

REPORT DIGEST

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

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

For the One Year Ended:
June 30, 2004

Summary of Findings:

Total this audit	71
Total last audit	64
Repeated from last audit	45

Release Date:
July 27, 2005



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

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SYNOPSIS

Background

- ◆ The State expended \$16.2 billion from federal awards in FY 04.
- ◆ A total of 51 federal programs were classified and audited as major programs at 12 State agencies. These programs constituted approximately 95.3% of all federal spending or about \$15.5 billion.
- ◆ Overall, 42 State agencies expended federal financial assistance in FY 04. Ten (10) State agencies accounted for about 97.2% of federal dollars spent.

Statewide Finding - Financial Reporting

- ◆ The State of Illinois does not have an adequate process in place to permit the timely completion of a complete and accurate schedule of expenditures of federal awards. As a result, the State has a *reportable condition*¹ on all federal programs.

Auditor Adverse² Opinions

- ◆ The Illinois State Board of Education did not comply with the State Plan requirements of the Reading First State Grants program. Further, the Illinois Student Assistance Commission did not comply with the Federal Family Education Loan program. As a result, *adverse*² opinions were issued by the auditors.

Auditor Disclaimer³ Opinion

- ◆ As described in the audit, we were unable to express and we did not express, an opinion on the compliance of the State of Illinois with the requirements applicable to its Unemployment Insurance Program. Consequently, a *disclaimer*³ of opinion was issued.

Significant Agency Findings Classified as a Material Weakness⁴ Resulting in An Auditor Qualification

- ◆ The Department of Human Services has a *material weakness* for including unallowable expenditures in the reporting of costs incurred by the State as expenditures of the Temporary Assistance for Needy Families.
- ◆ The Department of Human Services has a *material weakness* for not performing re-determinations of eligibility within the time-frames prescribed by regulation for the Temporary Assistance for Needy Families, State Children's Insurance, and Medicaid programs.
- ◆ The Department of Human Services has a *material weakness* for failing to enforce sanctions required by the State Plan for individuals receiving benefits from the Temporary Assistance for Needy Families.
- ◆ The Department of Human Services has a *material weakness* for including unallowable expenditures in the reporting of costs incurred by the State as expenditures of the Title XX Social Services Block Grant program.
- ◆ The Department of Public Aid has a *material weakness* because it did not refer certain recipients of the Temporary Assistance for Needy Families program to the Department of Human Services for sanction. Recipients who are not cooperative in establishing paternity under the Child Support Enforcement Program should be referred to the Department of Human Services.

(continued on next page)

- ◆ The Department of Children and Family Services has a *material weakness* on the Foster Care program due to late permanency hearings.
- ◆ The Department of Children and Family Services has a *material weakness* on Foster Care, Adoption Assistance, Social Services Block Grant and Temporary Assistance for Needy Families programs because of inadequacies in monitoring subrecipient activities.
- ◆ The Department on Aging has a *material weakness* for the Aging Cluster programs because of a failure to have available documentation of on-site reviews of their subrecipients.
- ◆ The Department of Public Health has a *material weakness* due to its lack of an adequate process for performing client eligibility determinations on the HIV Care Formula Grants program.
- ◆ The Department of Public Health has an *Audit Scope Limitation*⁵ on the Centers for Disease Control and Prevention – Investigations and Technical Assistance and HIV Core Formula Grants programs because documentation supporting the cash draws was not maintained.
- ◆ The Department of Public Health has a *material weakness* on the Centers for Disease Control and Prevention – Investigations and Technical Assistance and HIV Care Formula Grants programs because of inadequacies in monitoring subrecipient activities.
- ◆ The Department of Public Health has an *Audit Scope Limitation*⁵ on the Centers for Disease Control and Prevention – Investigations and Technical Assistance and HIV Care Formula Grants programs because monitoring of subrecipient cash management is inadequate.
- ◆ The Department of Commerce and Economic Opportunity has a *material weakness* in the Workforce Investment Act Cluster programs for its failure to adequately monitor subrecipients filing of the OMB Circular A-133 single audit reports and follow-up activities.
- ◆ The Department of Employment Security has a *material weakness* in the Trade Adjustment Assistance – Workers program due to benefit payments were made to ineligible beneficiaries and missing client eligibility file documentation.
- ◆ The Department of Employment Security has an *Audit Scope Limitation*⁵ on the Employment Services Cluster programs because documentation supporting key information on performance reports was not retained for verification of information reported.

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

¹*Reportable Condition*: Matters that represent a significant deficiency in the design or operation of internal control. This deficiency could adversely affect an agency's ability to initiate, record, process and report financial data.

²*Adverse*: A condition where non-compliance is so significant that the auditor concluded that the agency did not comply with requirements of the program as a whole.

³*Disclaimer*: A condition in the audit where the auditor was unable to form an opinion on compliance with the requirements of a major program.

⁴*Material weakness*: An internal control deficiency that is a reportable condition. The magnitude of the condition(s) noted raises the risk that noncompliance could occur and not be detected by employees in the normal course of performing their assigned function.

⁵*Scope Limitation*: A condition occurring in the audit where the auditor was unable to obtain sufficient evidential matter. This condition resulted in an inability to audit the program as required by federal regulations.

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

STATE OF ILLINOIS
STATEWIDE SINGLE AUDIT
For the Year Ended June 30, 2004 (in thousands)

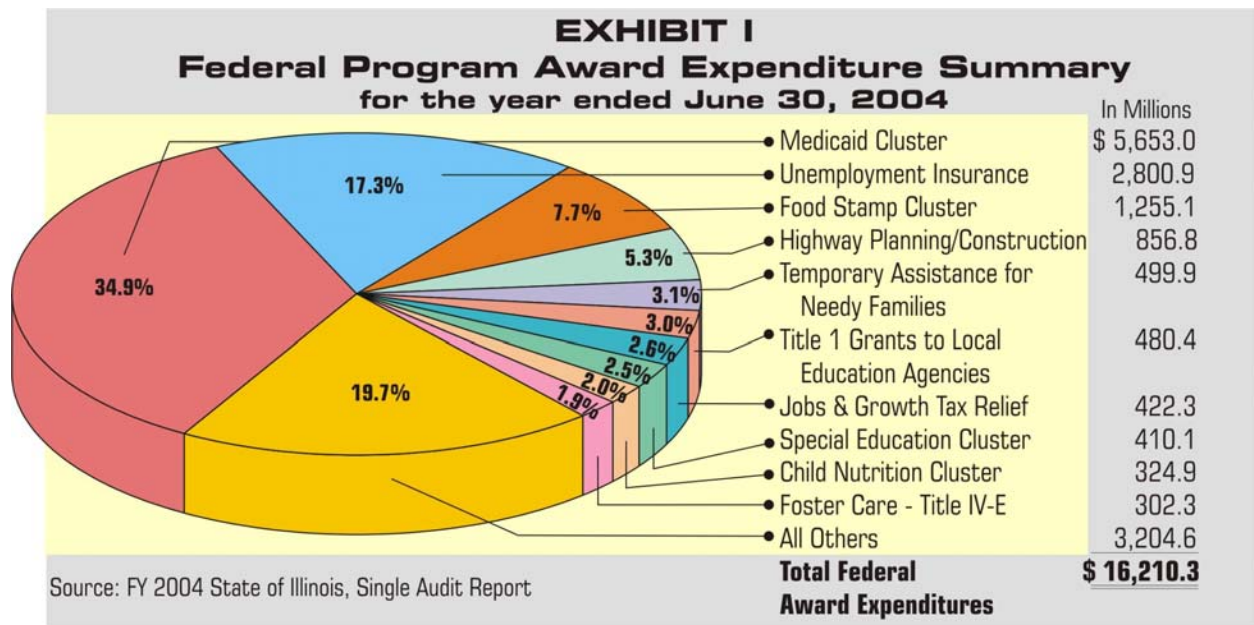
FINANCIAL ACTIVITIES		FY 2004	
EXPENDITURES BY PROGRAM		Amount	Percent
Major Programs			
Medicaid Cluster.....		\$5,653,033	34.9%
Unemployment Insurance		2,800,844	17.3%
Food Stamp Cluster		1,255,122	7.7%
Highway Planning and Construction		856,798	5.3%
Temporary Assistance for Needy Families.....		499,898	3.1%
Title I Grants to Local Educational Agencies.....		480,429	3.0%
Jobs & Growth Tax Relief Reconciliation Act		422,321	2.6%
Special Education Cluster.....		410,047	2.5%
Child Nutrition Cluster		324,877	2.0%
Foster Care – Title IV-E		302,292	1.9%
State Children's Insurance Program		277,823	1.7%
Child Care Cluster		215,793	1.3%
Workforce Investment Act Cluster		187,055	1.1%
Special Supplemental Nutrition Program for Women, Infants & Children.....		174,100	1.1%
Federal Family Education Loans		170,585	1.0%
Social Services Block Grant		139,053	0.9%
Improving Teacher Quality State Grants		115,297	0.7%
Low-Income Home Energy Assistance Program		111,173	0.7%
Child Support Enforcement		102,462	0.6%
Airport Improvement Program.....		98,781	0.6%
Rehabilitation Services - Vocational Rehabilitation Grants to States		93,313	0.6%
Child and Adult Care Food Program		88,477	0.5%
Adoption Assistance		78,999	0.5%
Capitalization Grants for Clean Water State Revolving Funds.....		76,609	0.5%
Block Grants for Prevention and Treatment of Substance Abuse.....		64,128	0.4%
Social Security Disability Insurance.....		61,282	0.4%
Vocational Education - Basic Grants to States		46,678	0.3%
Aging Cluster.....		44,057	0.3%
Community Development Block Grants/State Program		43,665	0.3%
Employment Services Cluster.....		41,385	0.3%
Trade Adjustment Assistance – Workers.....		38,344	0.2%
Centers for Disease Control & Prevention-Investigations/Technical Assistance		38,139	0.2%
Food Donation		36,803	0.2%
Capitalization Grants for Drinking Water State Revolving Funds.....		36,266	0.2%
HIV Care Formula Grants.....		32,019	0.2%
Reading First State Grants		<u>30,109</u>	<u>0.2%</u>
Total Major Programs		15,448,056	95.3%
Non-Major Programs		<u>762,244</u>	<u>4.7%</u>
TOTAL EXPENDITURES		<u>\$16,210,300</u>	<u>100.0%</u>
Federal Agencies Providing Funding:		Total	Major Program Expenditures
U.S. Department of Health and Human Services.....		\$7,759,008	\$7,558,869
U.S. Department of Labor.....		3,082,829	3,067,628
U.S. Department of Agriculture.....		1,914,943	1,879,379
U.S. Department of Education		1,540,141	1,346,458
U.S. Department of Transportation.....		1,005,401	955,579
U.S. Department of Treasury		422,321	422,321
U.S. Environment Protection Agency.....		150,615	112,875
Social Security Administration.....		61,966	61,282
U.S. Department of Housing and Urban Development.....		50,188	43,665
All other federal agencies		<u>222,888</u>	<u>0</u>
		<u>\$16,210,300</u>	<u>\$15,448,056</u>
STATISTICAL INFORMATION		FY 2004	
Total Number of Federal Programs in the Schedule of Expenditures of Federal Awards.....			
		346	
Number of Federal Programs Audited			
		51	
Total Number of State Agencies Spending Federal Funds			
		42	
Number of State Agencies Audited for Single Audit Requirements.....			
		13	

