. OMB Circular A-133 audit reports are due within 180 days after the subrecipient's year-end.

In discussing the desk review process with Department officials, they state since the current system for obtaining OMB Circular A-133 reports is decentralized within the Department, there have been inherent delays in monitoring such reports from the various local agencies and units of local government.

Failure to adequately obtain and review 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 03-54, 02-48)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

#### **Recommendation:**

We recommend IDOT:

- Establish procedures to monitor and follow up on the submission of delinquent OMB Circular A-133 reports from subrecipients. The follow up and correspondence with subrecipients should be documented in the monitoring files.
- Establish procedures to require all subrecipients receiving federal awards to either submit their OMB Circular A-133 reports, or submit a statement that they did not expend more than \$300,000 in federal awards and thus did not have an OMB Circular A-133 audit performed.
- Evaluate the current staffing of the audit section to ensure resources are adequate to review the OMB Circular A-133 audit reports within sixty days of receipt.

#### **IDOT Response:**

The Department agrees with the recommendation. The Department does follow up on the submission of delinquent OMB Circular A-133 reports. However, due to the fact that the submission of these reports has been decentralized within the Department, inherent delays have resulted in reports not being monitored within the accepted time limits.

The Department's Audit Section will consolidate and centralize the system to obtain and monitor submission of OMB Circular A-133 reports. Procedures will also be established to require all subrecipients receiving federal awards to either submit their OMB Circular A-133 reports, or submit a statement that they did not expend more than \$300,000 in federal awards and thus did not have an OMB Circular A-133 audit performed. The Audit Section will also continue to emphasize its efforts at completing its review of these reports within sixty days of receipt.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Department of Transportation (IDOT)

**Federal Agency:** US Department of Transportation (USDOT)

**Program Name:** Highway Planning and Construction

**CFDA # and Program Expenditures:** 20.205 (\$693,316,000)

**Questioned Costs:** None

**Finding 03-55** *Improper Re-certification of Administrative Clearance Patterns*

IDOT did not properly re-certify its clearance pattern specified in the Treasury- State Agreement related to administrative cash draws for the Highway Planning and Construction program.

Annually, the State of Illinois negotiates the Treasury-State Agreement (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. Certain approved funding techniques utilized by the State require the use of a clearance pattern that identifies the average number of days disbursements (warrants) take to clear the State Treasurer's account. The established clearance pattern is then used to determine the date the State should draw down funds from the federal government in order to minimize the time elapsing between the draw down and the State Treasurer's clearance of funds. The clearance pattern must be re-certified at least every five years.

During the year ended June 30, 2003, IDOT improperly re-certified the clearance patterns related to payroll costs (administrative cash draws) for the highway Planning and Construction program. Specifically, IDOT randomly selected sixty disbursements from the months of October, 2002, December, 2002, and February, 2003 instead of using all disbursements from three consecutive months to determine the average number of days of clearance for warrants (disbursements).

According to The Money and Finance Treasury Code Regulations (31 CFR 205.20(d-e)), a clearance pattern must be based on at least three consecutive months of disbursement data, unless additional data is required to accurately represent the flow of Federal funds. If a State uses statistical sampling to develop a clearance pattern, the sample size must be sufficient to ensure a 96 percent confidence interval no more than plus or minus 0.25 weighted days above or below the estimated mean.

In discussing these conditions with Department personnel, they state the failure to re-certify the clearance patterns accurately was due to its interpretation of the regulations that it was acceptable to take a random sample from three random months and not from all twelve months.

Failure to accurately re-certify a program's clearance pattern violates the requirement of 31 CFR 205.20 and could result in the inaccurate calculation of interest liability to the Treasury. (Finding Code 03-55)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**Recommendation:**

We recommend IDOT re-certify the accuracy of the clearance pattern for administrative draws based on disbursements from three consecutive months.

**IDOT Response:**

The Department agrees with the recommendation. The Department will revise its administrative cost clearance pattern testing procedures to comply with the applicable Federal regulations. Federal regulations allow States to use statistical sampling to develop a clearance pattern based on a sample size sufficient to ensure a 96 percent confidence interval. The Department will employ such techniques on which to base its administrative cost clearance pattern. The sample will be taken from the full twelve-month universe of applicable administrative costs.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**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  
Community Services Block Grant

**CFDA # and Program Expenditures:** 93.568 (\$105,195,000)  
93.569 (\$30,944,000)

**Questioned Costs:** \$1,853,884

**Finding 03-56** *Inadequate Supporting Documentation for Payroll*

Adequate supporting documentation does not exist to substantiate payroll claimed for federal reimbursement under the Low Income Home Energy Assistance Program (LIHEAP) and Community Service Block Grant (CSBG) programs administered by the DCEO for the period from July 1, 2002 through March 31, 2003.

DCEO did not obtain effort certifications from employees who work on the LIHEAP and CSBG programs to verify that payroll expenditures claimed under these programs correlate to the costs incurred from July 1, 2002 to March 31, 2003. Upon identification of this noncompliance from the 2002 audit, DCEO implemented procedures beginning in April 2003 to require employees to prepare effort certification on a semi-monthly basis. Total payroll and fringe benefit expenditures charged to the LIHEAP and CSBG for the period from July 1, 2002 through March 31, 2003 were \$1,225,480 and \$628,404, respectively.

