

**STATE OF ILLINOIS**

Single Audit Report

For the Year Ended June 30, 2005

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

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

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

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

# STATE OF ILLINOIS

## Single Audit Report

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

The Comprehensive Annual Financial Report of the State of Illinois for the Year Ended June 30, 2005 was issued under separate cover.

The Report on Internal Control over Financial Reporting and on Compliance and Other Matters and Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* for the Year Ended June 30, 2005 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:**

Special Education – Grants for Infants and Families with Disabilities

**Qualifications (Scope Limitation):**

Low-Income Home Energy Assistance Program  
Employment Services Cluster

**Qualifications (Noncompliance):**

Temporary Assistance for Needy Families  
Low-Income Home Energy Assistance  
State Children's Insurance Program  
Medicaid Cluster  
Rehabilitation Services – Vocational Rehabilitation Grants to States  
Foster Care – Title IV-E  
Adoption Assistance  
Social Services Block Grant  
Aging Cluster  
HIV Care Formula Grants  
Centers for Disease Control and Prevention – Investigations and Technical Assistance  
Federal Family Education Loan Program  
Airport Improvement Program  
Highway Planning and Construction  
Trade Adjustment Assistance – Workers  
Homeland Security Cluster

### Summary of Audit Findings

	<u>This audit</u>	<u>Prior audit</u>
Number of audit findings:		
This audit	101	71
Repeated audit findings	44	45
Prior findings implemented or not repeated	27	19



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, 2005. This Schedule is the responsibility of the State of Illinois' management. Our responsibility is to express an opinion on this Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting of the Schedule. Accordingly, we express no such opinion. An audit 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, 2005, in conformity with U.S. generally accepted accounting principles.



In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2006 on our consideration of the State of Illinois' internal control over financial reporting of the Schedule and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

June 16, 2006

**THE STATE OF ILLINOIS**  
Schedule of Expenditures of Federal Awards  
June 30, 2005

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	\$ 1,567	-
Conservation Reserve Program	10.069	(235)	-
Wetlands Reserve Program	10.072	39	-
Market News	10.153	4	-
Market Protection and Promotion	10.163	26	-
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475	5,227	-
Meat, Poultry, and Egg Products Inspection	10.477	17	-
Cooperative Extension Service	10.500	89	-
Food Donation	10.550 *	36,028	35,766
Food Stamp Cluster:			
Food Stamps	10.551 * \$	1,353,639	-
State Administrative Matching Grants for Food Stamp Program	10.561 *	86,072	10,490
Total Food Stamp Cluster		1,439,711	
Child Nutrition Cluster:			
School Breakfast Program	10.553 *	48,144	47,241
National School Lunch Program	10.555 *	282,941	281,374
Special Milk Program for Children	10.556 *	3,353	3,353
Summer Food Service Program for Children	10.559 *	8,332	8,055
Total Child Nutrition Cluster		342,770	
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557 *	183,443	175,139
Child and Adult Care Food Program	10.558 *	92,269	91,117
State Administrative Expenses for Child Nutrition	10.560	4,993	555
Commodity Supplemental Food Program	10.565	4,964	4,957
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	10.568	2,607	2,233
Emergency Food Assistance Program (Food Commodities)	10.569	12,872	12,872
Total Emergency Food Assistance Cluster		15,479	
WIC Farmers' Market Nutrition Program (FMNP)	10.572	235	235
Team Nutrition Grants	10.574	262	261
Senior Farmers Market Nutrition Program	10.576	777	777
Cooperative Forestry Assistance	10.664	1,086	-
Schools and Roads Grants to States	10.665	295	-
Rural Business Enterprise Grants	10.769	10	10
Wildlife Habitat Incentive Program	10.914	25	-
<b>Total U.S. Department of Agriculture</b>		<b>2,129,081</b>	
<b>U.S. Department of Commerce</b>			
Interjurisdictional Fisheries Act of 1986	11.407	20	-
Coastal Zone Management Administration Awards	11.419	439	-
Technology Opportunities Program	11.552	57	-
<b>Total U.S. Department of Commerce</b>		<b>516</b>	
<b>U.S. Department of Defense</b>			
Procurement Technical Assistance For Business Firms	12.002	515	278
Payments to States in Lieu of Real Estate Taxes	12.112	551	-
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	1,244	-
Military Construction, National Guard	12.400	7,891	-
National Guard Military Operations and Maintenance (O&M)	12.401	11,041	-

**THE STATE OF ILLINOIS**  
Schedule of Expenditures of Federal Awards  
June 30, 2005

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed – through to subrecipients (Unaudited)
National Guard Civilian Youth Opportunities	12.404	\$ 4,919	\$ -
<b>Total U.S. Department of Defense</b>		<b>26,161</b>	
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Community Development Block Grants/State's Program	14.228	35,370	33,555
Emergency Shelter Grants Program	14.231	2,358	2,310
Housing Opportunities for Persons with AIDS	14.241	1,329	1,096
Fair Housing Assistance Program	14.401	171	-
Section 8 Housing Choice Vouchers	14.871	904	758
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	794	716
<b>Total U.S. Department of Housing and Urban Development</b>		<b>40,926</b>	
<b><u>U.S. Department of Interior</u></b>			
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250	2,287	-
Abandoned Mine Land Reclamation (AMLR) Program	15.252	7,941	-
Fish & Wildlife Cluster:			
Sport Fish Restoration	15.605	\$ 2,341	-
Wildlife Restoration	15.611	2,465	-
Total Fish & Wildlife Cluster		4,806	
Fish and Wildlife Management Assistance	15.608	80	-
Cooperative Endangered Species Conservation Fund	15.615	66	-
Clean Vessel Act	15.616	20	-
Sportfishing and Boating Safety Act	15.622	106	-
Wildlife Conservation and Restoration	15.625	523	-
Landowner Incentive	15.633	30	-
State Wildlife Grants	15.634	518	-
Historic Preservation Fund Grants-In-Aid	15.904	1,090	87
National Historic Landmark	15.912	27	-
Outdoor Recreation Acquisition, Development and Planning	15.916	3,683	-
Lewis and Clark Visitors Center	15.XXA	5	-
Crab Orchard Agreement	15.XXC	42	-
Lincoln Museum	15.XXD	2,132	-
<b>Total U.S. Department of Interior</b>		<b>23,356</b>	
<b><u>U.S. Department of Justice</u></b>			
State and Local Domestic Preparedness Equipment Support Program	16.007	2,607	2,032
State and Local Domestic Preparedness Training Program	16.008	276	215
State and Local Homeland Security Exercise Support	16.009	1,433	1,117
Urban Areas Security Initiative	16.011	4,534	4,534
Education and Enforcement of the Antidiscrimination Provision of the Immigration and Nationality Act	16.110	23	-
Sex Offender Management Discretionary Grant	16.203	68	-
Juvenile Accountability Incentive Block Grants	16.523	3,889	1,832
Juvenile Justice and Delinquency Prevention Allocation to States	16.540	5,766	5,101
Missing Children's Assistance	16.543	31	-
Gang-Free Schools and Communities Community-Based Gang Intervention	16.544	(1)	-
Title V Delinquency Prevention Program	16.548	808	808
Part E State Challenge Activities	16.549	762	761
National Criminal History Improvement Program (NCHIP)	16.554	924	131
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	305	-



**THE STATE OF ILLINOIS**  
Schedule of Expenditures of Federal Awards  
June 30, 2005

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed – through to subrecipients (Unaudited)
Crime Laboratory Improvement Combined Offender DNA Index			
System Backlog Reduction	16.564	\$ 585	\$ -
Crime Victim Assistance	16.575	17,164	8,592
Byrne Formula Grant Program	16.579	17,787	11,943
Edward Byrne Memorial State and Local Law Enforcement Assistance			
Discretionary Grants Program	16.580	445	-
Crime Victim Assistance/Discretionary Grants	16.582	47	-
Violent Offender Incarceration and Truth in Sentencing Incentive	16.586	13,768	-
Violence Against Women Formula Grants	16.588	4,770	4,211
Rural Domestic Violence and Child Victimization Enforcement			
Grant Program	16.589	245	-
Grants to Encourage Arrest Policies and Enforcement of Protection	16.590	225	-
Local Law Enforcement Block Grants Program	16.592	790	758
Residential Substance Abuse Treatment for State Prisoners	16.593	533	-
State Criminal Alien Assistance Program	16.606	284	-
Community Prosecution and Project Safe Neighborhoods	16.609	845	772
Public Safety Partnership and Community Policing Grants	16.710	2,099	-
Police Corps	16.712	734	320
Enforcing Underage Drinking Laws Program	16.727	478	269
National Incident Based Reporting System	16.733	699	-
Equitable Sharing of Federal Forfeitures	16.XXX	543	-
<b>Total U.S. Department of Justice</b>		<b>83,466</b>	
<b>U.S. Department of Labor</b>			
Labor Force Statistics	17.002	2,641	-
Compensation and Working Conditions	17.005	220	-
Labor Certification for Alien Workers	17.203	514	-
Employment Services Cluster:			
Employment Service	17.207 * \$	34,991	283
Disabled Veterans' Outreach Program (DVOP)	17.801 *	2,941	-
Local Veterans' Employment Representative Program	17.804 *	3,788	-
Total Employment Services Cluster		41,720	
Unemployment Insurance	17.225 *	2,080,420	-
Senior Community Service Employment Program	17.235	3,199	3,045
Trade Adjustment Assistance – Workers	17.245 *	41,396	6,974
Welfare-to-Work Grants to State Localities	17.253	914	-
Workforce Investment Act Cluster:			
WIA Adult Program	17.258 *	40,579	31,625
WIA Youth Activities	17.259 *	44,868	35,145
WIA Dislocated Workers	17.260 *	60,249	58,423
Total Workforce Investment Act Cluster		145,696	
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	707	229
Employment and Training Administration Evaluations	17.262	70	70
Youth Opportunity Grants	17.263	595	595
Work Incentives Grant	17.266	665	665
WIA Incentive Grants Section 503 Grants to States	17.267	213	213
Consultation Agreements	17.504	1,593	-
Mine Health and Safety Grants	17.600	199	-
<b>Total U.S. Department of Labor</b>		<b>2,320,762</b>	
<b>U.S. Department of Transportation</b>			
Airport Improvement Program	20.106 *	128,656	59,118
Highway Planning and Construction	20.205 *	848,191	117,182