INTRODUCTION

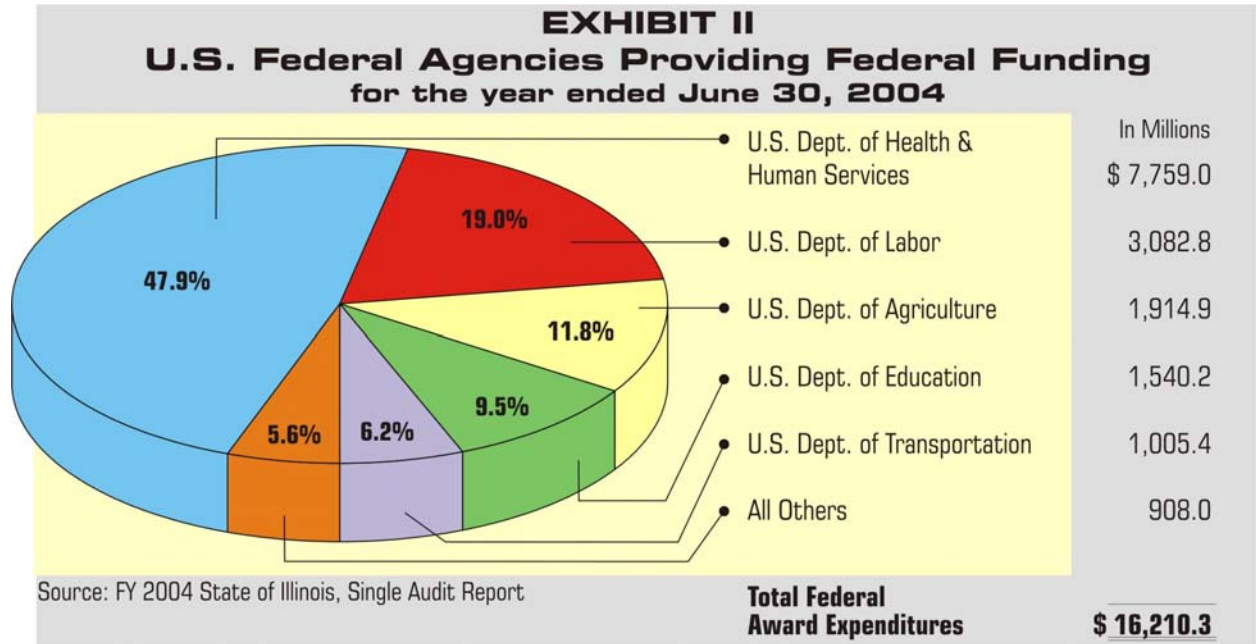
The Illinois Office of the Auditor General conducted a Statewide Single Audit of the FY 04 federal grant programs. The audit was conducted in accordance with the federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133.

The Statewide Single Audit includes all State agencies that are a part of the primary government and expend federal awards. In total, 42 State agencies expended federal financial assistance in FY 04. A separate supplemental report has been prepared by the Illinois Office of the Auditor General. This report provides summary information on federal spending by State agency. The Statewide Single Audit does not include those agencies that are defined as component units such as the State universities and finance authorities. Consequently, the supplemental report does not include information on component units. The component units continue to have separate OMB Circular A-133 audits.

The Schedule of Expenditures of Federal Awards (SEFA) reflects total expenditures of \$16.2 billion for the year ended June 30, 2004. Overall, the State participated in 346 different federal programs, however, 10 of these programs or program clusters accounted for approximately 80.3% of the total federal award expenditures. (See Exhibit I)



The funding for the 346 programs was provided by 22 different federal agencies. Exhibit II shows that five federal agencies provided Illinois with the vast majority of federal funding in FY 04.

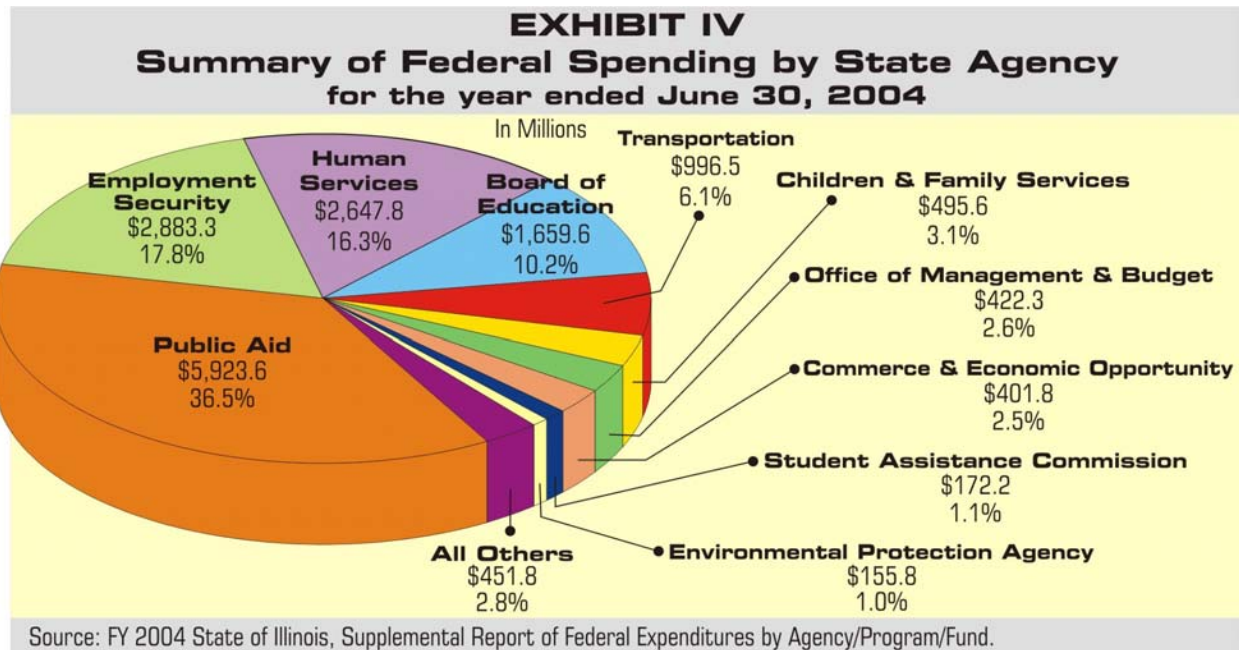


A total of 51 federal programs (or 36 programs/clusters) were identified as major programs in FY 04. A major program was defined in accordance with Circular A-133 as any program with federal awards expended that meets certain criteria when applying the risk-based approach. All of the 36 major programs/clusters involved federal award expenditures exceeding \$30 million. Exhibit III provides a brief summary of the number of programs classified as "major" and "non-major" and related federal award expenditures.