OMB Circular A-87 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 the expenditure be adequately documented. If an employee works solely on one federal program and 100% of their salary or wages are charged to the program, DCEO must obtain a certification from the employee or their direct supervisor that 100% of their time is spent on the single federal program. This certification must be kept on file and is required to be obtained at least every six months. However, if an employee works on multiple activities, monthly personnel activity reports must be completed and signed by the employee. The personal activity report is required to be an after-the-fact distribution of effort and must account for 100% of the employee's activity.

In discussing these conditions with DCEO officials, they stated they had documentation supporting an equitable distribution of administrative costs to these federal programs, but their documentation was not in compliance with OMB Circular A-87's requirements.

Inadequate documentation for payroll expenditures and indirect costs may result in federal funds being expended for unallowable purposes. (Finding Code 03-56, 02-50)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**Recommendation:**

We recommend DCEO continue to obtain effort certifications or personal activity reports for all payroll and fringe benefit expenditures charged to its federal programs as specified by OMB Circular A-87.

**DCEO Response:**

The Department agrees to continue to obtain effort certifications or timesheets for all payroll and fringe benefit expenditures to allocate administrative costs in compliance with Circular A-87. As noted in the finding, the Department already implemented corrective action immediately after identifying this noncompliance from the 2002 audit. As a result, the Department transferred payroll costs at the end of fiscal year 2003 to balance the payrolls with the actual timesheets.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**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

**CFDA # and Program Expenditures:** 93.568 (\$105,195,000)

**Questioned Costs:** None

**Finding 03-57** *Failure to Monitor Earmarking Requirements*

DCEO does not monitor earmarking requirements related to energy needs reduction for the Low Income Home Energy Assistance program (LIHEAP)

Under the LIHEAP program, DCEO is required to limit expenditures of federal funds related to planning and administration, weatherization, home energy needs reduction, and the identification, development and demonstration of leveraging programs based on federal earmarking requirements. In order to maintain and monitor these limits, at the beginning of each grant year, DCEO establishes a budget for each subrecipient, which includes the maximum to be spent on these activities.

During our testwork, we noted DCEO did not monitor expenditures for the home energy needs reduction programs to ensure compliance with the earmarking requirements. There is no requirement for the subrecipients to report total amounts spent on home energy needs reduction to DCEO, throughout the course of the grant 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 monitoring procedures for compliance with earmarking requirements.

In discussing these conditions with DCEO officials, they state staff did monitor the earmarking requirement on a statewide program basis that includes expenditures from both state and federal LIHEAP funds. The state administers LIHEAP as a program, as referenced in the state plan as approved by the USDHHS, regardless of the fund source. Staff did acknowledge they were unable to produce a formal monitoring document or report that isolates earmarking expenditures for just the federal funding source at the entrance of the audit.

Failure to adequately monitor the earmarking requirements could result in federal funds being expended for unallowable costs. (Finding Code 03-57)

**Recommendation:**

We recommend DCEO establish monitoring procedures to ensure compliance with the earmarking percentages (requirements) of the LIHEAP program.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

#### **DCEO Response:**

The Department agrees they could not produce a formal monitoring document or report at the entrance of the audit; however, a report was prepared from information provided by the local administering agencies to support that only 2.79% or \$2,517,762.84 of \$90,351,297 (or 1.62% of \$154,947,932 total of state and federal LIHEAP) was expended on earmarking activities, particularly the home energy needs reduction activity. That report indicates the 5% limitation was not exceeded; therefore, no disallowed costs were incurred. The department conducted monitoring at management level on at least a monthly basis to ensure that the 5% limitation was not exceeded on a statewide program basis. Program staff are required to monitor the local administering agencies at least once annually to ensure program compliance. Although there was no specific question that related to monitoring for earmarking, the staff are very familiar with the expenditures of the program and are aware that most of the expenditures are related to taking applications, office space and associated costs, and outreach. The department restructured both the federal and state LIHEAP grants in FY04 as each grant, regardless of funding source, does not allocate more than 5% for program support of which home energy needs reduction activities are a component. Therefore, the department agrees to continue to monitor at the management level on at least a monthly basis to ensure that the 5% limitation for home energy needs reduction is not exceeded.



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Department of Employment Security (IDES)

**Federal Agency:** US Department of Labor (USDOL)

**Program Name:** Workforce Investment Act Cluster

**CFDA # and Program Expenditures:** 17.255 / 17.258 / 17.259 / 17.260 (\$178,538,000)

**Questioned Costs:** None

#### **Finding 03-58** *Inadequate Subrecipient Monitoring Procedures*

IDES does not have an adequate process to follow up on delinquent OMB Circular A-133 reports from subrecipients and to ensure management decisions on program findings are issued within six months. Additionally, IDES is not adequately documenting the procedures performed for on-site fiscal and programmatic monitoring.

The Illinois Department of Employment Security (IDES) receives OMB Circular A-133 audit reports from subrecipients who expend \$300,000 or more of federal awards in their fiscal year. The A-133 audit reports are due to IDES nine months after the subrecipient's year-end. IDES performs a desk review of the A-133 audit reports and is required to issue a management decision regarding violations of program requirements (findings) within six months of receipt of the reports. IDES also performs on-site programmatic monitoring on an annual basis for all of its subrecipients. IDES completes a standardized checklist for each of its desk review and on-site programmatic reviews.