**THE STATE OF ILLINOIS**  
Schedule of Expenditures of Federal Awards  
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Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed – through to subrecipients (Unaudited)
Highway Training and Education	20.215	\$ 457	\$ -
Motor Carrier Safety	20.217	40	-
National Motor Carrier Safety	20.218	6,392	-
Recreational Trails Program	20.219	294	-
Commercial Driver License State Programs	20.232	381	-
High Speed Ground Transportation Next Generation High Speed Rail Program	20.312	3,117	-
Federal Transit Cluster:			
Federal Transit Capital Investment Grants	20.500	\$ 1,949	1,913
Federal Transit Formula Grants	20.507	420	-
Total Federal Transit Cluster		2,369	
Federal Transit Metropolitan Planning Grants	20.505	3,660	-
Formula Grants for Other Than Urbanized Areas	20.509	6,643	6,358
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	75	-
State Planning and Research	20.515	715	596
Highway Safety Cluster:			
State and Community Highway Safety	20.600	6,142	4,335
Alcohol Traffic Safety and Drunk Driving Prevention Incentive	20.601	5,804	1,246
Occupant Protection	20.602	1,753	608
Federal Highway Safety Data Improvements Incentive Grants	20.603	3	-
Safety Incentive Grants for Use of Seatbelts	20.604	492	482
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	1,931	550
Total Highway Safety Cluster		16,125	
Pipeline Safety	20.700	499	-
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	452	159
Life Saver Conference	20.XXX	22	-
<b>Total U.S. Department of Transportation</b>		<b>1,018,088</b>	
<b><u>Equal Employment Opportunity Commission</u></b>			
Employment Discrimination State and Local Fair Employment Practices Agency Contracts	30.002	1,221	-
<b>Total Equal Employment Opportunity     Commission</b>		<b>1,221</b>	
<b><u>General Services Administration</u></b>			
Election Reform Payments	39.011	6,216	4,965
<b>Total General Services Administration</b>		<b>6,216</b>	
<b><u>National Endowment for the Arts</u></b>			
Promotion of the Arts Partnership Agreements	45.025	741	741
Promotion of the Humanities Research	45.161	39	-
State Library Program	45.310	6,673	5,881
National Leadership Grants	45.312	290	252
<b>Total National Endowment for the Arts</b>		<b>7,743</b>	
<b><u>U.S. Small Business Administration</u></b>			
Small Business Development Center	59.037	3,559	1,543
<b>Total U.S. Small Business Administration</b>		<b>3,559</b>	
<b><u>U.S. Department of Veteran's Affairs</u></b>			
Grants to States for Construction of State Home Facilities	64.005	484	-

**THE STATE OF ILLINOIS**  
Schedule of Expenditures of Federal Awards  
June 30, 2005

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed – through to subrecipients (Unaudited)
Veterans State Domiciliary Care	64.014	\$ 414	\$ -
Veterans State Nursing Home Care	64.015	18,852	-
All-Volunteer Force Educational Assistance	64.124	764	-
<b>Total U.S. Department of Veteran's Affairs</b>		<b>20,514</b>	
<b><u>U.S. Environmental Protection Agency</u></b>			
State Indoor Radon Grants	66.032	264	218
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	516	-
Water Pollution Control State and Interstate Program Support	66.419	362	-
Water Quality Management Planning	66.454	308	-
Capitalization Grants for Clean Water State Revolving Funds	66.458 *	36,554	36,105
Nonpoint Source Implementation Grants	66.460	5,726	-
Regional Wetland Program Development Grants	66.461	(43)	-
Water Quality Cooperative Agreements	66.463	442	-
Wastewater Operator Training Grant Program (Technical Assistance)	66.467	184	-
Capitalization Grants for Drinking Water State Revolving Funds	66.468 *	24,082	23,086
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	116	-
Beach Monitoring and Notification Program Implementation Grants	66.472	57	12
Water Protection Grants to the States	66.474	186	-
Environmental Protection – Consolidated Research	66.500	403	-
Performance Partnership Grants	66.605	22,472	-
Surveys, Studies, Investigations and Special Purpose Grants	66.606	928	-
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	124	-
Environmental Policy and Innovation Grants	66.611		
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	963	-
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	394	-
Pollution Prevention Grants Program	66.708	118	-
Hazardous Waste Management State Program Support	66.801	101	-
Superfund State, Political Subdivision, and Indian Tribe Site Specific Cooperative Agreements	66.802	3,697	-
State and Tribal Underground Storage Tanks Program	66.804	186	-
Leaking Underground Storage Tank Trust Fund Program	66.805	1,742	-
Superfund Innovative Technology Evaluation Program	66.807	604	-
Brownfield Job Training Cooperative Agreements	66.815	657	-
State and Tribal Response Program Grants	66.817	857	-
<b>Total U.S. Environmental Protections Agency</b>		<b>102,000</b>	
<b><u>U.S. Department of Energy</u></b>			
State Energy Program	81.041	1,256	209
Weatherization Assistance for Low-Income Persons	81.042	13,649	13,179
National Industrial Competitiveness through Energy, Environment, and Economics	81.105	300	300
Transport of Transuranic Wastes to the Waste Isolation Pilot Plant: States and Tribal Concerns, Proposed Solutions	81.106	92	-
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	35	19
State Energy Program Special Projects	81.119	565	565
<b>Total U.S. Department of Energy</b>		<b>15,897</b>	

**THE STATE OF ILLINOIS**  
Schedule of Expenditures of Federal Awards  
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Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed – through to subrecipients (Unaudited)
<b>U.S. Department of Education</b>			
Adult Education State Grant Program	84.002	\$ 22,839	\$ 21,814
Title I Grants to Local Educational Agencies	84.010 *	532,353	527,838
Migrant Education State Grant Program	84.011	1,966	1,944
Title I Program for Neglected and Delinquent Children	84.013	1,871	-
Special Education Cluster:			
Special Education Grants to States	84.027 * \$	453,734	442,284
Special Education Preschool Grants	84.173 *	18,196	17,209
Total Special Education Cluster		471,930	
Federal Family Education Loans	84.032 *	221,197	-
Vocational Education Basic Grants to States	84.048 *	44,623	43,601
Fund for the Improvement of Postsecondary Education	84.116	494	387
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126 *	94,971	23,746
Migrant Education Coordination Program	84.144	68	61
Rehabilitation Services Client Assistance Program	84.161	463	-
Independent Living State Grants	84.169	726	726
Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	84.177	1,521	1,224
Special Education Grants for Infants and Families with Disabilities	84.181 *	36,428	20,555
Safe and Drug-Free Schools and Communities National Programs	84.184	409	409
Byrd Honors Scholarships	84.185	1,584	-
Safe and Drug-Free Schools and Communities State Grants	84.186	16,280	15,746
Supported Employment Services for Individuals with Severe	84.187	1,271	1,271
Education for Homeless Children and Youth	84.196	2,683	2,543
Even Start State Educational Agencies	84.213	10,006	9,768
Fund for the Improvement of Education	84.215	2,738	1,803
Assistive Technology	84.224	437	437
Tech-Prep Education	84.243	4,773	3,927
Rehabilitation Training State Vocational Rehabilitation Unit In-Service Training	84.265	121	-
Eisenhower Professional Development State Grants	84.281	1	-
Charter Schools	84.282	1,996	1,919
Twenty-First Century Community Learning Centers	84.287 *	38,996	38,673
Foreign Language Assistance	84.293		
State Grants for Innovative Programs	84.298	13,605	13,104
Education Technology State Grants	84.318	26,400	25,873
Special Education – State Personnel Development	84.323	1,659	1,527
Research in Special Education	84.324	82	82
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	445	296
Advanced Placement Program	84.330	722	584
Grants to States for Incarcerated Youth Offenders	84.331	739	-
Comprehensive School Reform Demonstration	84.332	13,595	13,403
Teacher Quality Enhancement Grants	84.336	497	407
Reading Excellence	84.338	5	-
Preparing Tomorrow's Teachers to Use Technology	84.342	237	164
Title I Accountability Grants	84.348	(43)	-
Transition to Teaching	84.350	326	321
School Renovation Grants	84.352	1,313	1,313
Reading First State Grants	84.357 *	37,227	36,009
Rural Education	84.358	759	720
English Language Acquisition Grants	84.365	25,508	24,611
Mathematics and Science Partnerships	84.366	4,104	3,087
Improving Teacher Quality State Grants	84.367 *	119,846	118,301

**THE STATE OF ILLINOIS**  
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Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed – through to subrecipients (Unaudited)
Grants for State Assessments and Related Activities	84.369	\$ 12,750	\$ -
<b>Total U.S. Department of Education</b>		<b>1,772,521</b>	
<b><u>National Archives and Records Administration</u></b>			
National Historical Publications and Records Grants	89.003	93	-
<b>Total National Archives and Records Administration</b>		<b>93</b>	
<b><u>U.S. Department of Health and Human Services</u></b>			
Public Health and Social Services Emergency Fund	93.003	14,785	12,019
Special Programs for the Aging Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	206	196
Special Programs for the Aging Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Individuals	93.042	583	555
Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services	93.043	849	804
Aging Cluster:			
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	93.044 *	\$ 16,671	15,920
Special Programs for the Aging Title III, Part C Nutrition Services	93.045 *	21,581	20,325
Nutrition Services Incentive Program	93.053 *	6,500	5,981
Total Aging Cluster		44,752	
Special Programs for the Aging Title IV and Title II Discretionary Projects	93.048	320	304
Alzheimer's Disease Demonstration Grants to States	93.051	(14)	-
National Family Caregiver Support	93.052	6,547	6,166
Food and Drug Administration Research	93.103	2	-
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	2,969	2,969
Maternal and Child Health Federal Consolidated Programs	93.110	314	223
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	1,178	84
Primary Care Services Resource Coordination and Development	93.130	258	149
Injury Prevention and Control Research and State and Community Based Programs	93.136	2,624	2,554
Projects for Assistance in Transition from Homelessness (PATH)	93.150	2,102	2,102
Grants To States for Loan Repayment Program	93.165	225	167
Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	848	171
Family Planning Services	93.217	8,329	7,341
Consolidated Knowledge Development and Application (KD&A)	93.230	4,038	3,245
Abstinence Education Program	93.235	1,740	1,643
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	146	-
State Capacity Building	93.240	429	-
State Rural Hospital Flexibility Program	93.241	665	665
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	470	294
Innovative Food Safety Projects	93.245	36	-
Universal Newborn Hearing Screening	93.251	128	113
State Planning Grants Health Care Access for the Uninsured	93.256	178	-
Rural Access to Emergency Devices Grant	93.259	241	241
Immunization Grants	93.268	4,530	1,231