EXHIBIT III
Classification of Federal Programs
"Major vs. Non-Major"
and Related Federal Award Expenditures
for the year ended June 30, 2004

Audit Coverage	No.	Expenditures (in millions)	%
Major Programs	51	\$15,448.1	95.3%
Non-Major Programs	295	762.2	4.7%
Total	346	\$16,210.3	100.0%

Ten State agencies accounted for approximately 97.2% of all federal dollars spent during FY 04 as depicted in Exhibit IV.



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

The auditors' report contained adverse opinions, a disclaimer, scope limitations and qualifications on compliance as summarized below. The complete text of the Auditors' Report may be found on pages 27-30 of the audit.

Adverse

The auditors' issued adverse opinions in their report on the State's failure to comply with certain requirements that are applicable to its Reading First State Grants and Federal Family Education Loans major programs.

State Agency	Federal Program	Compliance Requirement	Finding Number	Page Numbers
IL State Board of Education	Reading First State Grants	Allowable Costs/Cost Principles	04-45	129-130
IL State Board of Education	Reading First State Grants	Allowable Costs/Cost Principles/Eligibility/Subrecipient Monitoring	04-46	131-132
IL Student Assistance Commission	Federal Family Education Loans	Special Tests and Provisions	04-53	147-149

Disclaimer

The auditors' disclaimed an opinion on the Unemployment Insurance program as a result of an inability to evaluate and perform sufficient audit procedures to satisfy themselves that Department of Employment Security complied with the provisions of laws and regulations related to the payment of unemployment insurance claims. The auditors were unable to express, and did not express, an opinion of the Department of Employment Security's compliance with the requirements applicable to its Unemployment Insurance program.

Scope Limitation

The auditors were unable to obtain sufficient documentation supporting the compliance with cash management and subrecipient monitoring for the Centers for Disease Control and Prevention – Investigations and Technical Assistance and the HIV Care Formula Grants programs at the Illinois Department of Public Health (IDPH). IDPH failed to maintain adequate documentation for cash draws, lacked adequate procedures to monitor cash needs of subrecipients related to both the Centers for Disease Control – Investigations and Technical Assistance and the HIV Care Formula Grants programs. Also, the Illinois Department of Employment Security was not able to provide documentation to support key information contained on quarterly performance reports for the Employment Services Cluster. Consequently, the auditors were unable to test the reported information. These deficiencies resulted in the inability to audit the programs as required by OMB Circular A-133.

State Agency	Federal Program	Compliance Requirement	Finding Number	Page Numbers
IL Department of Public Health	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Cash Management	04-41	121-122
IL Department of Public Health	HIV Care Formula Grants	Cash Management	04-41	121-122
IL Department of Public Health	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Cash Management/Subrecipient Monitoring	04-43	125-126
IL Department of Public Health	HIV Care Formula Grants	Cash Management/Subrecipient Monitoring	04-43	125-126
IL Department of Employment Security	Employment Services Cluster	Reporting	04-67	176

Qualifications

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

State Agency	Federal Program	Compliance Requirement	Finding Number	Page Numbers
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles	04-14	67-68
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	04-15	69-70
IL Department of Human Services	State Children's Insurance Program	Allowable Costs/Cost Principles and Eligibility	04-15	69-70
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	04-15	69-70
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Special Tests and Provisions	04-16	71-74
IL Department of Human Services	Social Services Block Grant	Allowable Costs/Cost Principles	04-17	75-76
IL Department of Public Aid	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Special Tests and Provisions	04-29	97-98
IL Department of Children and Family Services	Foster Care - Title IV-E	Allowable Costs/Cost Principles and Eligibility	04-35	109-110
IL Department of Children and Family Services	Foster Care - Title IV-E	Subrecipient Monitoring	04-36	111-112
IL Department of Children and Family Services	Adoption Assistance	Subrecipient Monitoring	04-36	111-112
IL Department of Children and Family Services	Temporary Assistance for Needy Families	Subrecipient Monitoring	04-36	111-112
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	04-38	115-116
IL Department of Public Health	HIV Care Formula Grants	Allowable Costs/Cost Principles and Eligibility	04-40	119-120
IL Department of Public Health	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Subrecipient Monitoring	04-42	123-124
IL Department of Public Health	HIV Care Formula Grants	Subrecipient Monitoring	04-42	123-124
IL Department of Commerce and Economic Opportunity	Workforce Investment Act Cluster	Subrecipient Monitoring	04-64	170-171
IL Department of Employment Security	Trade Adjustment Assistance -- Workers	Allowable Costs/Cost Principles and Eligibility	04-66	173-175

As identified above and described in the report's schedule of findings and questioned costs, the State did not comply with certain compliance requirements that are applicable to its major federal programs.

Internal Control Over Financial Reporting

We noted certain matters involving internal control over financial reporting of the Schedule of Expenditures of Federal Awards (Schedule) that were considered 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 the auditors' judgement, could adversely affect the State's ability to record, process, summarize and report financial data consistent with the assertions of management. There were 14 findings reported in the single audit classified as financial reporting reportable conditions.

Internal Control Over Compliance

We noted certain matters involving internal control over compliance that were considered to be reportable conditions. Reportable conditions involve matters coming to the auditors' attention relating to significant deficiencies in the design or operation of internal control over compliance that, in the auditors' judgement, could adversely affect the State's ability to administer a major federal program in accordance with the applicable requirements. Overall, 58 of the 71 findings reported in the single audit were classified as compliance reportable conditions.

Material weaknesses were also disclosed in our report. In general, a material weakness is a reportable condition in which the design or operation of internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Overall, 28 of the 71 findings reported in the single audit were classified as both a material weakness and a reportable condition.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

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

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

State Agency	Number of Findings	Number of Repeat Findings	Page References to Findings
State Comptroller	1	1	36-37
Human Services	17	11	38-39, 65-96
Public Aid	7	5	40-41, 97-108
Children & Family Services	4	4	42-43, 109-114
Aging	2	1	115-118
Public Health	6	1	44-45, 119-128
State Board of Education	9	4	46-47, 129-146
Student Assistance Commission	5	4	48-49, 147-155
Community College Board	3	3	50-51, 156-159
Transportation	6	3	52-53, 160-169
Commerce and Economic Opportunity	2	2	54-55, 170-171
Employment Security	5	2	56-57, 172-178
Environmental Protection Agency	2	2	179-183
Corrections	1	1	184-186
Natural Resources	1	1	58-59
Totals	<u>71</u>	<u>45</u>	

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

The financial reporting process to IOC is complex in its design and manual in nature

The State's process and source of information used to prepare the SEFA are from manual data collection forms designed and used by the Office of the Comptroller (IOC) in its preparation of the State's Basic Financial Statements. These agency prepared forms are reviewed by the IOC and subsequently, by each agency's post auditor, whose reviews often identify needed corrections and a lack of completeness in their original preparation.

During our audit of agencies administering major Federal programs, we noted the State's process for collecting information to compile the SEFA is inadequate to permit timely and accurate reporting in accordance with the deadline prescribed in OMB Circular A-133 which is March 31 or within thirty days after the issuance of the basic financial statements, whichever is earlier.

Our review encompassed:

1. State Comptroller's documentation of when items were received and date review completed of accounting forms;
2. Items noted as needing correction or completion by the agency's post auditor; and
3. The time period lapsing for each participant to interact to correct or complete accounting and financial reporting information so a SEFA can be appropriately compiled and reported.

Improvements made, however, problems remain

Although the IOC made some improvements in the SEFA reporting process, problems remain in the submission and finalization of the State Comptroller forms due to their complex nature and manual process.