IDES passed through \$168,137,000 to 26 subrecipients of the Workforce Investment Act Cluster during the year ended June 30, 2003. Of the 26 subrecipients, we noted the following relating to the OMB Circular A-133 reports required to be submitted by subrecipients:

- Two of the OMB Circular A-133 audit reports were received late.
- Eleven of the OMB Circular A-133 reports had not been received as of the date of our testwork (September 30, 2003). These reports ranged from 30 to 820 days late.
- There was no documentation of IDES' attempts to collect delinquent OMB Circular A-133 reports and follow up with subrecipients.
- IDES did not issue a management decision on audit findings within six months for one of its subrecipients

Additionally, IDES is not adequately documenting the procedures performed for on-site fiscal and programmatic monitoring. Specifically, we noted the following:

- The programmatic monitoring file for one subrecipient referred to additional supporting documentation that could not be located.
- Questions on the standardized fiscal monitoring checklist for one subrecipient were not answered and the checklist was not completed at all for another subrecipient.

(Continued)

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

Per the OMB Circular A-133 Compliance Supplement, dated March, 2003, 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 federal regulations.

In discussing this with IDES personnel, they stated that the incomplete monitoring checklists were due to oversight. The deficiencies noted in the monitoring of the OMB Circular A-133 audit reports were due to the retirement of the staff person responsible for this function in December 2002, the inexperience of his replacement, and the transition of the Workforce Investment Act (WIA) program to the Department of Commerce and Economic Opportunity (DCEO).

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 03-58)

#### **Recommendation:**

We recommend IDES establish procedures to:

- Monitor and follow up on the submission of delinquent OMB Circular A-133 reports from subrecipients. Follow up action and correspondence with subrecipients should be documented in the monitoring files.
- Issue management decisions within six months.
- Implement review procedures to ensure on-site reviews are adequately documented using the monitoring checklists.

#### **IDES Response**

We agree with the finding that the agency did not fully comply with the requirements of OMB Circular A-133. The agency did partially implement a system to begin reviewing and monitoring OMB Circular A-133 submissions by recipients. This system included a formal presentation at quarterly WIA meetings specifying compliance requirements, non-submitters and non-submission penalties. A formal notification to non-submitters was not fully implemented and DES was unable to implement the recommendations as stated due to the transfer of the Workforce Investment Act (WIA) program from DES to the Department of Commerce and Economic Opportunity (DCEO) effective July 1, 2003. This was the result of the Governor's Executive Order No. 11. The audit finding has been forwarded to DCEO for their review and consideration in implementing the recommendations.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Department of Employment Security (IDES)

**Federal Agency:** US Department of Labor (USDOL)

**Program Name:** Employment Services Cluster  
Workforce Investment Act Adult Program  
Workforce Investment Youth Activities

**CFDA # and Program Expenditures:** 17.207/17.801/17.804 (\$40,129,000)  
17.258 (\$45,387,000)  
17.259 (\$52,429,000)

**Questioned Costs:** None

#### **Finding 03-59** Inadequate Cash Management Procedures

IDES does not have adequate procedures to ensure cash draws are performed in accordance with U.S. Treasury Regulations.

The State of Illinois is required to follow the Treasury State Agreement (TSA), which is negotiated annually with the U.S. Department of the Treasury and details the funding techniques to be used for the draw down of federal funds. The TSA must include federal programs exceeding \$60,000,000 in expenditures, and must be amended at least annually or as needed to add or delete federal assistance programs subject to the TSA. During the year ended June 30, 2003, IDES drew down funds using the pre-issuance method, a common advance funding technique prescribed in the TSA, for the WIA Adult Program, the WIA Youth Activities, and the Employment Services Cluster. However, these programs were not included in the TSA.

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 cash draws are performed in accordance with the U.S. Treasury Regulations.

In discussing this with IDES personnel, they stated that the funding techniques specified in the TSA were applied to all programs whether or not they were included in the TSA. This was done as a practical matter and to approximate an interest neutral liability.

Failure to draw funds in accordance with the U.S. Treasury Regulations could result in an interest liability to the Federal government. (Finding Code 03-59)

#### **Recommendation:**

We recommend IDES implement procedures to ensure cash draws are made in accordance with the U.S. Treasury Regulations.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