**THE STATE OF ILLINOIS**  
Schedule of Expenditures of Federal Awards  
June 30, 2005

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed – through to subrecipients (Unaudited)
Substance Abuse and Mental Health Services – Access to Recovery Centers for Disease Control and Prevention Investigations and Technical Assistance	93.275	\$ 1,383	\$ 273
Small Rural Hospital Improvement Grant Program	93.283 *	38,805	19,378
Abandoned Infants	93.301	494	494
Promoting Safe and Stable Families	93.551	113	89
Temporary Assistance for Needy Families	93.556	10,378	9,053
Job Opportunities and Basic Skills Training	93.558 *	585,595	256,498
Child Support Enforcement	93.561	(993)	-
Refugee and Entrant Assistance State Administered Programs	93.563 *	94,530	20,026
Low-Income Home Energy Assistance	93.566	6,121	2,626
Community Services Block Grant	93.568 *	107,156	95,070
Community Services Block Grant Formula and Discretionary Awards	93.569	29,384	28,234
Community Food and Nutrition Programs	93.571	189	189
Child Care Development Funds Cluster:			
Child Care and Development Block Grant	93.575 * \$	76,234	71,124
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596 *	149,508	124,124
Total Child Care Development Funds Cluster		225,742	
Refugee and Entrant Assistance Discretionary Grants	93.576	1,304	794
Refugee and Entrant Assistance Targeted Assistance Grants	93.584	1,368	1,368
State Court Improvement Program	93.586	401	288
Community-Based Child Abuse Prevention Grants	93.590	971	915
Grants to States for Access and Visitation Programs	93.597	303	292
Head Start	93.600	3,060	2,502
Child Support Enforcement Demonstrations and Special Projects	93.601	2	-
Voting Access for Individuals with Disabilities Grants to States	93.617	851	851
Basic Center Grant	93.623	40	40
Developmental Disabilities Basic Support and Advocacy Grants	93.630	2,556	1,468
Children's Justice Grants to States	93.643	663	503
Child Welfare Services State Grants	93.645	11,349	8,597
Social Services Research and Demonstration	93.647	326	144
Adoption Opportunities	93.652	462	395
Foster Care Title IV-E	93.658 *	249,474	76,063
Adoption Assistance	93.659 *	81,293	6,275
Social Services Block Grant	93.667 *	87,826	37,974
Child Abuse and Neglect State Grants	93.669	1,538	522
Family Violence Prevention and Services/Grants for Battered Women's Shelters Grants to States and Indian Tribes	93.671	2,342	2,225
Chafee Foster Care Independence Program	93.674	9,527	2,458
State Children's Insurance Program	93.767 *	260,455	-
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	643	-
Medicaid Cluster:			
State Medicaid Fraud Control Units	93.775 *	5,180	-
State Survey and Certification of Health Care Providers	93.777 *	21,066	705
Medical Assistance Program	93.778 *	6,049,582	64,414
Total Medicaid Cluster		6,075,828	
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	986	302
State Pharmaceutical Assistance Programs	93.786	2,295	2,261
Grants to States for Operation of Offices of Rural Health	93.913	76	65
HIV Care Formula Grants	93.917 *	37,918	6,495
Healthy Start Initiative	93.926	2,426	2,334

**THE STATE OF ILLINOIS**  
Schedule of Expenditures of Federal Awards  
June 30, 2005

<b>Federal Agency/Program or Cluster</b>	<b>Federal CFDA #</b>	<b>Amounts (expressed in thousands)</b>	
		<b>Expenditures</b>	<b>Passed – through to subrecipients (Unaudited)</b>
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	\$ 203	\$ 20
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	4,349	2,027
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	944	64
Assistance Programs for Chronic Disease Prevention and Control	93.945	1,319	663
Trauma Care Systems Planning and Development	93.952	34	
Block Grants for Community Mental Health Services	93.958	17,060	16,107
Block Grants for Prevention and Treatment of Substance Abuse	93.959 *	66,393	62,755
Preventive Health Services Sexually Transmitted Diseases Control	93.977	2,399	621
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	824	464
Preventive Health and Health Services Block Grant	93.991	3,365	1,027
Maternal and Child Health Services Block Grant to the States	93.994	21,901	18,632
<b>Total U.S. Department of Health and Human Services</b>		<b>8,153,449</b>	
<b><u>Corporation for National and Community Service</u></b>			
State Commissions	94.003	366	25
Learn and Serve America School and Community Based Programs	94.004	1,196	1,098
AmeriCorps	94.006	3,889	3,889
Planning and Program Development Grants	94.007	499	216
Training and Technical Assistance	94.009	105	105
<b>Total Corporation for National and Community Service</b>		<b>6,055</b>	
<b><u>Social Security Administration</u></b>			
Social Security Disability Insurance	96.001 *	66,301	-
Social Security Benefits Planning, Assistance, and Outreach Program	96.008	623	44
<b>Total Social Security Administration</b>		<b>66,924</b>	
<b><u>U.S. Department of Homeland Security</u></b>			
State and Local Homeland Security Exercise Support	97.006	80	-
Urban Areas Security Initiative	97.008	1,907	1,907
Boating Safety Financial Assistance	97.012	1,293	-
Hazardous Materials Assistance Program	97.021	2	-
Community Assistance Program State Support Services Element	97.023	203	-
Flood Mitigation Assistance	97.029	34	34
Disaster Unemployment Assistance	97.034	11	-
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	3,671	1,637
Hazard Mitigation Grant	97.039	(579)	-
Chemical Stockpile Emergency Preparedness Program	97.040	984	493
National Dam Safety Program	97.041	74	-
Emergency Management Performance Grants	97.042	6,266	2,893
Cooperating Technical Partners	97.045	295	-
Pre-Disaster Mitigation	97.047	233	229
State and Local All Hazards Emergency Operations Planning	97.051	366	247
Emergency Operation Centers	97.052	10,872	-
Citizen Corps	97.053	15	14
Community Emergency Response Teams	97.054	466	425
Map Modernization Management Support	97.070	79	-

**THE STATE OF ILLINOIS**  
Schedule of Expenditures of Federal Awards  
June 30, 2005

		<b>Amounts (expressed in thousands)</b>	
<b>Federal Agency/Program or Cluster</b>	<b>Federal CFDA #</b>	<b>Expenditures</b>	<b>Passed – through to subrecipients (Unaudited)</b>
State Homeland Security Program (SHSP)	97.073	\$ 1,969	\$ 1,047
Law Enforcement Terrorism Prevention Program (LETPP)	97.074	438	301
<b>Total U.S. Department of Homeland Security</b>		<b>28,679</b>	
<b><u>Homeland Security Cluster</u></b>			
State and Local Domestic Preparedness Equipment Support Program (2003)	16.007 *	34,757	27,094
State and Domestic Preparedness Equipment Support Program (2004)	97.004 *	27,070	21,102
Homeland Security Grant Program (2005)	97.067 *	1,667	1,299
<b>Total Homeland Security Cluster</b>		<b>63,494</b>	
Total expenditures of federal awards		\$ <b>15,890,721</b>	\$ <b>3,690,576</b>

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

\*Denotes Major



## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2005

#### (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, 2005. 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, 2005. 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 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 either prior year estimates being overstated or subgrantee repayments of discontinued programs.

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2005

#### (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 object 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 by increasing their food purchasing ability.

###### 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 purposes of these programs is to assist states in providing nutritious meals to eligible children 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. Furthermore, these programs are designed to conduct non-profit food service programs for low-income children during summer months and when schools are out of session or closed for vacation.

###### Special Supplemental Nutrition Program for Women, Infants and Children (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 assist states, through grants-in-aid and other means, to provide nutritious meals to children and elderly or impaired adults in nonresidential day care facilities and children in emergency shelters.

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2005

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

##### Employment Services 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.

##### Trade Adjustment Assistance – Workers (CFDA No. 17.245)

This program's objective is to provide allowance adjustment assistance to qualified workers adversely affected by foreign trade, which will assist them to obtain suitable employment.

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

The objective of these programs 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, 2005

#### **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 planning and developing integrated, interconnecting transportation systems by constructing and rehabilitating the National Highway System, including Interstate highways; for transportation improvements to all public roads that are not functionally classified as local; and to provide aid in the repair of Federal-aid roads and streets following disasters. This program also provides transportation engineering services for planning; design, construction and rehabilitation of the highways and bridges providing access to federally owned lands.

#### **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.

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

This program provides grants to states to capitalize their Drinking Water State Revolving Funds, which will provide a long-term source of State financing for the costs of drinking water infrastructure. This funding can also be used for programs that emphasize preventing contamination problems through source water protection and enhancing water system management.

#### **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.

(Continued)

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2005

#### 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.

#### Federal Family Education Loans (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.

#### Special Education Grants for Infants and Families with Disabilities (CFDA No. 84.181)

The purpose of this program is to assist each State to develop and implement a statewide, comprehensive, coordinated, multidisciplinary, interagency system to provide early intervention services for infants and toddlers with disabilities, and their families.

#### Twenty-First Century Community Learning Centers (CFDA No. 84.287)

The purpose of this program is to create community-learning centers that provide academic enrichment opportunities for children, particularly students who attend high-poverty and low-performing schools. This programs will help students meet state and local student standards in core academic subjects, such as reading and math; and offers literacy and other educational services to the families of participating children.

(Continued)

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2005

#### Reading First State Grants (CFDA No. 84.357)

The objective of this program is to ensure that every student can read at grade level or above by the end of the third grade. This program provides assistance to states and districts in establishing reading programs for students in kindergarten through third grade. This program also focuses on teacher development and ensuring that all teachers, including special education teachers, have the tools they need to effectively help their students learn to read. This program also provides assistance to states and districts in preparing teachers to identify specific reading barriers facing their students.

#### 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) / Nutrition Services Incentive Program (CFDA No. 93.053)

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.

#### Centers for Disease Control and Prevention – Investigations and Technical Assistance (CFDA No. 93.283)

This program assists states and local health authorities and other health related organizations in controlling communicable diseases, chronic diseases and disorders, and other preventable health conditions. Investigations and evaluation of all methods of controlling or preventing disease and disability are carried out by providing epidemic aid, surveillance, technical assistance, consultation, and program support; and by providing leadership and coordination of joint national, state, and local efforts.

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

(Continued)

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2005

#### 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)

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

#### Child Care Development Funds Cluster: Child Care and Development Block Grant (CFDA No. 93.575) / Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA 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 enable each State to provide services that best suit the individuals residing in that State in one or more of five specified social service areas.

#### 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 assistance with obtaining health insurance benefits that meet federal requirements or by the expansion of the Medicaid program.

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2005

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.

HIV Care Formula Grants (CFDA No. 93.917)

The objective of this program is to enable states to improve the quality, availability, and organization of health care services for individuals and families with Human Immunodeficiency Virus (HIV) disease.

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.

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

State and Local Domestic Preparedness Equipment Support Program (CFDA No. 16.007)

The purpose of this program is to enhance the capacity of the State and local first responders to respond to terrorism incidents involving chemical, biological, nuclear, radiological, incendiary, and explosive devices.

State and Domestic Preparedness Equipment Support Program (CFDA No. 97.004)

The purpose of this program is to enhance the capacity of the State and local first responders to respond to terrorism incidents involving chemical, biological, nuclear, radiological, incendiary, and explosive devices.



## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2005

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

To enhance the capacity of State and local emergency responders to prevent, respond to, and recover from a weapons of mass destruction terrorism incident involving chemical, biological, radiological, nuclear, and explosive devices and cyber attacks.

#### (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.
- Commodity Supplemental Food Program (CFDA No. 10.565) — 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.
- 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.

#### (4) **Federally Funded Loan Programs**

Loan balances of federally funded loan programs at June 30, 2005 included the following:

<b>CFDA No.</b>	<b>Program</b>	<b>Outstanding Loans as of 6/30/05</b>
84.032	Federal Family Education Loan Program	\$3,014,983,000



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

Honorable William G. Holland  
Auditor General  
State of Illinois:

As special assistant auditors for the Auditor General, we have audited the schedule of expenditures of federal awards (the Schedule) of the State of Illinois (the State) as of and for the year ended June 30, 2005, and have issued our report thereon dated June 16, 2006. 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*.

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 an opinion 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 05-01 through 05-13, 05-15, 05-18, and 05-69.

A material weakness is a reportable 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 caused by error or fraud 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 the 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, of the reportable conditions described above, we consider items 05-18 and 05-69 to be material weaknesses.

#### Compliance and Other Matters

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

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

KPMG LLP

June 16, 2006



KPMG LLP  
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**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 each of its major federal programs for the year ended June 30, 2005. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

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

Except as discussed in the following two paragraphs, 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 05-15, 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 Special Education Grants for Infants and Families with Disabilities program.



Qualifications (Scope Limitation)

We were unable to obtain sufficient documentation supporting the compliance of the State of Illinois for the program compliance requirements listed below nor were we able to satisfy ourselves as to the State’s compliance with those requirements by other auditing procedures.

<b>State Administering Agency</b>	<b>Federal Program</b>	<b>Compliance Requirement(s)</b>	<b>Finding Number</b>
IL Department of Public Aid	Low-Income Home Energy Assistance	Reporting	05-35
IL Department of Employment Security	Employment Services Cluster	Reporting	05-86

Qualifications (Noncompliance)

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 Administering Agency</b>	<b>Federal Program</b>	<b>Compliance Requirement(s)</b>	<b>Finding Number</b>
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles	05-16
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Maintenance of Effort	05-17
IL Department of Human Services	Low-Income Home Energy Assistance	Allowable Costs/Cost Principles and Reporting	05-17
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	05-18
IL Department of Human Services	State Children’s Insurance Program	Allowable Costs/Cost Principles and Eligibility	05-18
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	05-18
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Special Tests and Provisions	05-19
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles	05-20
IL Department of Human Services	Rehabilitation Services – Vocational Rehabilitation Grants to States	Allowable Costs/Cost Principles and Eligibility	05-21
<b>State Administering Agency</b>	<b>Federal Program</b>	<b>Compliance Requirement(s)</b>	<b>Finding Number</b>
IL Department of Human Services	Rehabilitation Services – Vocational Rehabilitation	Allowable Costs/Cost Principles and Eligibility	05-22

Grants to States			
IL Department of Public Aid	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Maintenance of Effort	05-32
IL Department of Public Aid	Low-Income Home Energy Assistance	Allowable Costs/Cost Principles and Reporting	05-32
IL Department of Public Aid	Low-Income Home Energy Assistance	Subrecipient Monitoring	05-33
IL Department of Public Aid	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Special Tests and Provisions	05-34
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	05-44
IL Department of Children and Family Services	Foster Care – Title IV-E	Allowable Costs/Cost Principles and Eligibility	05-45
IL Department of Children and Family Services	Foster Care – Title IV-E	Allowable Costs/Cost Principles and Eligibility	05-46
IL Department of Children and Family Services	Temporary Assistance for Needy Families	Subrecipient Monitoring	05-47
IL Department of Children and Family Services	Foster Care – Title IV-E	Subrecipient Monitoring	05-47
IL Department of Children and Family Services	Adoption Assistance	Subrecipient Monitoring	05-47
IL Department of Children and Family Services	Social Services Block Grant	Subrecipient Monitoring	05-47
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	05-52
IL Department of Public Health	HIV Care Formula Grants	Allowable Costs/Cost Principles and Eligibility	05-54
IL Department of Public Health	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Subrecipient Monitoring	05-55
IL Department of Public Health	HIV Care Formula Grants	Subrecipient Monitoring	05-55



<b>State Administering Agency</b>	<b>Federal Program</b>	<b>Compliance Requirement(s)</b>	<b>Finding Number</b>
IL Department of Public Health	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Subrecipient Monitoring	05-56
IL Department of Public Health	HIV Care Formula Grants	Subrecipient Monitoring	05-56
IL Student Assistance Commission	Federal Family Education Loans	Specials Tests and Provisions	05-69
IL Department of Transportation	Airport Improvement Program	Suspension and Debarment	05-75
IL Department of Transportation	Airport Improvement Program	Subrecipient Monitoring	05-76
IL Department of Transportation	Airport Improvement Program	Subrecipient Monitoring	05-77
IL Department of Transportation	Highway Planning and Construction	Subrecipient Monitoring	05-77
IL Department of Commerce and Economic Opportunity	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Maintenance of Effort	05-83
IL Department of Commerce and Economic Opportunity	Low-Income Home Energy Assistance	Allowable Costs/Cost Principles and Reporting	05-83
IL Department of Employment Security	Trade Adjustment Assistance – Workers	Allowable Costs/Cost Principles and Eligibility	05-85
IL Emergency Management Agency	Homeland Security Cluster	Subrecipient Monitoring	05-96
IL Emergency Management Agency	Homeland Security Cluster	Subrecipient Monitoring	05-97
IL State Police	Homeland Security Cluster	Equipment and Real Property Management	05-101

In our opinion, except for the noncompliance described in the preceding paragraph and except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence described in the second and third preceding paragraphs, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2005. 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 67 through 270.



## 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 05-14 through 05-101.

A material weakness is a reportable 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 caused by error or fraud 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, of the reportable conditions described above, we consider items 05-14, 05-15, 05-16, 05-17, 05-18, 05-19, 05-20, 05-21, 05-22, 05-25, 05-31, 05-32, 05-33, 05-34, 05-35, 05-37, 05-41, 05-44, 05-45, 05-46, 05-47, 05-52, 05-54, 05-55, 05-56, 05-57, 05-60, 05-61, 05-62, 05-63, 05-69, 05-70, 05-75, 05-76, 05-77, 05-83, 05-84, 05-85, 05-86, 05-96, 05-97, and 05-101 to be 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

June 16, 2006



# STATE OF ILLINOIS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

### (1) Summary of Auditors' Results

- (a) The type of report issued by the Auditor General, State of Illinois, on the basic financial statements: **unqualified**
- (b)(1) Reportable conditions in internal control were disclosed by the audit of the basic 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: **yes**
- (c)(1) Noncompliance which is material to the basic financial statements: **no**
- (c)(2) Noncompliance which is material to the schedule of expenditures of federal awards: **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:**

Special Education – Grants for Infants and Families with Disabilities

#### **Qualifications (Scope Limitation):**

Low-Income Home Energy Assistance  
Employment Services Cluster

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

Temporary Assistance for Needy Families  
Low-Income Home Energy Assistance  
State Children's Insurance Program  
Medicaid Cluster  
Rehabilitation Services – Vocational Rehabilitation Grants to States  
Foster Care – Title IV-E  
Adoption Assistance  
Social Services Block Grant  
Aging Cluster  
HIV Care Formula Grants  
Centers for Disease Control and Prevention – Investigations and Technical Assistance  
Federal Family Education Loans  
Airport Improvement Program  
Highway Planning and Construction  
Trade Adjustment Assistance – Workers  
Homeland Security Cluster

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

(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 Labor**

- Employment Services Cluster
- Unemployment Insurance
- Trade Adjustment Assistance – Workers
- Workforce Investment Act Cluster

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

- Airport Improvement Program
- Highway Planning and Construction

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

- Capitalization Grants for Clean Water State Revolving Funds
- Capitalization Grants for Drinking Water State Revolving Funds

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

- Title I Grants to Local Educational Agencies
- Special Education Cluster
- Federal Family Education Loans
- Vocational Education – Basic Grants to States
- Rehabilitation Services – Vocational Rehabilitation Grants to States
- Special Education – Grants for Infants and Families with Disabilities
- Twenty-First Century Community Learning Centers
- Reading First State Grants
- Improving Teacher Quality State Grants

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

- Aging Cluster
- Centers for Disease Control and Prevention – Investigations and Technical Assistance
- Temporary Assistance for Needy Families
- Child Support Enforcement
- Low-Income Home Energy Assistance
- Child Care Development Funds Cluster
- Foster Care – Title IV-E
- Adoption Assistance
- Social Services Block Grant
- State Children’s Insurance Program
- Medicaid Cluster
- HIV Care Formula Grants
- Block Grants for the Prevention and Treatment of Substance Abuse

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

- Social Security – Disability Insurance

#### **US Department of Justice/US Department of Homeland Security**

- Homeland Security Cluster

(h) Dollar threshold used to distinguish between Type A and Type B programs:  
**\$30,000,000**

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

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

A finding related to the basic financial statements for the year ended June 30, 2005 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, 2005

**(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 34 through 60.

<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	
05-01	IL Office of the Comptroller	Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards	Reportable condition
05-02	IL Department of Human Services	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
05-03	IL Department of Children and Family Services	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
05-04	IL Department of Public Health	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
05-05	IL State Board of Education	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
05-06	IL Student Assistance Commission	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
05-07	IL Community College Board	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
05-08	IL Department of Transportation	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
05-09	IL Department of Commerce and Economic Opportunity	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
05-10	IL Department of Employment Security	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
05-11	IL Emergency Management Agency	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
05-12	IL Department of Corrections	Inadequate Process for Accurate and Timely Financial Reporting	Reportable condition
05-13	IL Department Natural Resources	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, 2005

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

<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	
05-15	IL Department of Human Services	Inadequate Fiscal Administrative Processes	Reportable condition
05-18	IL Department of Human Services	Failure to Perform Eligibility Re-determinations within Prescribed Timeframes	Material weakness
05-69	IL Student Assistance Commission	Processing and Submission of Re-insurance Claims	Material weakness

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

**Federal Agency:** All Federal Agencies

**Finding 05-01** *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 automated and 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 amounts reported are complete, accurate, and properly presented.

During fiscal year 2003 and 2004, 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. The final electronic database was not completed and submitted by the IOC to the OAG until May 16, 2006 resulting in the compilation of the SEFA being completed in June 2006 (approximately twelve 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.

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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.