Lack of timely reporting

For example, during our review of the financial reporting process, we noted agencies had not completed the IOC forms by their scheduled due date and/or correcting journal entries were identified by either the IOC or auditors to accurately state amounts reported by 11 of the agencies. These corrections occurred after the agency's submission of their GAAP package to IOC. A brief summary follows:

Reporting Financial

<u>Finding</u>	<u>Agency</u>	<u>Due Date Met</u>	<u>Reports Were Accurate</u>
04-02	Human Services	No	No
04-03	Public Aid	Yes	No
04-04	Children and Family Services	No	Yes
04-05	Public Health	No	No
04-06	State Board of Education	No	No
04-07	Student Assistance Commission	No	No
04-08	Community College Board	No	No
04-09	Transportation	No	No
04-10	Commerce and Economic Opportunity	No	No
04-11	Employment Security	No	Yes
04-12	Natural Resources	No	No

Errors, discrepancies, omissions and delays in financial reporting

The type of errors, discrepancies, deficiencies, omissions, and delays varied by agency and fund. Problems noted and comments by agency staffs were as follows:

- 1) Preparation of agency-level financial statements relies heavily on multiple external entities.
- 2) Inadequate staff available to meet State Comptroller's due dates.
- 3) Agencies' accounting system and processes are not completed until after State Comptroller's due dates.

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

Auditor reportable condition due to inadequacies in the financial reporting process

As a result of the errors, deficiencies and omissions noted throughout the process used by the State in its financial reporting process, along with the inability to meet the required filing deadline of 03/31/05, the auditors identified the inadequacies as a reportable condition for all federal programs administered by the State. (Findings 04-01 through 04-12, pages 36-59) **These findings were first reported in the Statewide Single Audit in 2002.**

We recommended the IOC review the current process and information systems for compiling the SEFA and

consider changes that will allow for completion of the State's OMB Circular A-133 audit within the required timeframe. Such a review should include consideration of implementing a statewide grant accounting system. Also, State agencies should review the current process with the IOC and implement changes necessary to ensure timely submission of complete and accurate forms.

The State Comptroller's Office agrees that the State does not currently have an adequate process in place to permit the timely preparation of the SEFA. The Comptroller is to consult with the Governor's Office of Management and Budget to establish and implement monitoring procedures for agencies' reporting of federal award financial information, including the possible implementation of a statewide grant accounting system. The IOC will continue to automate reporting forms and provide assistance to agencies in completing the forms. Also, agencies indicate they would support efforts by the IOC to modernize the financial, grant, and infrastructure reporting system and work to improve timeliness in the process.

**Auditor Adverse Opinion on
federal program
administered by ISBE**

**ISBE FAILS TO IMPLEMENT STATE PLAN AND
LACK OF ELIGIBILITY DETERMINATION
RESULTS IN ADVERSE OPINION ON READING
FIRST STATE GRANTS PROGRAM**

The Illinois State Board of Education (ISBE) did not implement certain activities of its Reading First program in accordance with provisions outlined in the State Plan. Further, ISBE did not perform eligibility determinations of subrecipients. The State Plan details specific goals and activities for improving reading instruction and delivering reading services to eligible students in Kindergarten through 3rd grade with specific mechanisms that ISBE is to use to achieve its Reading First goals. Also, the State Plan requires the State to perform an annual eligibility determination.

During our test work and discussions with management, we noted ISBE had not implemented several State Plan activities.

ISBE prepared and obtained US Department of Education (USDE) approval for a Reading First State Plan program, which describes a specific plan. However, as a result of the failure by ISBE to comply with the approved State Plan, the auditors' issued an adverse opinion on their

Auditor adverse opinion

issued due to failure to perform and follow State Plan requirements

audit of the Reading First program. (Findings 04-45 and 04-46, pages 129-132)

We recommended ISBE review the process and procedures in place to ensure compliance with the State Plan. Also, ISBE should review its current process for performing eligibility determinations and awarding competitive grants to subrecipients to ensure all determinations are performed and reviewed by an appropriate level of management who is knowledgeable of the program requirements. Adequate documentation should be maintained in subrecipient files including signed applications, award letters, and approved budgets.

ISBE accepts auditor recommendations

ISBE officials accepted the recommendations and stated they have taken actions to correct the deficiencies noted. Specifically, ISBE indicated they are working with the USDE and the National Reading First Technical Assistance Center to draft an amendment to the State Plan and develop and implement improved processes and procedures along with an improved process for determining eligibility and awarding of funds (and related document retention and file maintenance procedures).

ISAC'S INTERPRETATION DIFFERENCES WITH THE FEDERAL GOVERNMENT RESULTS IN ADVERSE OPINION ON THE FEDERAL FAMILY EDUCATION LOAN PROGRAM (FFELP)

Auditor Adverse Opinion on federal program administered by ISAC

The Illinois Student Assistance Commission (ISAC) has significant unresolved issues regarding compliance with federal laws and regulations related to the processing and submission of reinsurance claims to the United States Department of Education (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)

ISAC's interpretation of FFELP regulations questioned by federal officials

During FY 2003, the USDE-OIG conducted an audit of the FFELP. The audit report indicated that 50 claims were selected to test from a population of 21,732. Of the 50 tested (totaling \$123,521), 32 claims (or 64% totaling \$75,077) should have been returned to the lenders because the lender's claim packet was missing accurate collection and/or payment histories or contained evidence of due diligence violation(s).

The draft report stated that ISAC's claims review process is not adequate and is limited, and thus, does not

comply with the regulations to fulfill their administrative responsibility. During the year ended June 30, 2004, ISAC has not changed its process for submission and payment of claims. (Finding 04-53, pages 147-149) **This finding was first reported in the Statewide Single Audit in 2003.**

Auditor adverse opinion issued due to non-compliance with federal requirements

As a result of the non-compliance with the federal regulations by ISAC, the auditors' issued an adverse opinion on their audit of the FFELP.

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

ISAC has appealed the finding and is actively engaged with federal government

ISAC officials state they have appealed the findings of the USDE-OIG and are actively engaged in meetings and discussions within the guaranty agency community concerning the interpretation of regulations related to the processing and submission of reinsurance claims. Although ISAC strongly believes that current industry practice as outlined in the Common Manual clearly fulfill the regulations in question, modifications to their process will be made as agreed upon interpretations of regulations and final guidance is received from USDE. (For previous agency responses, see Digest Footnote #1)

DES PAID UNEMPLOYMENT BENEFITS TO INELIGIBLE INDIVIDUALS

The Department of Employment Security (DES) made payments to ineligible individuals under the Unemployment Insurance (UI) program.

Unemployment benefit payments made to ineligible individuals

The UI program administered by DES provides unemployment benefits to eligible individuals that are able and available for work. During our audit, DES disclosed payments were made to individuals who were not eligible to receive benefits under the UI program. DES officials stated this matter is currently under investigative review. They could not quantify the amount of ineligible payments at this time. The auditors were not able to apply other audit procedures to satisfy themselves as to whether payments were made to eligible individuals of the UI program or to enable them to express an opinion on compliance for this program. (Finding 04-65, page 172)

Auditors issue a disclaimer of

As a result of the auditor's inability to evaluate DES's compliance with the provisions of laws and regulations

an opinion

related to the processing of UI claims, the auditors' issued a disclaimer of an opinion.

We recommended DES continue to review its procedures for payment of UI benefits and implement changes necessary to ensure benefits are only paid to eligible individuals.

DES accepts the auditor recommendation

DES officials concurred with the finding due to the timing of the audit and the confidentiality requirement imposed for the outside investigative review. Further, they expect the information will be available for the FY 05 audit upon completion of the investigative review.

DHS CHARGED UNALLOWABLE COSTS TO THE TEMPORARY ASSISTANCE FOR NEEDY FAMILIES PROGRAM

Auditors questioned program costs of approximately \$24,600,000

The Department of Human Services (DHS) 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. As a result, the auditors questioned \$24.6 million in expenditures.

DHS claimed expenditures under its TANF program from the Regional Safe Schools program operated by the State Board of Education. The purpose of the Regional Safe Schools program is to provide alternative education to residents who have been expelled from local school districts for behavioral problems.

In order to be allowable for TANF program reimbursement, expenditures must meet one of the following purposes:

- (1) provide time-limited assistance to needy families with children so that children can be cared for in their own home or in a home of a relative;
- (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.