#### **IDES Response:**

We concur that the Federal assistance programs for WIA-Adult, WIA-Youth Activities and the Employment Services Cluster did not meet the \$60 million annual expenditures threshold requirement to be included in the Treasury-State Agreement (TSA) and therefore subject to Subpart A of CMIA (31CFR Part 205 - Money and Finance: Treasury; Rules and Procedures for Efficient Federal-State Transfers). However, as a practical matter, it is not administratively feasible to employ funding techniques different from the TSA for the Adult and Youth components of the WIA program and for the Employment Services Cluster. Although the Treasury Regulations will permit a State to elect to lower the threshold for Federal assistance programs for inclusion in its TSA, this is an impracticable solution for IDES because it would affect all agencies within the State (See Subpart A, 205.3) Upon a State's request, we will make additional Federal assistance programs subject to subpart A by lowering the funding threshold in the Treasury-State agreement. All of a State's programs that meet this lower threshold would be subject to this subpart A. By default, Federal assistance programs that do not meet the threshold are subject to Subpart B and are not included in the State's TSA. Under Subpart B, 205.33(a), a state must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal Program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102. OMB Circular A-102 (Common Rule), 97.20(b)(7) (Cash Management) states "Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used...the grantee must make drawdowns as close as possible to the time of making disbursements." Additionally, Subpart B, 205.33(b) states: "Neither a State nor the Federal government will incur an interest liability under this part on the transfer of funds for a Federal assistance program subject to this subpart B." We believe the funding technique prescribed in the State's TSA for IDES meets the standards of Subpart B, 205.33 of 31CFR and OMB Circular A-102. As described in the TSA, IDES funding technique is a Payment Schedule or Pre-Issuance as necessary where payroll and administrative costs equal to one twenty-fourth of the grant are to be drawn twice a month and received on each pay day. The pre-issuance funding technique is only to be used if sufficient funds were not available in IDES Special Administrative Account (SAA) and sufficient SAA funds were available for the time period in question. The TSA describes the Payment Schedule funding technique as "interest neutral" as permitted by Subpart A, 205.18: (a) A State and FMS may agree, in a Treasury-State agreement, to the following funding conventions for indirect costs and administrative costs: (1) The State will draw down a prorated amount of administrative costs on the date of the State payday. For example, the State would draw one-third of its quarterly administrative costs if payroll is monthly, or one-sixth of its quarterly administrative costs if payroll is semi-monthly. (b) Notwithstanding any other provision of this part, no interest liabilities will be incurred or calculated for indirect costs and administrative costs, provided the funding conventions described in paragraph (a) of this section are properly applied. Since the goal of effective cash management is to minimize the exchange of interest between a State and the Federal government, it appears that the IDES is complying with OMB Circular A-102 (Common Rule) to perform in accordance with the U.S. Treasury Regulations as described in Subpart B, 205.33 (a)(1) & (b) with respect to the Federal assistance programs subject to Subpart B. We will seek the advice and consent of the U.S. Treasury-Financial Management Services through the State's CMIA representative to enable IDES to continue using the funding technique for Federal assistance programs under Subpart B as prescribed in the TSA for the Unemployment Insurance program.

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**Auditors' Comment:**

If management believes that it is not “administratively feasible” to use the funding technique required in subpart B of the U.S. Treasury regulations, IDES should consult with the U.S. Treasury and consider including the program in the Treasury-State Agreement. We believe that management’s assessment of “feasibility” is not appropriate justification to violate the Treasury regulations.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Department of Employment Security (IDES)

**Federal Agency:** US Department of Labor (USDOL)

**Program Name:** Unemployment Insurance  
WIA Dislocated Workers

**CFDA # and Program Expenditures:** 17.225 (\$3,182,528,000)  
17.260 (\$71,503,000)

**Questioned Costs:** None

**Finding 03-60** *Failure to Re-certify to the Accuracy of Administrative Clearance Patterns*

IDES did not review or re-certify the accuracy of the clearance patterns specified in the Treasury–State Agreement related to administrative cash draws for the WIA Dislocated Workers and UI programs.

Annually, the State of Illinois negotiates the Treasury-State Agreement (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. Certain approved funding techniques utilized by the State require the use of a clearance pattern that identifies the average number of days disbursements (warrants) take to clear the State Treasurer's account. The established clearance pattern is then used to determine the date the State should draw down funds from the federal government in order to minimize the time elapsing between the draw down and the State Treasurer's clearance of funds.

In accordance with the TSA in effect for the year ended June 30, 2003, the WIA and UI programs are required to maintain a clearance pattern of 2.5 banking days for payroll warrants and 4.41 banking days for administration. The clearance patterns were initially approved for the programs based on a review performed by the Federal Management Service (FMS) branch of the Treasury when the TSA was established in 1993. During our testwork for the year ended June 30, 2003, we noted IDES did not perform a review of the accuracy of the "outdated" clearance patterns. We also noted an IDES authorized official has not re-certified the accuracy of the clearance pattern within the last eight years.

According to The Money and Finance Treasury Code Regulations (31 CFR 205.20), a State shall ensure that a clearance pattern accurately represents the flow of Federal funds and that a clearance pattern reflects seasonal or other periodic variations in clearance activity. A State shall also ensure that a clearance pattern is auditable. Additionally, an authorized State official shall certify (31 CFR 205.22) that a clearance pattern corresponds to a program's clearance activity and shall re-certify the accuracy of the clearance pattern at least every five years.

In discussing these conditions with IDES personnel, they stated that clearance patterns were evaluated in December 2003, however the TSA had not yet been updated for the revised clearance patterns.

Failure to evaluate and re-certify a program's clearance pattern violates the requirement of 31 CFR 205.8 and could result in the inaccurate calculation of IDES' interest obligation to the Treasury. (Finding Code 03-60, 02-52)

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**Recommendation:**

We recommend IDES establish procedures to review and certify the accuracy of the clearance pattern for administrative draws at least once every five years. Such procedures should include performing a statistical study to compute the actual clearance pattern of each program.