Failure to prepare the SEFA in an accurate and 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 05-01, 04-01, 03-01, 02-01)

#### **Recommendation:**

We recommend the IOC review the current process and information systems for compiling the SEFA and consider changes that will allow for the completion of the State's OMB Circular A-133 audit within the required timeframe. This review should consider the cost/benefit of implementing a statewide grant accounting system.

#### **IOC Response:**

The 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. The IOC will continue to consult with the Governor's Office of Management and Budget (GOMB) to establish and implement monitoring procedures for State agency financial reporting in relation to the State's federal awards, including the possible implementation of a statewide grant accounting system.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

**Federal Agency:** All Federal Agencies

**Finding 05-02** *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 compiled into an electronic data base and forwarded to the Illinois Office of the Auditor General (OAG) for reporting expenditures in the SEFA.

During our review of the financial reporting process, we noted that the IDHS information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, several correcting journal entries were required to accurately state amounts reported by IDHS. Further, IDHS had to restate their fiscal year 2004 financial statements due to the failure to record federal grant revenues of \$24,020,000 for the Special Education – Grants for Infants and Families with Disabilities program. As a result, the expenditures in the 2004 schedule of expenditures of federal awards were understated by this amount.

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 Early Intervention Program does not have any federal expenditure reporting requirements. The Office of Fiscal Services did not have the information available to determine the proper federal grant revenue and expenditure amounts related to the Early Intervention program.

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 05-02, 04-02, 03-02, 02-02)



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

#### **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.

#### **IDHS Response:**

The Office of Fiscal Services will work with the DHS program areas to ensure the proper reporting of all federal Early Intervention program activity. A reconciliation of the expenditure amounts claimed to the amounts reported in the GAAP reporting package is completed for all major federal programs. All GAAP reporting packages for State fiscal year 2005 were submitted timely to the Office of the Comptroller.

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

Although the Agency has made significant efforts to complete its GAAP forms in a more timely manner than prior years, the GAAP packages originally submitted by the Agency required significant adjustments to properly state amounts. Additionally, as noted above, the Agency's prior year financial statements were restated due to the inaccurate reporting of Early Intervention revenue and expenditures. We believe the Agency's financial reporting process should be modified to ensure financial information submitted to the Illinois Office of the Comptroller is both timely and accurate.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

**Federal Agency:** All Federal Agencies

**Finding 05-03** *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 compiled into an electronic data base and forwarded to the Illinois Office of the Auditor General (OAG) for reporting expenditures in the SEFA.

During our review of the financial reporting process, we noted that the DCFS information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. 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 the Department submitted all fiscal year 2005 GAAP packages (SCO Forms) to the State Comptroller's Office within the required deadlines. After the forms were submitted, the Comptroller's Office completed its review and the Department provided the necessary information. The Department completed all its work on the SCO Forms in September 2005 and completed its financial statements including the SEFA in November 2005. Additionally, the SEFA was completed on schedule and no adjustments or clarifications were requested or made. The Department's GAAP (SCO) reporting and SEFA, however, are only initial steps required to compete the State's financial statements and SEFA.

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 05-03, 04-04, 03-04, 02-03)

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**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.

**DCFS Response:**

The Department accepts that the statewide process is untimely and may be inaccurate. DCFS strives to provide the information to the Comptroller's office within the stringent timeframes established for it. During the Comptroller review process, changes are discussed and modifications can be made to ensure the statewide process and reporting is consistent. This is part of the overall process and does not indicate inaccurate or untimely reporting on the part of DCFS. DCFS agrees to support efforts by the Office of the Comptroller to modernize the financial and grant reporting infrastructure and work with the Office of the Auditor General in those areas.

# STATE OF ILLINOIS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

**Federal Agency:** All Federal Agencies

**Finding 05-04** *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 compiled into an electronic data base and forwarded to the Illinois Office of the Auditor General (OAG) for reporting expenditures in the SEFA.

During our review of the financial reporting process, we noted that the IDPH information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. 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 SEFA and SCO reports were submitted to the Comptroller's Office in a timely manner.

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 05-04, 04-05, 03-14, 02-12)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

#### **IDPH Response:**

The Department concurs with the finding and recommendation. The Department has submitted its GAAP package and the SEFA in accordance with the IOC deadline. The Department will continue working with the Comptroller's Office to improve and enhance the accuracy of its GAAP reporting. We will also work with the IOC, OAG and the other state agencies to ensure that the SCO-567 and SCO-568 adjustments are made timely to avoid late adjustments to the SEFA and the financial statements. The Department will continue reviewing the current GAAP reporting process to identify opportunities for additional improvements.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

**Federal Agency:** All Federal Agencies

**Finding 05-05** *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 compiled into an electronic data base and forwarded to the Illinois Office of the Auditor General (OAG) for reporting expenditures in the SEFA.

During our review of the financial reporting process, we noted that the ISBE information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. 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 submission deadlines were met, but revisions and additional documentation were necessary after the Office of the Comptroller review.

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 05-05, 04-06, 03-05, 02-04)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

#### **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.

#### **ISBE Response:**

The Agency agrees that the reporting for federal expenditures should be timely and accurate. The Agency improved their process for fiscal year 2005 reporting and submission deadlines were met, but revisions and additional documentation were necessary after the Office of the Comptroller review. The required completion date for the Agency financial statements was November 15, 2005 and the Agency completed the statements on November 14, 2005. For fiscal year 2004, the final financial statements were not completed until December 20, 2004. The Agency would gladly participate in additional efforts with the Illinois Office of the Comptroller, the Office of the Auditor General, and other state agencies to enhance the overall reporting process.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

**Federal Agency:** All Federal Agencies

**Finding 05-06** *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 compiled into an electronic data base and forwarded to the Illinois Office of the Auditor General (OAG) for reporting expenditures in the SEFA.

During our review of the financial reporting process, we noted that the ISAC information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. 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 increasing complexity of the student loan 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 05-06, 04-07, 03-06, 02-05)



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

#### **ISAC Response:**

ISAC concurs and would like to note that due to the complexity of the student loan programs and the number of parties involved, the GAAP reporting process has become quite complex. The Commission made all efforts and was in constant communication with the Illinois Office of the Comptroller and the auditors prior to the end of the fiscal year to ensure that the year-end process and the processes for reporting federal expenditures was timely and accurate.

ISAC is committed to continue working with the Illinois Office of the Comptroller, the external auditors 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 internal processes and will consult with the Illinois Office of the Comptroller on reporting process improvements.

# STATE OF ILLINOIS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

**Federal Agency:** All Federal Agencies

**Finding 05-07** *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 compiled into an electronic data base and forwarded to the Illinois Office of the Auditor General (OAG) for reporting expenditures in the SEFA.

During our review of the financial reporting process, we noted that the ICCB information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. 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 reports are finalized as soon as the information is received from the grantees.

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 05-07, 04-08, 03-07)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

#### **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.

#### **ICCB Response:**

The ICCB will continue to work with the Illinois Office of the Comptroller and the Illinois Office of the Auditor General to ensure financial reports are submitted timely. The ICCB will review internal processes to improve reporting processes.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

**Federal Agency:** All Federal Agencies

**Finding 05-08** *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 compiled into an electronic data base and forwarded to the Illinois Office of the Auditor General (OAG) for reporting expenditures in the SEFA.

During our review of the financial reporting process, we noted IDOT improperly recorded approximately \$2.92 million of expenditures for the Highway Planning and Construction program in the schedule of expenditures of federal awards for the year ended June 30, 2005 that should have been recorded during the year ended June 30, 2004.

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 state the increase of payroll and fringe benefits in fiscal year 2005 was the result of an understatement of these figures in fiscal year 2004. This was largely due to the Chicago Area Transportation System (CATS), which is responsible for reporting the allocation of labor hours for Chicago projects. The CATS system broke down in early fiscal year 2004. Thus, IDOT was not able to allocate the Chicago projects' labor costs to the respective projects and include them in the federal billing for the last 3 quarters of fiscal year 2004. These figures were subsequently reported in fiscal year 2005.

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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 05-08, 04-09, 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 accurate and complete submission of 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 supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC.

#### **IDOT Response:**

The Department partially agrees with the finding.

We agree with the inaccuracy of the payroll amounts; however, the Department disagrees that the reports were not completed in a timely manner. All fund packages were submitted to the Comptroller according to the schedule, except for the Road Fund. The initial submission of the Road Fund Package was made on September 21, 2005 based on a time extension granted by the Comptroller's Office. The initial schedule from the Comptroller indicated that the Road Fund Package was due on September 16, 2005. 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 November 11, 2005.

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

As stated in the finding, accurate financial information was not submitted in a timely manner.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

**Federal Agency:** All Federal Agencies

**Finding 05-09** *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 compiled into an electronic data base and forwarded to the Illinois Office of the Auditor General (OAG) for reporting expenditures in the SEFA.

During our review of the financial reporting process, we noted that the DCEO information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. 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 state all deadlines for financial reporting were met with the IOC. DCEO agreed journal entries were corrected after financial statements were submitted as they were dependent upon the IOC to supply final end-of-year data to complete or revise the financial statements and 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 05-09, 04-10, 03-09, 02-07)

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

#### **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 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 will continue to work closely with the IOC to improve reporting of financial information. Financial information will continue to be reconciled and have a supervisory review before reports are submitted to the IOC.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

**Federal Agency:** All Federal Agencies

**Finding 05-10** *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 compiled into an electronic data base and forwarded to the Illinois Office of the Auditor General (OAG) for reporting expenditures in the SEFA.

During our review of the financial reporting process, we noted several correcting journal entries were required to accurately state amounts reported by IDES.

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 there were two adjustments made by IOC for the 052 Fund, one to reverse the entry for the estimated payable and one to correct the payable based on final State fiscal year 2005 lapse period payments. These were made to improve the accuracy of the financial statements. The IOC made two reclassifying entries due to a change in our SCO567 after our submittal and approval by the Illinois Department of Commerce and Economic Opportunity changing the type of Payment/Service codes. We also made adjustments to the Master Bond Fund. This was the first year of financial activity for this fund resulting in many discussions between the agency and the IOC in terms of presentment of the financial information.

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 05-10, 04-11, 03-10, 02-08)



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

#### **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:**

IDES will continue to work with the IOC and with staff to improve the accuracy and timeliness of our financial statements. The reports are reconciled to our accounting systems and federal reports and are reviewed prior to submission to the IOC.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**State Agency:** Illinois Emergency Management Agency (IEMA)

**Federal Agency:** All Federal Agencies

**Finding 05-11** *Inadequate Process for Accurate and Timely Financial Reporting*

IEMA 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 compiled into an electronic data base and forwarded to the Illinois Office of the Auditor General (OAG) for reporting expenditures in the SEFA.

During our review of the financial reporting process, we noted several correcting journal entries were required to accurately state amounts reported by IEMA.