The State TANF Plan is submitted to and approved by the U.S. Department of Health and Human Services (USDHHS). The plan identifies those activities the State offers as part of its TANF program. Additionally, federal regulations relating to expenditures on behalf of eligible families for educational services or activities provided through the public education system do not qualify 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. (Finding 04-14, pages 67-68) **This finding was first reported in the Statewide Single Audit in 2003.**

Auditor qualification for unallowable TANF expenditures

As a result of DHS's including the State's Regional Safe School program as a qualifying TANF reimbursable activity, the auditors qualified their report on the TANF program.

We recommended DHS 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.

DHS disagrees with finding

DHS officials did not agree with the finding. They believe that the Regional Safe Schools meets TANF and A-87 requirements. However, they will continue to work with the federal government until this issue is resolved. Until then, DHS will not report Regional Safe Schools expenditures in their Federal Fiscal Year 2005 TANF report until further clarification can be obtained.

Auditor Comment

In an auditor's comment we noted the Regional Safe Schools program is available for all expelled students resulting from behavior problems occurring in local school districts. The purpose of TANF is not to provide funding for broad based educational programs. Further, we did not see a direct correlation between this program and its ability to prevent or reduce out-of-wedlock pregnancies and thus, those expenditures are clearly questionable. (For previous agency responses, see Digest Footnote #2)

DHS FAILED TO PERFORM RE-DETERMINATIONS OF ELIGIBILITY WITHIN PRESCRIBED TIMEFRAMES

The Department of Human Services (DHS) is not performing eligibility re-determinations in accordance with timeframes required by the respective State Plans for the

Temporary Assistance for Needy Families (TANF), State Children's Insurance Program (SCHIP), and Medicaid programs.

Multiple subrecipient monitoring deficiencies were noted

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

TANF	2,771 of 39,714 cases	7.0%
SCHIP	44,381 of 467,871 cases	9.5%
Medicaid	25,785 of 354,985 cases	7.3%

According to federal regulations, DHS is required to determine client eligibility in accordance with eligibility requirements defined in the State Plans for Medicaid, SCHIP, and TANF programs. The current State Plans require re-determinations of eligibility for all recipients on an annual basis. (Finding 04-15, pages 69-70) **This finding was first reported in the Statewide Single Audit in 2003.**

Auditor qualification due to failure to perform timely eligibility re-determination

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

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

DHS accepts the auditor recommendation

DHS officials agreed with our recommendation and stated they will review their current process for performing eligibility re-determinations and consider any changes that would ensure improvements in these rates. Further, they will revise the State Plan and discuss the issue with the federal Administration for Children and Families. (For previous agency responses, see Digest Footnote #3)

DHS FAILED TO FOLLOW AND DOCUMENT TANF SANCTION PROCEDURES

The Department of Human Services (DHS) 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.

Amnesty given to non-cooperating child support clients violates regulations

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 Department of Public Aid (DPA) to help identify and locate non-custodial parents. In the event a TANF beneficiary fails to assist DPA without good cause, DHS is required to reduce or deny his/her TANF benefits.

During our test work over the Child Support Non-Cooperation Special Test of the TANF program, we selected 30 Child Support cases referred by DPA for non-cooperation without good cause. We noted the following exceptions:

- 1) In four cases, DHS did not sanction beneficiaries for non-cooperation and no evidence was in the case files documenting that good cause existed for non-cooperation. Benefit payments paid to these individuals during the year were \$8,861.
- 2) In two cases, DHS did not sanction beneficiaries for non-cooperation or document good cause existed for the non-cooperation with DPA. Based on discussions with DHS and DPA management, we were informed that the notification process was suspended during the period of May 13, 2004 through September 30, 2004, resulting in approximately 3,712 cases not being evaluated to determine whether sanctions were required during this period.

Agencies suspend notification process for 4.5 months and did not evaluate 3,712 cases

Federal regulations requires the State take appropriate action by deducting an amount equal to at least 25% of the family's assistance payment or denying any assistance under the program. (Finding 04-16, pages 71-74) **This finding was first reported in the Statewide Single Audit in 2003.**

Auditor qualification for failure to enforce sanctions

As a result of DHS's failure to sanction beneficiaries for non-cooperation with Child Support Enforcement efforts in accordance with the State Plan, the auditors qualified their report on the TANF program.

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

DHS disagrees with finding

DHS officials did not agree with the finding. The Department states that although they do not agree with all the specific case exceptions, they will review the process for sanctioning beneficiaries not cooperating with the State's child support enforcement efforts. Also, DHS will reiterate to its casework staff the importance of taking proper action upon notification of non-cooperation with child support enforcement requirements.

Auditor Comment

In an auditor's comment we stated that DHS is required to sanction TANF recipients who fail to cooperate with the Child Support Enforcement program where there is not valid good cause for failing to cooperate with the Child Support Enforcement program. As discussed in the finding, for the period from May 13, 2004 through September 30, 2004, DHS did not evaluate 3,712 TANF cases in which a notice of non-cooperation was generated by KIDS system to determine if good cause existed. DHS and DPA agreed to grant these cases amnesty due to change in the Child Support Enforcement intake process without further investigation or evaluation. We do not believe it is within the State's authority to determine good cause without first evaluating the specific facts and circumstances pertaining to each case in accordance with its established policies and procedures. (For previous agency responses, see Digest Footnote #4)

DHS CHARGED UNALLOWABLE COSTS TO FEDERAL TITLE XX (SOCIAL SERVICES BLOCK GRANT) PROGRAM

Questioned program costs of \$6.6 million

Adequate documentation did not exist to substantiate that expenditures claimed by the Department of Human Services (DHS) met the earmarking requirements for the Title XX program. As a result, the auditors questioned costs of approximately \$6.6 million.

DHS claimed program expenditures using an unapproved cost allocation methodology

DHS transferred \$34 million of the Temporary assistance for Needy Families (TANF) federal program to the Title XX program which is permissible pursuant to federal regulations. TANF regulations, being more stringent than the Title XX program regulations, require usage for children or families whose income is less than 200% of the official poverty guidelines. DHS used these guidelines in spending the TANF transferred resources for the Early Intervention and Home Services programs.

During our testwork of over 60 expenditures, we noted DHS claimed Early Intervention program expenditures

related to grants to providers for service coordination which had been linked to specific beneficiaries meeting the poverty level criteria using an unapproved cost allocation methodology. The amount of these grants claimed relative to the TANF transfer during the year ended June 30, 2004 was approximately \$6.6 million.

Federal regulations require the use of the TANF transfer amount only for programs and services to children or their families whose income is less than 200 percent of the official poverty guideline. (Finding 04-17, pages 75-76) **This finding was first reported in the Statewide Single Audit in 2002.**

Auditor qualification for unallowable Title XX restricted expenditures

As a result of DHS's failure to allocate indirect costs with an approved cost allocation methodology, the auditors qualified their report on the Social Services Block Grant program.

We recommend DHS implement procedures to ensure: (1) only direct expenditures made for programs or services for families or children who meet the specified income requirements of the program are claimed, or (2) only an approved cost allocation methodology is used to allocate indirect costs.

DHS disagrees with finding

DHS officials did not agree with the finding. Their position is that their methodology results in payments that are tied to a child who met the 200% of poverty threshold. They believe their cost allocation methodology is an appropriate application of the federal government's cost consistency criteria found in OMB Circular A-87.

Auditor Comment

In an auditor's comment, we stated that DHS is improperly treating these expenditures as direct costs similar to "fee for service." DHS' 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. (For previous agency responses, see Digest Footnote #5)

DPA FAILED TO ENFORCE SANCTIONS OVER TANF RECIPIENTS

DPA fails to refer cases to DHS for sanctioning

The Department of Public Aid (DPA) did not refer TANF recipients who have been non-cooperative in establishing paternity under the Child Support Enforcement Program to the Department of Human Services (DHS) to

enforce sanctions.

DPA is responsible for administering the Child Support Enforcement Program. The objectives of this program are to enforce support obligations owed by non-custodial parents, to locate absent parents, establish paternity, and obtain child and spousal support. In situations where a parent is non-cooperative in establishing paternity and also receiving TANF benefits, DPA is required to refer the case to DHS for sanctions (reduction or elimination) of their TANF benefits.

During our test work, we selected 30 TANF cases that should have been referred to DHS by DPA for non-cooperation in establishing paternity. We noted the following exceptions:

- (1) DPA did not refer one of the 30 selected cases which resulted in DHS not being able to take the proper action to either reduce or deny TANF benefits.
- (2) In two cases, DHS did not sanction beneficiaries for non-cooperation or document good cause existed for the non-cooperation with DPA. Based on discussions with DHS and DPA management, we were informed that the notification process was suspended during the period of May 13, 2004 through September 30, 2004, resulting in approximately 3,712 cases not being evaluated to determine whether sanctions were required during this period.