**IDES Response:**

Since the inception of CMIA, the Treasury-State agreement allowed the State to use the FMS supplied Clearance Patterns (FMS' April 1993 Statistically Valid Clearance Patterns or Clearance Pattern Workbook). On December 17, 2003 the agency sent internally developed clearance pattern calculations to the CMIA (Cash Management Improvement Act) State representative. On January 26, 2004, the changes were submitted by the representative to the federal government via an amendment to the CMIA agreement. A signed copy has not been received to date.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Department of Employment Security (IDES)

**Federal Agency:** US Department of Labor (USDOL)

**Program Name:** WIA Dislocated Workers

**CFDA # and Program Expenditures:** 17.260 (\$71,503,000)

**Questioned Costs:** None

**Finding 03-61** *Failure to Include a Program in the Treasury State Agreement*

The WIA Dislocated Workers program is not included in the Treasury State Agreement (TSA) for the year ended June 30, 2003.

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 based on the most recent Statewide Single Audit Report schedule of expenditures of federal awards for those programs that exceeded \$60,000,000 in expenditures. During our cash management test work we noted that IDES did not include the WIA Dislocated Workers program in the TSA, nor did IDES request that this program specifically be excluded from the TSA. Based upon the June 30, 2002 single audit report, this program was considered a major federal assistance program. The program expenditures exceeded the \$60,000,000 threshold during the year ended June 30, 2003. As such, the program should have been included in the TSA.

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 Federal Management Services within 30 days of the time the State becomes aware of a 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 this with IDES personnel, they stated they thought the WIA programs were correctly included as a cluster in the TSA instead of applying the threshold to each of the three components to determine if inclusion was necessary.

Failure to include all required programs in the TSA is a violation of the Cash Management Improvement Act (CMIA) and may result in the IDES utilizing an unapproved funding technique. (Finding Code 03-61)

**Recommendation:**

We recommend IDES work with the Governor's Office of Management and Budget to ensure all programs exceeding the CMIA threshold are included in the TSA.



**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**IDES Response**

There was some confusion on the agency's part when the Catalog of Federal Domestic Assistance (CFDA) for the single number assigned to the WIA cluster was broken out into six CFDA numbers by the Employment and Training Administration for CMIA purposes, but treated as an audit cluster for Single Audit purposes. The agency included the CFDA for the WIA cluster (17.255) in the 2003 Treasury State Agreement instead of looking at each component of the WIA cluster under the new numbers. For FY 2003, only the Dislocated Workers Program would have been considered a major program and should have been included in the TSA under the newly established CFDA number of 17.260. The WIA programs were transferred to the Department of Commerce and Economic Opportunity effective July 1, 2003 so the inclusion of these programs is no longer an issue.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Environmental Protection Agency (IEPA)

**Federal Agency:** US Environmental Protection Agency (USEPA)

**Program Name:** Capitalization Grants for Clean Water State Revolving Funds (CWSRF)  
Capitalization Grants for Drinking Water State Revolving Fund (DWSRF)

**CFDA # and Program Expenditures:** 66.458 (\$100,306,000)  
66.468 (\$26,800,000)

**Questioned Costs:** None

**Finding 03-62** Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports

IEPA is not adequately reviewing OMB Circular A-133 audit reports that are required to be received from subrecipients.

The Illinois Environmental Protection Agency (IEPA) receives OMB Circular A-133 audit reports from subrecipients who expend \$300,000 or more of federal awards in their fiscal year. IEPA reviews these reports to assess whether or not there are violations of program requirements (findings). As part of this review process, IEPA completes a short checklist, which primarily consists of questions related to whether or not the subrecipient audit report discloses any audit findings. However, no documentation exists to support that:

- IEPA 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, and
- IEPA program grants that are Type A programs (as defined by OMB Circular A-133) are being audited at least every three years

Subrecipient expenditures under the federal programs for the year ended June 30, 2003 were as follows:

<b>Program</b>	<b>Total Fiscal Year 2003 Subrecipient Expenditures</b>	<b>Total Fiscal Year 2003 Program Expenditures</b>	<b>%</b>
Capitalization Grants for Clean Water State Revolving Funds	\$76,027,000	\$100,306,000	75.8%
Capitalization Grants for Drinking Water State Revolving Funds	\$24,715,000	\$26,800,000	92.2%

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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

In discussing the desk review process with IEPA officials, they state that in addition to the desk review process, the Infrastructure Financial Assistance Section performs a detailed review of the application documents, plans and specifications, bidding documents, change orders, invoices, etc. prior to disbursement of federal funds to ensure that loan assistance is used for the purposes authorized in the loan agreement. This ongoing monitoring of a project is conducted regardless of the needs to prepare a Single Audit and provides additional assurance that federal funds are not being expended for unallowable purposes.

Failure to adequately obtain and review 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 03-62, 02-55)

#### **Recommendation:**

We recommend that IEPA properly implement the use of an expanded desk review checklist and any other procedures necessary to document and ensure that a sufficient review is performed on the OMB Circular A-133 reports. Additionally, appropriate follow up procedures should be performed for all subrecipients whose OMB Circular A-133 reports include findings.