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 IEMA officials, they stated that the Agency believed that there were unresolved issues requiring communication with other agencies to properly complete GAAP. An example is the receipt of approval from the Office of the Comptroller to file the SCO-563 forms after the deadline of August 19, 2005.

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 05-11)

**Recommendation:**

We recommend IEMA review the current process for reporting financial information to the IOC and implement changes necessary to ensure the accurate and complete submission of forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IEMA 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, 2005

**IEMA Response:**

Agree. The Agency will review the current process for reporting financial information to the IOC and implement changes necessary to ensure the accurate and complete submission of forms.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

**Federal Agency:** All Federal Agencies

**Finding 05-12** *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 compiled into an electronic data base and forwarded to the Illinois Office of the Auditor General (OAG) for reporting expenditures in the SEFA.

During our review of the financial reporting process, we noted 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 the issues found occurred due to the inherent complexities in completing the mandated forms. This is compounded by the timing issues and size of the financial information dispersion.

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 05-12)

**Recommendation:**

We recommend IDOC review the current process for reporting financial information to the IOC and implement changes necessary to ensure the accurate and complete submission of 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, 2005

**IDOC Response:**

Recommendation implemented. The Department has instituted a significantly shortened cut off for the draft information from the facilities. IDOC will make every effort to prepare the GAAP package in accordance with the requirements. However, this is compounded in difficulty due to the continued format of the financial information requirements and deficiencies in the current accounting system.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

**Federal Agency:** All Federal Agencies

**Finding 05-13** *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 compiled into an electronic data base and forwarded to the Illinois Office of the Auditor General (OAG) for reporting expenditures in the SEFA.

During our review of the financial reporting process, we noted that the IDNR information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. 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 stated the underlying cause was attributable to having to file reports with the Comptroller before the end of lapse period spending without having a thorough approach for estimating payables and inadequate deliniation of roles and responsibilities of resources.

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 05-13, 04-12, 03-13, 02-09)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

#### **IDNR Response:**

The Department partially disagrees with this finding. The majority of the GAAP forms were two days late – this was due to a loss of power at our headquarters. We requested and received an extension from the comptroller's office. However, the Department does recognize the GAAP forms related to the capital asset reconciliation were not completed in a timely manner and did contain errors. The Department is taking appropriate corrective action steps.

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

As the Agency stated in its response above, several GAAP forms were not completed within required timeframes and contained errors.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

The findings listed below are located on pages 67 through 270.

<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
05-14	IL Department of Human Services	Inadequate Process for Monitoring Interagency Program Expenditures	Material weakness
05-15	IL Department of Human Services	Inadequate Fiscal Administrative Processes	Disclaimer and material weakness
05-16	IL Department of Human Services	Unallowable Costs Charged to the TANF Program	Material noncompliance and material weakness
05-17	IL Department of Human Services	Unallowable Expenditures Used to Meet Requirements of the TANF and LIHEAP Programs	Material noncompliance and material weakness
05-18	IL Department of Human Services	Failure to Perform Eligibility Redeterminations within Prescribed Timeframes	Material noncompliance and material weakness
05-19	IL Department of Human Services	Failure to Follow and Document TANF Sanction Procedures	Material noncompliance and material weakness
05-20	IL Department of Human Services	Unallowable Costs Charged to the TANF Program	Material noncompliance and material weakness
05-21	IL Department of Human Services	Unallowable Expenditures Charged to the Vocational Rehabilitation Program	Material noncompliance and material weakness
05-22	IL Department of Human Services	Failure to Determine Eligibility in Accordance with Program Regulations	Material noncompliance and material weakness
05-23	IL Department of Human Services	Improper Cost Allocation Methodology	Noncompliance and reportable condition
05-24	IL Department of Human Services	Failure to Obtain Documentation of Assignment of Child Support Rights	Noncompliance and reportable condition
05-25	IL Department of Human Services	Untimely Performance of On-Site Reviews and Communication of and Follow Up on On-Site Monitoring Findings	Noncompliance and material weakness
05-26	IL Department of Human Services	Failure to Follow Illinois Procurement Code	Noncompliance and reportable condition
05-27	IL Department of Human Services	Untimely Review of OMB Circular A-133 Audit Reports	Reportable condition

(Continued)



**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
05-28	IL Department of Human Services	Inadequate Documentation of Risk Assessments of Subrecipients	Reportable condition
05-29	IL Department of Human Services	Inaccurate Annual Financial Status Report	Noncompliance and reportable condition
05-30	IL Department of Human Services	Missing Documentation in Client Eligibility Files	Noncompliance and reportable condition
05-31	IL Department of Revenue	Inadequate Process for Determining the Allowability of Earned Income Credits	Noncompliance and material weakness
05-32	IL Department of Public Aid	Unallowable Expenditures Used to Meet Requirements of the TANF and LIHEAP Programs	Material noncompliance and material weakness
05-33	IL Department of Public Aid	Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Material noncompliance and material weakness
05-34	IL Department of Public Aid	Failure to Enforce Sanctions Over TANF Recipients	Material noncompliance and material weakness
05-35	IL Department of Public Aid	Failure to Maintain Supporting Documentation for Performance Report	Scope limitation and material weakness
05-36	IL Department of Public Aid	Inadequate Follow Up With Employers to Identify Third Party Liability (TPL) Insurers	Noncompliance and reportable condition
05-37	IL Department of Public Aid	Failure to Properly Perform Non-Custodial Parent Location Procedures	Noncompliance and material weakness
05-38	IL Department of Public Aid	Inadequate Monitoring of Subrecipients	Noncompliance and reportable condition
05-39	IL Department of Public Aid	Failure to Establish Support Orders Within Required Timeframe	Noncompliance and reportable condition
05-40	IL Department of Public Aid	Failure to Include a Program in the Treasury State Agreement	Noncompliance and reportable condition
05-41	IL Department of Public Aid	Failure to Obtain Suspension and Debarment Certifications from Subrecipients	Material weakness
05-42	IL Department of Public Aid	Inaccurate Financial Status Report	Noncompliance and reportable condition
05-43	IL Department of Public Aid	Inadequate Process for Monitoring Earmarking Requirements	Reportable condition

(Continued)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
05-44	IL Department of Children and Family Services	Missing Documentation in Eligibility Files	Material noncompliance and material weakness
05-45	IL Department of Children and Family Services	Failure to Ensure That Required Judicial Determinations Were Made	Material noncompliance and material weakness
05-46	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
05-47	IL Department of Children and Family Services	Inadequate and Untimely Fiscal Monitoring of Subrecipients	Material noncompliance and material weakness
05-48	IL Department of Children and Family Services	Failure to Ensure Administrative Case Reviews Are Performed Within Required Timeframes	Noncompliance and reportable condition
05-49	IL Department of Children and Family Services	Unallowable Costs Charged to the Foster Care Title IV-E Program	Noncompliance and reportable condition
05-50	IL Department of Children and Family Services	Improper Classification of Employees in the PACAP	Noncompliance and reportable condition
05-51	IL Department of Children and Family Services	Failure to Ensure Timely Preparation of Initial Case Plans	Noncompliance and reportable condition
05-52	IL Department on Aging	Inadequate Monitoring of Subrecipients	Material noncompliance and material weakness
05-53	IL Department on Aging	Inaccurate Reporting of the Financial Status Report	Noncompliance and reportable condition
05-54	IL Department of Public Health	Inadequate Process for Determining Client Eligibility	Material noncompliance and material weakness
05-55	IL Department of Public Health	Inadequate Monitoring of Subrecipients	Material noncompliance and material weakness
05-56	IL Department of Public Health	Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Material noncompliance and material weakness
05-57	IL Department of Public Health	Inadequate Cash Management Procedures for Subrecipients	Noncompliance and material weakness
05-58	IL Department of Public Health	Failure to Allocate Compensation Expenditures through the PACAP	Noncompliance and reportable condition
05-59	IL Department of Public Health	Inadequate Process for Monitoring Interagency Program Expenditures	Reportable condition

(Continued)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

Finding No.	State Agency	Finding Title	Finding Type
05-60	IL State Board of Education	Failure to Maintain Adequate Documentation of the Eligibility Determinations for Subrecipients	Material weakness
05-61	IL State Board of Education	Inadequate Process for Monitoring Interagency Program Expenditures	Material weakness
05-62	IL State Board of Education	Inadequate On-Site Monitoring of Subrecipients	Noncompliance and material weakness
05-63	IL State Board of Education	Failure to obtain Suspension and Debarment Certifications from Subrecipients	Material weakness
05-64	IL State Board of Education	Failure to Monitor Subrecipient Earmarking Requirements	Noncompliance and reportable condition
05-65	IL State Board of Education	Inadequate Documentation from Subrecipients for Carryover of Funds	Reportable condition
05-66	IL State Board of Education	Failure to Maintain Adequate Documentation for Awards to Subrecipients	Reportable condition
05-67	IL State Board of Education	Undocumented Review of Accountability Report	Reportable condition
05-68	IL State Board of Education	Untimely Review of OMB Circular A-133 Audit Reports	Reportable condition
05-69	IL Student Assistance Commission	Processing and Submission of Re-insurance Claims	Material noncompliance and material weakness
05-70	IL Student Assistance Commission	Failure to Generate Notification Letters to Defaulted Borrowers	Noncompliance and material weakness
05-71	IL Student Assistance Commission	Untimely Deposits into the Federal Fund	Noncompliance and reportable condition
05-72	IL Student Assistance Commission	Inadequate Process for Assignment of Defaulted Loans	Noncompliance and reportable condition
05-73	IL Student Assistance Commission	Inadequate Controls Over Document Imaging	Noncompliance and reportable condition
05-74	IL Community College Board	Inadequate Documentation of On-Site Monitoring of Subrecipients	Noncompliance and reportable condition

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Schedule of Findings and Questioned Costs

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<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
05-75	IL Department of Transportation	Failure to Obtain Suspension and Debarment Certifications from Subrecipients	Material noncompliance and material weakness
05-76	IL Department of Transportation	Inadequate On-Site Monitoring of Subrecipients	Material noncompliance and material weakness
05-77	IL Department of Transportation	Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports	Material noncompliance and material weakness
05-78	IL Department of Transportation	Failure to Notify Subrecipients of Federal Funding	Noncompliance and reportable condition
05-79	IL Department of Transportation	Failure to Follow the Funding Technique Designated in the Treasury-State Agreement	Noncompliance and reportable condition
05-80	IL Department of Transportation	Failure to Follow the Illinois Administrative Code	Noncompliance and reportable condition
05-81	IL Department of Transportation	Failure to Follow Control Procedures for Real Property Acquisition and Relocation Assistance Payments	Reportable condition
05-82	IL Department of Transportation	Inadequate Controls over Information Systems	Reportable condition
05-83	IL Department of Commerce and Economic Opportunity	Unallowable Expenditures Used to Meet Requirements of the TANF and LIHEAP Programs	Material noncompliance and material weakness
05-84	IL Department of Commerce and Economic Opportunity	Failure to Competitively Bid Professional Services	Noncompliance and material weakness
05-85	IL Department of Employment Security	Payment of Benefits to Ineligible Beneficiaries and Missing Documentation in Client Eligibility Files	Material noncompliance and material weakness
05-86	IL Department of Employment Security	Inadequate Supporting Documentation for Performance Reports	Scope limitation and material weakness
05-87	IL Department of Employment Security	Inadequate Procedures for Follow-up of Invalid Social Security Numbers	Noncompliance and reportable condition
05-88	IL Department of Employment Security	Inadequate Documentation of Review and Follow-up on Claim Exception Reports	Reportable condition