Federal regulations requires the State, where it finds that the individual is not cooperating in establishing paternity, to take appropriate action by deducting an amount equal to at least 25% of the family's assistance payment or denying any assistance under the program. (Finding 04-29, pages 97-98)

As a result of DPA's failure to sanction beneficiaries for non-cooperation with Child Support Enforcement efforts in accordance with the State Plan, the auditors qualified their report on the TANF program.

We recommend DPA implement control procedures to ensure that all TANF recipients who are non-cooperative in establishing paternity are referred to DHS for proper sanctions.

DPA officials did not agree with the finding. The Department states they delayed referral of cases until a

Agencies suspend notification process for 4.5 months and did not evaluate 3,712 cases

Auditor qualification for failure to refer cases to enforce sanctions

DPA disagrees with finding

proper evaluation could be made to determine non-cooperative cases. Once the determination was completed, DPA promptly referred all cases to DHS for sanction.

Auditor Comment

In an auditor's comment we stated that the TANF State Plan clearly states that DHS is required to sanction TANF recipients who fail to cooperate with the Child Support Enforcement program where there is not valid good cause for failing to cooperate with the Child Support Enforcement program. As discussed in the finding, for the period from May 13, 2004 through September 30, 2004, DHS did not evaluate 3,712 TANF cases in which a notice of non-cooperation was generated by KIDS system to determine if good cause existed. Instead, DHS and DPA agreed to grant these cases amnesty due to change in the Child Support Enforcement intake process without further investigation or evaluation. We do not believe it is within the State's authority to determine good cause without first evaluating the specific facts and circumstances pertaining to each case in accordance with its established policies and procedures.

DCFS FAILED TO ENSURE FOSTER CARE PERMANENCY HEARINGS WERE PERFORMED WITHIN REQUIRED TIME FRAMES

DCFS has been late in completing "permanency plans" for foster children

The Department of Children and Family Services (DCFS) did not ensure that foster care permanency hearings were performed within the federally required timeframes. DCFS was late in preparing a "permanency plan" due to failure in conducting permanency hearings timely for the Foster Care Program.

During the review of 50 Foster Care program files, the auditors noted permanency hearings were not performed within the required timeframe for two of the beneficiaries tested. The delay in performing the permanency hearings ranged from 154 to 365 days after the required timeframe. This delay rendered these beneficiaries ineligible until the permanency hearings were conducted. Also, DCFS does not have an adequate process in place to ensure permanency hearings were completed within required timeframes nor do they have a list of beneficiaries where permanency hearings are not completed. As a result, DCFS claimed reimbursement for foster care maintenance payment during this period where the child was determined to be "ineligible" totaling \$4,254.

Ineligible costs of \$4,254

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

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

Auditor qualification for failure to ensure timely permanency hearings

As a result of DCFS' failure to ensure timely permanency hearings of each child placed in foster care, the auditors qualified their report on the Foster Care program. (Finding 04-35, pages 109-110) **This finding was first reported in the Statewide Single Audit in 2002.**

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

DCFS accepts auditor recommendation

DCFS officials accepted the recommendation and stated they have developed and implemented a procedure for identifying and notifying foster and adoptive caretakers of permanency hearings and reviews. The Department will make the appropriate claiming adjustments for actual amounts identified by the auditor. (For previous agency responses, see Digest Footnote #6)

DCFS HAD INADEQUATE AND UNTIMELY MONITORING OF SUBRECIPIENTS

The Department of Children and Family Services (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 subrecipient monitoring sample of 50 subrecipients out of a total of 108 subrecipients (totaling \$32,112,000 of \$121,307,000 in total subrecipient

Multiple subrecipient

monitoring deficiencies were noted

expenditures), we noted certain items of noncompliance. Some of the conditions noted in our sample results showed DCFS:

- (1) did not always receive required subrecipient audit reports timely;
- (2) lacked documentation that extension of time was granted by the agency for those filed after the required 180 days;
- (3) did not have evidence of receipt of audit reports on subrecipient files received or follow-up with the subrecipient;
- (4) had time lapses between the receipt and review of audit reports which ranged from 63 to 80 days; and
- (5) is not performing on-site monitoring visits.

Subrecipient monitoring procedures applicable to a pass-through entity require monitoring subrecipient's activities to provide reasonable assurance that the subrecipient is administering federal awards in compliance with federal requirements and that prompt corrective action is taken on any audit finding. DCFS will then have adequate information to assess any impact in the subrecipient's ability to comply with applicable federal regulations.

Auditor qualification pertaining to subrecipient monitoring

As a result of the conditions noted pertaining to subrecipient monitoring, the auditors qualified their report on three major programs: Foster Care, Adoption Assistance, and Temporary Assistance for Needy Families programs. (Finding 04-36, pages 111-112) **This finding was first reported in the Statewide Single Audit in 2000.**

We recommended DCFS implement procedures to ensure: (1) OMB Circular A-133 audit reports are received from subrecipients within 180 days as required; (2) desk reviews are performed timely, including review of reports, follow-up on subrecipient findings, implementation of Corrective Action Plans, receipt and review of applicable management letters, and documentation of such review; and (3) an evaluation of current staffing of the monitoring department to ensure resources are adequate. We also recommended DCFS consider revising its on-site monitoring policy to include a risk-based approach for selecting subrecipients for on-site visits.

DCFS accepts auditor recommendation

DCFS officials agreed with the recommendation and stated they have implemented procedures to: (1) track receipt of required reports; (2) follow-up on reports not

received within the required 180 day period; and (3) screen reports to determine if the subrecipient needs to be contacted to provide missing information. Additionally, DCFS increased its audit staff by five; and subrecipients selected for audit will be based on both prior year's desk review and consulting DCFS program monitors to assess risk issues. (For previous agency responses, see Digest Footnote #7)

AGING HAD INADEQUATE MONITORING OF SUBRECIPIENTS

The Department on Aging (Aging) is not adequately performing monitoring procedures for subrecipients who receive awards under the Aging Cluster programs.

Aging passes through federal funding to thirteen area agencies. Each of these Area Agencies works with Aging to develop an annual Area Plan detailing how the funds will be used to meet the goals and objectives of the Aging Cluster programs. Aging has established policies and procedures for monitoring the Area Agencies to include: (1) performing on-site reviews (evaluations), (2) reviewing periodic financial, programmatic, and single audit reports, and (3) providing training and guidance to Area Agencies, as necessary.

During our testwork of seven Area Agencies of the Aging Cluster having total expenditures of \$23,011,842, we noted on-site monitoring procedures had not been performed since 1998. Total awards passed through to all recipients of the Aging cluster were \$42,037,000 during the year ended June 30, 2004.

According to federal regulations, a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws and regulations. Also, effective internal controls should include ensuring documentation of on-site review procedures adequately supports procedures performed and the results obtained. (Finding 04-38, pages 115-116) **This finding was first reported in the Statewide Single Audit in 2003.**

As a result of Aging's failure to adequately monitor subrecipients, the auditors qualified their report on the Aging Cluster.

Lack of on-site monitoring of subrecipients

Auditor qualification pertaining to subrecipient monitoring

We recommended Aging perform periodic on-site reviews which include 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 Agency Plan.

Aging accepts auditor recommendation

Aging officials agree with the finding and stated they would contact other State Units on Aging and, by June 30, 2006, will develop, test, and implement revised procedures, as necessary, to include conducting on-site reviews. (For previous agency responses, see Digest Footnote #8)

DPH'S PROCESS FOR DETERMINING CLIENT ELIGIBILITY WAS INADEQUATE

The Department of Public Health (DPH) does not have an adequate process for performing client eligibility determinations for its HIV Care Formula Grant (HIV) program.

Changes needed in process of documenting HIV eligibility criteria

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

During our testwork of benefits provided to 30 HIV beneficiaries eligibility files, we noted the following: (1) in three cases, the case file did not contain documentation supporting a diagnosis of the HIV disease, and (2) in 27 cases, the case file did not contain the documentation (i.e. wage statements or check stubs) DPH (or the subrecipient) used to verify the income level on the signed application. We did note that the income level on the signed application

was at or below 400% of the federal poverty level.

Additionally, in 16 of the 30 cases, the beneficiary application indicated the beneficiary had no income; and since DPH confirmed the individual was not receiving Medicaid benefits, a determination of Medicaid eligibility was not performed. As a result, no income verification procedures were performed to verify the income reported was accurate. Failure to adequately establish a beneficiary's eligibility may result in expenditures being made to or on behalf of ineligible beneficiaries, which are unallowable costs.