#### **IEPA Response:**

Accepted. The Agency agreed to revise the procedures and corresponding checklist for the review of OMB Circular A-133 report in response to the 2002 Single Audit finding. Since the 2002 audit was not received until FY2003, the revised procedures were not implemented prior to the on-site visit for the 2003 audit.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Environmental Protection Agency (IEPA)

**Federal Agency:** US Environmental Protection Agency (USEPA)

**Program Name:** Capitalization Grants for Clean Water State Revolving Funds (CWSRF)  
Capitalization Grants for Drinking Water State Revolving Fund (DWSRF)

**CFDA # and Program Expenditures:** 66.458 (\$100,306,000)  
66.468 (26,800,000)

**Questioned Costs:** None

**Finding 03-63** Failure to Notify Subrecipients of Federal Funding

IEPA did not provide required program information relative to federal funds passed through to the subrecipients of the Capitalization Grants for Clean Water State Revolving Funds and Capitalization Grants for Drinking Water State Revolving Funds programs for the year ended June 30, 2003.

IEPA does not communicate the specific program or CFDA number under which federal funding had been provided in grant award documents or in funding notification letters sent to subrecipients. Additionally, subrecipients receiving less than \$300,000 in federal funding from IEPA were not provided any notification that the funds they received were federal.

Subrecipient expenditures under the federal programs for the year ended June 30, 2003 were as follows:

<b>Program</b>	<b>Total Fiscal Year 2003 Subrecipient Expenditures</b>	<b>Total Fiscal Year 2003 Program Expenditures</b>	<b>%</b>
Capitalization Grants for Clean Water State Revolving Funds	\$76,027,000	\$100,306,000	75.8%
Capitalization Grants for Drinking Water State Revolving Funds	\$24,715,000	\$26,800,000	92.2%

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.

In discussing these conditions with Department officials, they state compliance with the Single Audit Act is required in Agency rules and reiterated in the standard conditions of each loan offer. The standard conditions have been revised to include the CFDA title and number, award name and number, and the name of the Federal agency as agreed to in the 2002 Single Audit Report.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

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 03-63, 02-56)

**Recommendation:**

We recommend IEPA review its current process for preparing subrecipient funding notifications to ensure all required information is properly communicated to its subrecipients.

**IEPA Response:**

Accepted. The Standard Conditions to the Loan Agreements have been revised.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

**State Agency:** Illinois Department of Corrections (IDOC)

**Federal Agency:** US Department of Agriculture (USDA)  
US Department of Commerce (USDOC)  
US Department of Justice (USDOJ)  
US Department of Labor (USDOL)  
US Department of Education (USDOE)  
US Department of Health and Human Services (USDHHS)

**Program Name:** Food Donation  
Child Nutrition Cluster  
Technology Opportunities  
Juvenile Accountability Incentive Block Grants  
Juvenile Justice and Delinquency Prevention – Allocation to States  
National Criminal History Improvement Program (NCHIP)  
Crime Victim Assistance  
Byrne Formula Grant Program  
Violent Offender Incarcerations and Truth In Sentencing Incentive Grants  
Violence Against Women Formula Grants  
Residential Substance Abuse Treatment for State Prisoners  
State Criminal Alien Assistance Program  
Youth Opportunity Grants  
WIA Incentive Grants – Section 503 Grants to States  
Adult Education – State Grant Program  
Title I Program for Neglected and Delinquent Children  
Special Education – Grants to States  
Vocational Education – Basic Grants to States  
Safe and Drug-Free Schools and Communities – State Grants  
Innovative Education Program Strategies  
Special Education – State Program Improvement Grants for Children with Disabilities  
Grants to States for Incarcerated Youth Offenders  
Improving Teacher Quality State Grants  
Temporary Assistance for Needy Families  
HIV Prevention Activities – Health Department Based  
Learn and Serve America – School and Community Based Programs

**CFDA # and Program Expenditures:** 10.550 (\$31,985,000)  
10.553/10.555 (\$299,566,000)  
11.552 (\$468,000)  
16.523 (\$9,390,000)  
16.540 (\$2,912,000)  
16.554 (\$1,505,000)  
16.575 (\$16,814,000)  
16.579 (\$15,714,000)  
16.586 (\$5,934,000)

(Continued)

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

16.588 (\$4,852,000)  
16.593 (\$1,104,000)  
16.606 (\$26,000)  
17.263 (\$2,405,000)  
17.267 (\$3,000,000)  
84.002 (\$24,788,000)  
84.013 (\$1,849,000)  
84.048 (\$43,352,000)  
84.186 (\$17,483,000)  
84.298 (\$16,214,000)  
84.323 (\$1,401,000)  
84.331 (\$733,000)  
84.367 (\$99,386,000)  
93.558 (\$613,480,000)  
93.940 (\$4,132,000)  
94.004 (\$862,000)

**Questioned Costs:** None

**Finding 03-64** Failure to Adequately Establish a Centralized Federal Accounting Function

IDOC does not have a centralized federal accounting function to account for all federal funds received and expended by the Department.

During fiscal year 2003, IDOC expended \$16,246,000 of federal funds from 27 separate federal programs. Funding was received from seven federal entities and several additional pass through entities.

The Department's current system used to account for federal funds consists of various subsystems maintained by individual grant administrators resulted in inefficiencies and less than effective financial controls. We noted the following weaknesses with this system:

- There is no standardized methodology for accounting for individual grant programs. Records are maintained on computer spreadsheet programs and the Accounting Information System.
- There is no standardized reconciliation process. Two area grant administrators reconcile their individual grant records to various internal Department or Comptroller reports. There is no consistency in the reconciliation process.
- Due to lack of coordination for reporting federal financial information to the State Comptroller as part of the annual GAAP reporting process, information for the statewide schedule of expenditures of federal awards had to be compiled from several accounting sources.
- IDOC was unable to provide the status of federal grant activity on a Department-wide basis at any particular point in time without significant effort in compiling and summarizing totals.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

Department officials indicated two area grant managers have been responsible for accounting for their own programs.