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Schedule of Findings and Questioned Costs

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<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
05-89	IL Department of Employment Security	Inadequate Documentation of Eligibility Reviews Performed by the Benefits Accuracy Measurement Unit	Reportable condition
05-90	IL Department of Employment Security	Inadequate Procedures for Multiple Unemployment Benefit Checks Delivered to the Same Address	Reportable condition
05-91	IL Department of Employment Security	Inconsistent Application of Policies and Procedures	Reportable condition
05-92	IL Department of Employment Security	Inadequate Cash Management Procedures	Noncompliance and reportable condition
05-93	IL Department of Employment Security	Inadequate Controls over Information Systems	Reportable condition
05-94	IL Environmental Protection Agency	Inaccurate Cash Transaction and Federal Status Reports	Noncompliance and reportable condition
05-95	IL Environmental Protection Agency	Failure to Notify Subrecipients of Federal Funding	Reportable condition
05-96	IL Emergency Management Agency	Inadequate On-Site Monitoring Procedures	Material noncompliance and material weakness
05-97	IL Emergency Management Agency	Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Material noncompliance and material weakness
05-98	IL Emergency Management Agency	Insufficient Federal Award Information Provided to Subrecipients	Noncompliance and reportable condition
05-99	IL Emergency Management Agency	Inadequate Segregation of Duties Over Cash Management Procedures	Reportable condition
05-100	IL Emergency Management Agency	Undocumented Review of Financial Status Report	Reportable condition
05-101	IL State Police	Failure to Follow Property Management Regulations	Material noncompliance and material weakness

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For the Year Ended June 30, 2005

**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 (\$585,595,000)  
93.575 / 93.596 (\$225,742,000)  
93.667 (\$87,826,000)

**Award Numbers:** G-0401 IL TANF/G-0501 IL TANF (93.558)  
(CFDA number) G0401ILCCDF/G-0501ILCCDF (93.575)  
G992115/G996005/G999004/G999005 (93.596)  
G-0401ILSOSR/G-0501ILSOSP (93.667)

**Questioned Costs:** None

**Finding 05-14** *Inadequate Process for Monitoring Interagency Program Expenditures*

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

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, 2005, IDHS used expenditures from other agencies to claim reimbursement for or satisfy maintenance of effort (MOE) requirements for the TANF, Child Care, and Title XX programs as follows:

<b>Program</b>	<b>Expending State Agency</b>	<b>Expenditures Claimed</b>	<b>Total Expenditures</b>
Federal TANF	Children and Family Services	\$158,742,533	\$585,595,000
Federal TANF	Student Assistance Commission	\$49,376,383	\$585,595,000

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For the Year Ended June 30, 2005

<b>Program</b>	<b>Expending State Agency</b>	<b>Expenditures Claimed</b>	<b>Total Expenditures</b>
Federal TANF	Revenue	\$14,644,632	\$585,595,000
Federal TANF	Corrections	\$9,581,731	\$585,595,000
Federal TANF	Community College Board	\$2,527,974	\$585,595,000
Federal TANF	Public Aid	\$2,097,716	\$585,595,000
Federal TANF	State Board of Education	\$1,871,335	\$585,595,000
TANF MOE	Public Aid	\$57,991,348	\$391,203,000
TANF MOE	State Board of Education	\$27,927,864	\$391,203,000
TANF MOE	Community College Board	\$2,721,734	\$391,203,000
TANF MOE	Revenue	\$281,383	\$391,203,000
TANF MOE	Commerce and Economic Opportunity	\$83,125	\$391,203,000
Child Care MOE	Children and Family Services	\$11,081,836	\$119,090,000
Social Services Block Grant	Children and Family Services	\$8,019,095	\$87,826,000

In addition, we noted IDHS has not established procedures to ensure up to date interagency agreements are maintained for all agencies providing IDHS with expenditures for its federal programs. Specifically, IDHS has not obtained an updated interagency agreement with the Illinois Department of Public Aid (IDPA) that includes the Low-Income Home Energy Assistance Program (LIHEAP) which was transferred to IDPA effective July 1, 2004. IDHS also could not locate a copy of the interagency agreement with the Illinois Department of Commerce and Economic Opportunity for the LIHEAP programs for fiscal years prior to 2005.

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 officials, they stated that the process of improving their monitoring procedures over interagency expenditures was started in response to the prior audit recommendation. Internal control surveys were developed and sent to all agencies that provide expenditures claimed in the Block Grant programs, only one Agency has not responded. In addition, IDHS Bureau of Federal Reporting is requesting expenditure population detail each quarter from the other agencies along with a signed certification statement that these costs were allowable under OMB Circular A-87 and were not claimed against any other federal program.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

#### **Recommendation:**

We recommend IDHS review its current process for identifying and reporting interagency expenditures and implement monitoring procedures to ensure that federal and state expenditures expended by other state agencies meet the applicable program regulations and are not claimed or used to meet matching or maintenance of effort requirements under more than one federal program. Also, we recommend IDHS establish a process for updating interagency agreements on a periodic basis for any changes affecting its federal programs and implement procedures as necessary to ensure up to date interagency agreements are on file for all agencies.

#### **IDHS Response:**

Agree. IDHS has started a review of all interagency expenditure claims. Internal control surveys were developed and sent to all agencies that provide expenditures claimed in the Block Grant programs. Three of those surveys have been completed and returned. Additional meetings with DCFS, ISAC, ISBE and ICCB will be necessary. IDHS has developed a certification letter that is to be signed and submitted with each claim from another agency. Interagency agreements with the above agencies are in place, but will continue to be reviewed. The interagency agreement with IDHFS is in process of being updated for the LIHEAP program. Quarterly expenditure detail is being requested from all agencies that provide expenditures claimed in the Block Grant programs. IDHS will continue the effort to follow the inter-agency agreement.



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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

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

**Program Name:** Special Education – Grants for Infants and Families with Disabilities  
Maternal and Child Health Services Block Grant to States

**CFDA # and Program Expenditures:** 84.181 (\$36,428,000)  
93.994 (\$21,901,000)

**Award Numbers:** H181A030001/H181A040003/H181A050007 (84.181)  
(CFDA Number) B04MC04271-01-03 (93.994)

**Questioned Costs:** Cannot be determined

**Finding 05-15** *Inadequate Fiscal Administrative Processes*

IDHS did not have adequate fiscal administrative processes to ensure the Special Education – Grants for Infants and Families with Disabilities (Part C) and the Maternal and Child Health Services Block Grant to States (MCH Block Grant) programs were administered in accordance with the provisions of laws, regulations, and the respective State Plans.

IDHS provides a variety of services under its state operated Early Intervention (State EI) program to children ages newborn to 3 years who have been diagnosed with developmental disabilities. Given the broad purposes and populations served by the State EI program, IDHS receives reimbursement for State EI expenditures under three federal programs and uses a portion of State EI expenditures to meet the maintenance of effort (MOE) requirements for two federal programs. IDHS has identified State EI expenditures as follows for fiscal years 2003, 2004, and 2005:

<b>Program</b>	<b>Type of Funds</b>	<b>2003 Expenditures</b>	<b>2004 Expenditures</b>	<b>2005 Expenditures</b>
Medicaid Cluster	Federal	\$35,568,000	\$34,772,000	\$57,741,000
Title XX	Federal	10,159,000	31,683,000	6,029,000
Part C	Federal	13,383,000	16,093,000	27,265,000
Part C	MOE	7,972,000	8,070,000	8,525,000
MCH Block Grant	MOE	18,200,000	17,749,000	17,238,000
<b>Total</b>		<b>\$85,282,000</b>	<b>\$108,367,000</b>	<b>\$116,798,000</b>

IDHS first identifies specific State EI expenditures that are to be claimed under the Medicaid and Title XX programs. The remaining expenditures are considered “available” for the Part C and MCH Block Grant programs. IDHS administered the Part C and MCH Block Grant programs under the premise that there were sufficient remaining expenditures available to meet the requirements of these programs, but never identified the specific expenditures used for the respective Federal and MOE requirements. It was also evident that

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### Schedule of Findings and Questioned Costs

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IDHS did not monitor whether it was meeting the MOE requirements during the last three fiscal years as a MOE calculation (documentation) was not available upon our initial request. Subsequently, several changes were made to the MOE calculation in an attempt to substantiate compliance with this requirement.

Additionally, due to limitations in IDHS' ability to determine State EI expenditures available for claiming after Medicaid and Title XX federal expenditures were determined and the existence of sufficient state resources to fund State EI expenditures, IDHS delayed reimbursement requests for Part C grant funds for grant years 2003 and 2004 until state fiscal year 2005. As a result, three years of expenditure reimbursements were requested under the federal Part C grant in fiscal year 2005 and were reported in the schedule of expenditures of federal awards for the year ended June 30, 2005.

During our testwork over the EI program, we were unable to obtain sufficient and competent audit evidence to allow us to ascertain that IDHS had complied with the compliance requirements that are direct and material to the Part C program. As of the date of our procedures, IDHS had not specifically identified the underlying expenditures claimed under the federal Part C program or those used to meet its MOE requirements for Part C and the MCH Block Grant. In an effort to support amounts claimed, IDHS provided a series of spreadsheets documenting the net expenditures available after deducting amounts claimed for reimbursement under the Medicaid Cluster and Title XX program; however, IDHS was unable to provide a complete detail of expenditures reimbursed under Part C or used to meet the MOE requirements of Part C and the MCH Block Grant. These analyses were performed in response to our audit documentation requests and were not performed prior to requesting cash reimbursements.

As a result, we were not able to select a sample of transactions from a complete population of expenditures claimed for reimbursement or used to meet MOE requirements to verify the expenditures: (1) met the allowability criteria under OMB Circular A-87; (2) were for activities allowed under Part C program regulations; (3) were net of applicable program income amounts; and (4) were incurred and paid within the related period of availability. Additionally, to the extent amounts were passed through to subrecipients, IDHS had not properly notified subrecipients they had received federal funds or monitored subrecipients for compliance with the applicable program regulations. Accordingly, we are unable to conclude on IDHS' compliance with regulations applicable to the Part C program.