According to federal regulations, an individual receiving benefits under the HIV program is required to: 1) have a medical diagnosis of the HIV disease, and 2) be a low-income individual as defined by the State. DPH is required to establish and maintain internal control, such as maintaining adequate documentation to support eligibility determinations, designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. (Finding 04-40, pages 119-120)

Auditor qualification for failure to have proper supporting documentation

As a result of DPH's failure to maintain adequate documentation in support of the eligibility determinations, the auditors qualified their report on the HIV Care Formula Grant program.

We recommended DPH to review its current process for determining eligibility to include ensuring adequate documentation exists to support determinations, verification of income, insurance with third party sources, and other state agencies.

DPH accepts auditor finding

DPH officials agreed with the finding and stated supporting documentation will be improved along with certain procedures.

DPH'S DOCUMENTATION SUPPORTING CASH DRAWS WAS INADEQUATE

Documentation of cash draw calculations were not maintained

The Department of Public Health (DPH) did not maintain adequate documentation for cash draws performed for the Center for Disease Control and Prevention – Investigations and Technical Assistance (Bioterrorism) and HIV Care Formula Grants (HIV) programs.

DPH performs cash draws for the Bioterrorism and HIV programs on a reimbursement basis. Biweekly, a

DPH staff accountant prepares a listing of the expenditures for each federal program and calculates the amount of funds to be requested. The staff calculation is reviewed and approved by the Chief of Federal Accounting and Reporting prior to making the request for funds.

No supervisory review

During our test work on five draws for the Bioterrorism and six draws for the HIV programs, which represented 55% and 52%, respectively, of cash draws during FY2004, we noted expenditure listings supporting the cash draws had not been maintained. DPH attempted to reproduce the list but the list contained unreconciled differences for each cash draw. Additionally, there was no documentation of a supervisory or independent review and approval of the funds being requested.

Federal regulations require 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 include maintaining adequate supporting documentation for all cash calculations and documentation of a supervisory review. (Finding 04-41, pages 121-122)

Audit scope limitation results from failure to maintain documentation

The auditors were unable to determine whether the DPH's cash draws were based on the actual costs incurred. This condition resulted in an audit scope limitation. Total FY 04 expenditures for the Bioterrorism and HIV programs were \$38,139,000 and \$32,019,000, respectively.

We recommended DPH implement procedures to ensure cash draws are adequately supported and supervisory reviews are formally documented.

DPH accepts auditor finding

DPH officials agreed with the finding and recommendations and stated that procedural changes have taken place to retain the hard copy supporting documentation of both cash draws and supervisory reviews.

DPH'S MONITORING OF SUBRECIPIENTS WAS INADEQUATE

Inadequate monitoring of subrecipients

The Department of Public Health (DPH) is not adequately monitoring subrecipients receiving federal awards for the Center for Disease Control and Prevention – Investigations and Technical Assistance (Bioterrorism) and HIV Care Formula Grants (HIV) programs.

DPH monitors the subrecipients of the Bioterrorism and HIV programs by: (1) reviewing periodic expenditure reports, (2) examining single audit reports and findings, (3) performing on-site reviews of compliance with programmatic requirements on a periodic basis, and (4) periodic communication of program requirements.

During our test work of 30 subrecipients of the Bioterrorism and 23 subrecipients of the HIV programs, having expenditures of \$7,200,000 and \$5,739,000, respectively, we noted the following:

- (1) twelve of the HIV subrecipients had not been subject to on-site monitoring in 2003 and 2004;
- (2) on-site reviews for eight subrecipients of the HIV program did not include procedures to review the fiscal and administrative capabilities and controls.
- (3) five of the Bioterrorism subrecipients had never been subject to on-site monitoring;
- (4) two Bioterrorism subrecipients did not submit required expenditure reports: and
- (5) DPH is not performing Bioterrorism subrecipient on-site fiscal and administrative capabilities and internal control reviews.

Federal regulations require DPH 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 DPH's ability to comply with applicable federal regulations. (Finding 04-42, pages 123-124)

**Auditor qualification
pertaining to subrecipient
monitoring**

As a result of DPH's failure to adequately monitor its subrecipients, the auditors qualified their opinion on the Center for Disease Control and Prevention – Investigations and Technical Assistance (Bioterrorism) and HIV Care Formula Grants (HIV) programs.

We recommended DPH evaluate the current staffing of its monitoring unit to ensure resources are adequate to complete reviews within required timeframes and follow-up on delinquent expenditure reports. DPH's monitoring procedures for the Bioterrorism and HIV programs should include procedures to review subrecipient's fiscal and administrative capabilities.

DPH accepts auditor finding

DPH officials agreed with the finding and stated they

understand the importance of on-site monitoring and will include a review of each subrecipient's fiscal and administrative capabilities.

DPH'S CASH MANAGEMENT PROCEDURES FOR SUBRECIPIENTS WERE INADEQUATE

The Department of Public Health (DPH) does not have adequate procedures to monitor the cash needs of subrecipients and to determine whether the subrecipients are minimizing the time lapsing between the receipt and disbursement of funding for the Center for Disease Control and Prevention – Investigations and Technical Assistance (Bioterrorism) and HIV Care Formula Grants (HIV) programs.

Cash advance policy to subrecipients not based on cash position

In our review of agreements for 53 subrecipients of the Bioterrorism and HIV programs, we noted the payment terms stated the subrecipient would be provided grant funding on an annual or quarterly basis. Since DPH had not reviewed the cash position of these subrecipients at the time of each disbursement, we could not determine whether or not the subrecipients had received an advance of more than 30 days of funding.

Federal regulations require that DPH monitor cash advances to subrecipients to ensure those advances are for immediate cash needs only. Based on our discussion with Federal agencies, we have interpreted immediate cash needs as 30 days or less. In addition, non-federal entities receiving federal awards are to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. In additions, effective internal control should include analysis of the subrecipient's cash position prior to advancing funds. (Finding 04-43, pages 125-126)

Audit scope limitation results from failure to maintain documentation

The auditors were unable to determine whether the DPH's subrecipient cash advances were made in excess of a 30-day requirement. This condition resulted in an audit scope limitation. Total FY 04 expenditures for the Center for Disease Control and Prevention – Investigations and Technical Assistance (Bioterrorism) and HIV Care Formula Grants (HIV) programs were \$38,139,000 and \$32,019,000, respectively.

We recommended DPH review its advance funding policies, 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.

DPH accepts auditor finding

DPH officials agreed with the finding and stated they will monitor its subrecipient's immediate cash needs to ensure that they receive no more than 30 days of advance funds.

DCEO'S SUBRECIPIENT MONITORING PROCEDURES WERE INADEQUATE

Lack of on-site reviews of subrecipients

The Department of Commerce and Economic Opportunity (DCEO) does not have an adequate process to: (1) follow up on delinquent reports from subrecipients (2) ensure management decisions on program findings are issued within six months, (3) perform on-site program monitoring for all subrecipients, and (4) document the procedures performed when monitoring subrecipients receiving federal awards with respect to the Workforce Investment Act (WIA) program cluster.

During the year ended June 30, 2004, DCEO passed through \$103,661,000 to 26 subrecipients of the WIA programs. Of the 13 selected subrecipients, we noted the following noncompliance with OMB Circular A-133 subrecipient monitoring:

- (1) one report received on February 2, 2004 had not been reviewed at the date of our test work (October 15, 2004);
- (2) eleven reports had not been received as of the date of our testwork. These reports ranged between 203 to 415 days late;
- (3) six subrecipients did not have an on-site program review during the year;
- (4) five subrecipients were not issued draft finding letters for the program review within 60 days of the monitoring completion as stated in the State Plan;
- (5) for three subrecipients the standardized fiscal monitoring checklist questions were not used and on one subrecipient's checklist certain questions were not answered; and
- (6) nine fiscal monitoring checklists did not document that a supervisor had reviewed the document.

According to federal regulations, a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws and

regulations, take prompt corrective action on any audit findings, and to evaluate the impact of the subrecipient activities on the pass-through entity's ability to comply with federal regulations. Additionally, US Department of Labor uniform administrative requirements requires that each state must have a monitoring system which provides for annual on-site monitoring reviews of local areas' compliance. (Finding 04-64, pages 170-171) **This finding was first reported in the Statewide Single Audit in 2003.**

**Auditor qualification
pertaining to subrecipient
monitoring**

As a result of DCEO's failure to adequately monitor subrecipients, the auditors qualified their report on the Workforce Investment Act Cluster.

We recommended DCEO establish subrecipient monitoring procedures to:

- (1) monitor and follow-up on submission of delinquent OMB Circular A-133 reports;
- (2) document and retain follow-up activities and correspondence in subrecipient file;
- (3) review OMB Circular A-133 reports within 60 days of receipt;
- (4) ensure program and fiscal monitoring is performed on an annual basis; and,
- (5) ensure on-site reviews are documented using the monitoring checklists and are reviewed by a supervisor.