Good business practice dictates that IDOC develop an efficient standardized federal accounting system that can provide management with the information necessary to properly account for and administer their federal programs. (Finding Code 03-64, 02-62, 01-50, 00-35, IDOC 99-1)

#### **Recommendation:**

We recommend IDOC implement a standardized, centralized federal accounting function that integrates with their primary accounting system. IDOC should also implement standardized procedures for reconciling to Comptroller records and providing accurate information to the Comptroller as part of the annual GAAP reporting process.

#### **IDOC Response:**

Recommendation accepted. The Department is in the process of installing a centralized accounting system for the grants unit. Both grant programs will be consolidated into a single Grants Unit effective July 1, 2004. The oversight for all federal funding will be centralized. Standard reconciliation procedures will be developed. A supervisory review will be performed of reported information to help ensure accuracy and timeliness.



**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2003

**State Agency: Illinois Criminal Justice Information Authority (ICJIA)**

**Prior Year Finding 02-11**

ICJIA did not accurately report its federal expenditures to the Illinois Office of the Comptroller in a timely manner. In the current audit period, ICJIA completed its SCO forms within required deadlines.

**State Agency: Illinois Department of Public Aid (IDPA)**

**Prior Year Finding 02-13**

IDPA did not follow the clearance patterns specified in the Treasury-State Agreement related to administrative and benefit payment cash draws for the Medicaid program. In the current audit period, IDPA implemented procedures to perform cash draws based upon the warrant issue date.

**Prior Year Finding 02-16**

A formal review and approval of cash draw calculations and requests are not performed for the Child Support Enforcement program. During our testwork over a sample of Child Support Enforcement cash draws, we noted a supervisory review appears to have been performed as evidenced by the reviewer's initials.

**Prior Year Finding 02-17**

IDPA has not reviewed or re-certified the accuracy of the clearance patterns specified in the Treasury- State Agreement related to administrative cash draws for the Medicaid Cluster and Child Support Enforcement programs. In the current audit period, the Treasury-State Agreement was amended to conform to 31 CFR 205. \_\_ which does not require a clearance pattern for administrative draws.

**Prior Year Finding 02-18**

IDPA did not adequately perform procedures to ensure support orders were established within required time frames or did not document failed attempts to serve process. In the current audit period, support orders appear to have been established within required timeframes and failed attempts to serve process appear to have been documented.

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

**Prior Year Finding 02-20**

IDHS directly charged payroll expenditures to its Vocational Rehabilitation program that are required to be allocated through the Public Assistance Cost Allocation Plan (PACAP). In the current audit period, IDHS adjusted the claims for the Vocational Rehabilitation program to report amounts allocated through the PACAP.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2003

#### **Prior Year Finding 02-21**

IDHS is not adequately monitoring the earmarking requirement for Temporary Assistance for Needy Families (TANF) program funds transferred into the Social Services Block Grant (Title XX) program. In the current audit period, IDHS identified the individual expenditures used to meet its earmarking requirement; however, exceptions were noted as reported in finding 03-18.

#### **Prior Year Finding 02-23**

IDHS provided the subrecipients of the Temporary Assistance for Needy Families (TANF), Child Care Cluster, and Social Services Block Grant (Title XX) programs inaccurate funding notifications for the years ended June 30, 2001 and 2002. In the current audit period, funding notifications appear to have been properly provided to subrecipients.

#### **Prior Year Finding 02-27**

IDHS provided funds to subrecipients of the Special Supplemental Nutrition for Women, Infants, and Children Program (WIC) in excess of their immediate cash needs during the period from July 2001 through February 2002. In the current audit period, DHS implemented procedures to advance only 30 days of funding to its subrecipients.

#### **Prior Year Finding 02-28**

IDHS has not reviewed or re-certified the accuracy of the clearance patterns specified in the Treasury- State Agreement related to administrative cash draws for the Food Stamps, Vocational Rehabilitation, and Social Security Disability Insurance (SSDI) programs. During the current audit period, IDHS has re-certified its clearance patterns; however, the recertification was not performed in accordance with Treasury regulations as reported in finding 03-27.

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

#### **Prior Year Finding 02-31**

DCFS could not provide documentation that adoption agreements had been executed prior to making payments for adoption subsidies and nonrecurring adoption expenses. In the current audit period, adoption agreements appear to have been executed prior to making payments for adoption subsidies and nonrecurring adoption expenses.

#### **Prior Year Finding 02-32**

Unallowable costs were charged to the Adoption Assistance program. During the current audit period, DCFS implemented additional review procedures to identify unallowable expenditures. During our testwork over Adoption Assistance expenditures in the current audit period, we did not identify any unallowable expenditures.

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

#### Prior Year Findings Not Repeated

For the Year Ended June 30, 2003

#### **Prior Year Finding 02-34**

DCFS does not document the review and approval of cash draw calculations for the Foster Care and Adoption Assistance programs. During the current audit period, DCFS modified procedures in place to require documentation of the review and approval of cash draw calculations.