**DCEO accepts auditor
finding**

DCEO officials agreed and stated they have partially implemented corrective action, and automation efforts for the monitoring instruments are being pursued to improve effectiveness and efficiency. DCEO will ensure that the Circular A-133 reviews and reports are completed within timeframes, and adequate documentation of follow-up correspondence will be filed for those subrecipients with late report filings. (For previous agency responses, see Digest Footnote #9)

**DES MADE INELIGIBLE BENEFIT PAYMENTS
AND WAS MISSING DOCUMENTATION**

**Benefit payments made to
ineligible individuals and
unable to locate case files**

The Department of Employment Security (DES) paid benefit payments to ineligible beneficiaries, and was unable to locate case file documentation supporting client eligibility determinations for the Trade Adjustment Assistance – Workers (TAA).

The purpose of the TAA and the North American Free Trade Agreement TAA (NAFTA-TAA) programs are to

assist individuals who become unemployed or underemployed as a result of increased imports or a shift of production to Mexico or Canada to return to suitable employment. Workers certified under the TAA or NAFTA-TAA petitions filed prior to November 4, 2002 (date of TAA Reform Act), were to be served under the prior program regulations. The State's One Stop Career Centers (and local offices) arrange for training and provide weekly trade readjustment allowances (TRA) for eligible program participants. In addition, an eligible individual may receive a job search allowance, a relocation allowance, and a transportation and/or subsistence allowance while attending approved training outside the normal commuting distance of their regular place of residence.

Auditors question program costs of \$211,996

During our testwork of the TAA beneficiary payments, we selected 60 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits. Our testwork noted the following exceptions:

- In one case, the worker's enrollment date did not occur within the 8/16-week deadline. The TRA benefits improperly paid to this individual were \$1,878.
- In six cases, DES was not able to provide either the training agreement or waiver form. TRA benefits paid to these individuals were \$52,188.
- In four cases, DES was not able to provide vocational and training plans. Benefits paid to these individuals were \$3,497.
- In four cases, DES was not able to provide training agreements and/or appropriate waiver forms. Benefits paid to these individuals were \$15,312.
- In twenty-six cases, DES did not properly approve and/or date the training agreements. Benefits paid to these individuals were \$119,356.
- In one case, DES approved the training after the training was scheduled to begin. Benefits paid on behalf of this individual were \$5,000.
- In sixteen cases, DES did not properly approve and/or date the vocational and training plan. Benefits paid to these individuals were \$14,765.

According to federal regulations, workers must be enrolled in their approved training within eight weeks of the issuance of the certification or within 16 weeks of their most recent qualifying separation, whichever is later, unless the requirement is waived. Also, federal regulations state that to be eligible for weekly TRA payments, a worker

Inadequate documentation results in audit qualification on TAA program

must be enrolled in or have completed an approved job training program, unless a waiver from the training requirement has been issued after determination is made that training is not feasible or appropriate. (Finding 04-66, pages 173-175)

As a result of DES's failure to have adequate documentation as noted above, the auditors qualified their report on the Trade Adjustment Assistance – Workers program.

We recommended DES review its procedures for approving and documenting eligibility determinations in the case files and implement any changes necessary to ensure payments are made only to eligible participants. We also recommended DES to implement procedures to ensure vocational and training plans, training agreements, and applicable waiver forms exist and are properly approved.

DES officials agreed with the recommendation and noted that various actions have been taken.

DES accepts auditor recommendation

DES HAD INADEQUATE SUPPORTING DOCUMENTATION FOR PERFORMANCE REPORTS

The Department of Employment Security (DES) was unable to provide documentation to support information reported in the ETA 9002 and VETS 200 performance reports.

DES prepares the ETA 9002 and VETS 200 performance reports to report services, activities, and outcomes of service for all job seekers and veterans to the US Department of Labor (USDOL). These required quarterly reports are used to assess the State's success in meeting its performance goals. The reports include data from the Illinois Skills Match (ISM) system and the Unemployment Services Wage Information System (WIS). DES uses a report writer to accumulate information from the two systems into the required reports. The information is then submitted electronically through the USDOL's Employment and Training Administration's web-based reporting system. OMB Circular A-133 compliance

Documentation not retained to support information reported on quarterly reports

supplement requires the auditor to test key line items in these reports; however, DES was unable to provide detail information supporting the accumulation of data in these key line items. (Finding 04-67, page 176)

Per DES management, the reporting system (DART) used was a new reporting system in which they failed to back up the data for retrieval requirements.

Audit scope limitation results from failure to maintain data used to prepare reports

Failure to provide supporting documentation for the performance reports inhibits the auditors' ability to perform an audit on the program in accordance with OMB Circular A-133 in that it inhibits the auditor's ability to select a sample of data reported to validate the accuracy. Since DES was unable to provide the detail information for testing, the auditors issued an audit scope limitation on the Employment Services Cluster programs.

We recommended DES implement procedures to ensure supporting documentation can be provided for the ETA 9002 and VETS 200 performance reports.

DES accepts auditor recommendation

DES officials agreed with the recommendation and stated they have modified its computer processing schedules and that beginning with the reporting quarter ended September 30, 2004, a copy of the quarterly extract file of data from the ISM system is created and archived prior to downloading to the DART Reporting subsystem.

OTHER FINDINGS

The remaining findings pertain to other compliance and internal control matters. We will follow up on the status of corrective action on all findings in our next Statewide Single Audit for the year ended June 30, 2005.

AUDITORS' OPINION

The auditors state the Schedule of Expenditures of Federal Awards for the State of Illinois as of and for the year ended June 30, 2004 is presented fairly in all material respects.



WILLIAM G. HOLLAND, Auditor General

SPECIAL ASSISTANT AUDITORS

KPMG LLP was our special assistant auditors for this audit.

DIGEST FOOTNOTES

Previous responses by the Illinois Student Assistance Commission

#1 Processing and Submission of Re-insurance Claims

2003: Recommendation accepted. The Commission, in conjunction with the guaranty agency industry, is meeting and discussing with the federal government concerning the interpretation of regulations relating to the processing and submission of reinsurance claims. ISAC will modify their claim process, as appropriate, if guidance from these meetings and discussions indicate the need.

Previous responses by the Department of Human Services

#2 Unallowable Costs Charged to the TANF Program

2003: Recommendation not accepted. The Department's position is that the Regional Safe Schools program met Goal 3 of TANF program which is to prevent and reduce out-of-wedlock.

#3 Failure to Perform Eligibility Re-determinations within Prescribed Timeframes

2003: Recommendation accepted. The Department reviewed the process for performing eligibility determinations and concluded it is accurate.

#4 Failure to Follow and Document TANF Sanction Procedures

2003: Recommendation accepted. The Department staff is addressing the issue of compliance with non-cooperation with child support enforcement efforts.

#5 Unallowable Costs Charged to the Title XX Program

2003: Recommendation not accepted. The Department's position is that their procedures do ensure only expenditures for programs or services or children who meet the specified income requirements are being claimed.

Previous responses by Department of Children and Family Services

#6 Failure To Ensure That Foster Care Permanency Hearings Are Performed Within Required Timeframes

2003: Recommendation accepted. The Department has developed and implemented a procedure for identifying and notifying foster and adoptive caretakers or hearings and reviews for permanency hearings.

#7 Inadequate and Untimely Monitoring of Subrecipients

2003: Recommendation accepted. The Department has developed and implemented a procedure to track the receipt of reports and follow-up on all audits not received within 180 days of year end. Additional staff is to be added. Departmental auditors meet with Departmental programmatic monitors to learn about potential problems prior to the beginning of the audit. This process aids in determining overall risk and aid in the use of staff resources.

Previous responses by Department on Aging

#8 Inadequate Monitoring of Subrecipients

2003: Recommendation not accepted. The Department indicated that on-site

procedures would be a duplication of the effort performed by the area agency external auditors. Also, on-site monitoring procedures cover program requirements in more detail than single audit procedures and are included in Aging's policies and procedures for monitoring its subrecipients.

Previous responses by Department of Employment Security

#9 Inadequate Subrecipient Monitoring Procedures

2003: Recommendation accepted. The Department did partially implement a system to begin reviewing and monitoring OMB Circular A-133 submissions by subrecipients. A formal notice to non-filers was never implemented. Since this program is being transferred by Governor's Executive Order No. 11, these findings will be forwarded to the Department of Commerce and Economic Opportunity for review and consideration.