#### **Prior Year Finding 02-35**

DCFS claimed emergency assistance payments under the Temporary Assistance for Needy Families (TANF) program for an ineligible beneficiary. During the current audit period, DCFS implemented additional review procedures to identify ineligible beneficiaries. During our testwork over emergency assistance payments in the current audit period, we did not identify any ineligible beneficiaries.

#### **Prior Year Finding 02-36**

DCFS improperly used an estimate of equipment expenditures in calculating the indirect cost rate used during the year ended June 30, 2002. During the current audit period, DCFS submitted a revised indirect cost rate agreement which did not use an estimate for equipment expenditures.

**State Agency: Illinois State Board of Education (ISBE)**

#### **Prior Year Finding 02-37**

ISBE is not adequately performing on-site reviews of subrecipients receiving federal awards for the Title One Grants to Local Educational Agencies, Special Education Cluster, and the Vocational Education Basic Grants to States programs. During our review of subrecipients in the current audit period, we noted ISBE had performed on-site reviews for the selected sample.

#### **Prior Year Finding 02-41**

The Illinois State Board of Education did not adequately review its vendor invoices to ensure payments to vendors were not duplicated, as a result, unallowable expenditures were charged to the Special Education Cluster. During the current audit period, ISBE implemented additional expenditure review procedures to identify duplicate payments. No duplicate expenditures were noted during our current year testwork.

#### **Prior Year Finding 02-43**

ISBE is not adequately monitoring the food commodities held at its independent warehouses or reconciling warehouse inventory reports to ISBE perpetual accounting records for the Food Donation program. During the current audit period, ISBE implemented procedures to reconcile its inventory reports and accounting records on a periodic basis.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2003

#### **Prior Year Finding 02-44**

ISBE did not accurately report the value of food commodities (i.e. non cash awards) passed through to subrecipients of the Food Donation program. During our testwork over commodity unit values in the current year, we noted no differences between prices reported by ISBE and the USDA's Price List File.

**State Agency: Illinois Department of Transportation (IDOT)**

#### **Prior Year Finding 02-49**

IDOT has not reviewed or re-certified the accuracy of the clearance patterns specified in the Treasury- State Agreement related to administrative cash draws for the Highway Planning and Construction Program. During the current audit period, IDOT has re-certified its clearance patterns; however, the recertification was not performed in accordance with Treasury regulations as reported in finding 03-55.

**State Agency: Illinois Department of Employment Security (IDES)**

#### **Prior Year Finding 02-51**

IDES improperly calculated the interest liability for the Workforce Investment Act (WIA) and Unemployment Insurance programs. Additionally, IDES did not resolve the potential interest liability with the U.S. Department of the Treasury (the Treasury), which resulted from the excess draw of \$6.1 million in JTPA funds during the year ended June 30, 2001. In the current audit period, IDES met with the US Treasury and resolved the interest liability.

**State Agency: Illinois Department of Natural Resources (IDNR)**

#### **Prior Year Finding 02-53**

As of June 30, 2002, IDNR has significant unresolved issues regarding compliance with federal rules and State laws that have been raised during a federal audit of its Fish and Wildlife Programs. In the current audit period, IDNR modified its procedures to conform with the audit resolution agreement with the US Department of the Interior.

#### **Prior Year Finding 02-54**

IDNR did not identify equipment purchased or reimbursed by the Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining (Federal Mining) program in accordance with the Department's property control procedures. In the current audit period, IDNR identified equipment acquired with federal funds in its property management records.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2003

**State Agency: Illinois Environmental Protection Agency (IEPA)**

#### **Prior Year Finding 02-57**

IEPA did not properly report expenditures in the quarterly Cash Transaction Reports for the Capitalization Grants for State Revolving Funds and Capitalization Grants for Drinking Water State Revolving Funds programs. During our testwork of the Cash Transactions Reports in the current audit period, no exceptions were noted.

#### **Prior Year Finding 02-58**

IEPA did not accurately perform cash draws for the Capitalization Grants for State Revolving Funds and Capitalization Grants for Drinking Water State Revolving Funds programs. During our testwork over a sample of cash draws made in the current audit period, no exceptions were noted.

#### **Prior Year Finding 02-59**

The Capitalization Grants for Drinking Water State Revolving Funds program is not included in the Treasury State Agreement (TSA) for the year ended June 30, 2002. In the current audit period, this program was below the threshold for inclusion in the Treasury State Agreement; therefore, this finding will not be repeated.

**State Agency: Illinois Criminal Justice Information Authority (ICJIA)**

#### **Prior Year Finding 02-60**

Adequate supporting documentation does not exist to substantiate payroll costs claimed for federal reimbursement under all federal programs administered by the Illinois Community Justice Information Authority (ICJIA). In the current audit period, ICJIA completed the implementation of a new time reporting system which documents the allocation of payroll costs to federal programs.

#### **Prior Year Finding 02-61**

ICJIA is not adequately monitoring subrecipients receiving federal awards with respect to Crime Victim Assistance, Byrne Formula Grant Program (Byrne), and Violent Offenders Incarceration and Truth In Sentencing Grants (VOITIS) programs. During the audit period, the agency implemented monitoring procedures for its subrecipients. During our review of subrecipients in the current audit period, we noted ICJIA had performed monitoring procedures for the selected sample.