According to 34 CFR 80.20(b)(2) and 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 officials they stated their interpretation of the Part C MOE requirement did not require the identification of specific expenditures as MOE, but the specific underlying expenditures to support the Part C claim were identified. On the issue regarding the State Fiscal Year 2003 claiming, DHS drew funds from two United States Department of Education grants during State Fiscal Year 2005. The oldest grant had a performance period of April 2003 to September 2003, but the last day to draw funds was January 6, 2005. The newer grant had a performance period of April 2004 to September 2004 and the last day to draw funds was January 6, 2006. All funds were drawn prior to the January 2005 liquidation

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date for services performed during the April 2003 to September 2003 grant period. For Medicaid claiming, the Department is allowed to submit Medicaid billing within two years of service.

Failure to establish and maintain adequate fiscal administrative processes 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 expenditures inconsistent with the objectives of the federal programs. (Finding Code 05-15)

#### **Recommendation:**

We recommend IDHS review its process for identifying expenditures claimed under its federal programs and used to meet its maintenance of effort requirements and implement changes necessary to ensure federal and state expenditures are identified and accounted for in accordance with the applicable program regulations. Additionally, IDHS should implement procedures to ensure all cash draws are adequately supported prior to requesting federal reimbursement.

#### **IDHS Response:**

Agree. IDHS has already begun a review of our accounting processes for the Early Intervention program. Changes to procedures for cash draws have already been implemented and other enhancements to the accounting process are scheduled for implementation before July 1, 2006.

While IDHS did delay requesting funds from the 2003 and 2004 Part C grants until fiscal year 2005, that process did not violate any provisions of the Part C grant agreements.

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For the Year Ended June 30, 2005

**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 (\$585,595,000)  
**Award Numbers:** G-0401 IL TANF/G-0501 IL TANF  
**Questioned Costs:** \$9,600,000

**Finding 05-16** Unallowable Costs Charged to the TANF Program

IDHS claimed expenditures under the Temporary Assistance for Needy Families (TANF) program which were unreasonable and determined using an unapproved cost allocation methodology.

During the year ended June 30, 2005, IDHS claimed approximately \$9.6 million in expenditures under the TANF program from an adult education program operated by the Illinois Department of Corrections (IDOC). This program was designed to provide educational courses to inmates in correctional facilities throughout the State to improve their self-sufficiency and ability to attain employment when released from prison. IDHS and IDOC executed an interagency agreement dated October 1, 2002, in which both agencies agreed IDOC would report expenditure information pertaining to its inmates for claiming under TANF. The interagency agreement does not identify the inmate eligibility criteria to be used, the applicable allowable cost provisions, or any of the applicable TANF laws and regulations.

Subsequent to the execution of this interagency agreement, IDHS and IDOC have informally identified criteria to be used in identifying inmates for claiming under TANF. As a result, IDOC limits the inmates included in its quarterly claim to those that: (1) have children and (2) have not been convicted of certain classes of felonies. However, neither IDHS nor IDOC have implemented procedures to ensure that the inmates served under this program will be released within a reasonable period of time (within a three year period) to enable them to benefit from the skills attained from the education courses. Consequently, these expenditures are not reasonable costs as defined in OMB Circular A-87.

Additionally, as the costs for this program can not be directly assigned to each individual inmate participating in the program, IDOC calculates an "amount per inmate" each quarter by dividing the total cost of operating the adult education program by all participating inmates. The amount per inmate is then multiplied by the number of inmates who meet the criteria noted above and is then reported to IDHS for claiming under TANF. These calculations represent a cost allocation methodology which has not been approved by the federal cognizant 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. To be allowable under federal awards, costs must meet certain general criteria. Those criteria require, among other things, that expenditures must be reasonable.

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According to OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, all departments or agencies of a governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs.

Indirect costs are defined as those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, with effort disproportionate to the results achieved.

In discussing these conditions with IDHS officials, they stated these expenditures could be reasonably calculated to accomplish the purposes of TANF, as specified at 45 CFR 260.2(b), which is to end the dependence of needy parents on government benefits by promoting job preparation, work and marriage.

Failure to properly identify and determine the allowability of costs in accordance with the applicable cost principles and program regulations may result in costs inconsistent with program objectives being claimed to federal programs. (Finding Code 05-16)

#### **Recommendation:**

We recommend IDHS work with IDOC to establish formal eligibility criteria for inmates to be claimed under the TANF program. Such eligibility criteria should include provisions to limit TANF funding to those inmates who will have the ability to benefit from the services provided. In addition, we recommend IDHS and IDOC obtain federal approval of the cost allocation methodology used to assign adult education costs to the TANF program.

#### **IDHS Response:**

Disagree. In accordance with 45 CFR 260.2(b), these expenditures were reasonably calculated to accomplish the purposes of TANF, which is to end the dependence of needy parents on government benefits by promoting job preparation, work and marriage.

IDHS disagrees with the conditions as stated in the finding. Reasonable costs, as defined in OMB Circular A-87 (Revised May 10, 2004) Attachment A, Part C are defined as costs that do not exceed, in nature and amount, what would be incurred by a prudent person. While it is difficult to quantify the value of a high school, college or vocational education, the Department believes the skills the inmates attain from this program will benefit them and their families for the rest of their lives. Some of the educational programs, by their nature, take longer than two years to complete. The assessment of a three-year period is an arbitrary judgment, and it is not reasonable and prudent to suppose that, for example, persons released after five year period would not benefit from the skills attained in an educational course completed three years prior. Therefore, IDHS considers the costs of this adult education program reasonable as defined in OMB Circular A-87.

The Department also disagrees with the auditor's belief that the adult education program costs are calculated using a cost allocation methodology requiring federal cognizant agency approval. IDOC calculates a "per hour" cost for the program. Total program expenditures are divided by total instructional hours to achieve a per hour rate. The claim amount is then calculated by multiplying the hourly rate times the number of

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instructional hours for each eligible TANF inmate enrolled in the program. Because individual hourly records are kept, these costs can be tied to individual participants.

Accordingly, these costs fall under the definition of direct costs as defined in OMB Circular A-87, and are readily assignable to a specific program, which negates the need for this program's inclusion in DHS' Cost Allocation Plan. Furthermore, in 45 CFR 95.505, the definition of state agency costs that require cost allocation plans excludes "payments for services and goods provided directly to program recipients...as provided for under the approved State program plan." These payments are for direct services to program recipients and were covered in the State TANF Plan under additional program provisions, Section 8, F, #3. A State Plan amendment (Section 8, F, #21) further clarifies our intent.

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

We do not believe the purpose of TANF was to provide funding for educational programs from which individuals will not benefit for extended periods of time. As previously stated, neither IDHS nor IDOC have implemented procedures to ensure that the inmates served under this program will be released within a reasonable period of time to enable them to benefit from the skills attained from the education courses. Based upon consultation with federal TANF program personnel, we have interpreted a reasonable period of time to be three years.

In addition, we also believe that the "per hour" calculation represents an indirect cost allocation methodology as the "per hour" amount calculated each quarter varies as a result of the course costs and the number of inmates served. These variances inhibit IDHS' ability to directly link an eligible individual with the amount claimed for reimbursement. Consequently, we continue to recommend that IDHS obtain federal cognizant approval for the allocation methodology.

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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  
Low-Income Home Energy Assistance

**CFDA # and Program Expenditures:** 93.558 (\$585,595,000)  
93.568 (\$107,156,000)

**Award Numbers:** G-0401ILTANF/G-0501ILTANF/CANG996115 (93.558)  
**(CFDA Number)** G-05B1ILLIEA/G-05B2ILLIEA (93.568)

**Questioned Costs:** Cannot be determined

**Finding 05-17** Unallowable Expenditures Used to Meet Requirements of the TANF and LIHEAP Programs

State funded Low-Income Home Energy Assistance program (LIHEAP) expenditures were improperly used both to meet the maintenance of effort (MOE) requirement of the Temporary Assistance for Needy Families (TANF) program and to obtain leveraging incentive awards under the LIHEAP program.

IDHS is the state agency responsible for administering the TANF program. As a condition of receiving federal TANF funds, the State is required to maintain a level of “qualified” state funded expenditures for programs or services benefiting eligible families (TANF MOE requirement). In an effort to maximize the State’s reimbursement under the TANF program, IDHS coordinates with a number of state agencies (including the Illinois Department of Commerce and Economic Opportunity (DCEO) and the Illinois Department of Public Aid (IDPA)) which have agreed to allow IDHS to use expenditures from their state-funded human service programs to meet the TANF MOE requirement.

In addition, DCEO was the state agency responsible for administering the LIHEAP program until July 1, 2004 at which point IDPA began administering the program. On an annual basis, DCEO/IDPA applies for leveraging incentive awards for grantees that use non-federal resources to help low-income persons meet their home heating and cooling needs under the LIHEAP program. As a condition of receiving the leveraging incentive awards, DCEO/IDPA is required to submit an annual report describing the non-federal resources used to provide these benefits.

During our audit, we noted the state LIHEAP expenditures reported by DCEO on the annual LIHEAP Leveraging reports submitted for awards received in federal fiscal years 1998 through 2003 and by IDPA in federal fiscal years 2004 and 2005 were also used by IDHS to meet the TANF MOE requirement in each of those years. TANF and LIHEAP regulations prohibit the use of the same expenditures under multiple federal programs.

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The state LIHEAP amounts reported under each program and the leveraging incentive award amounts are as follows:

<b>Federal Fiscal Year</b>	<b>LIHEAP Expenditures Used for TANF MOE</b>	<b>Expenditures Reported for Leveraging Incentive</b>	<b>Leveraging Incentive Award</b>
1998	\$5,698,625	\$20,250,340	\$402,941
1999	\$18,520,467	\$69,265,237	n/a - none
2000	\$17,891,312	\$72,830,000	\$1,783,338
2001	\$23,868,309	\$74,371,237	\$1,969,389
2002	\$32,417,721	\$72,506,362	\$1,154,478
2003	\$30,545,238	\$61,437,111	\$645,641
2004	\$28,381,856	\$73,205,559	\$732,845
2005	\$29,597,894	\$93,681,548	n/a – not awarded

According to 45 CFR 263.6(c), expenditures that a State makes as a condition of receiving federal funds under another program (except for certain childcare expenditures) cannot be used to meet the TANF maintenance of effort requirement. Additionally, according to 45 CFR 96.87(f)(15), funds or other resources that have been or will be used as matching or cost sharing for any federal program are not countable under the LIHEAP leveraging incentive program. Finally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure the same expenditures are not used to meet the requirements of multiple federal programs, except where specifically allowed by law.

In discussing these conditions with IDHS officials, they stated they were not aware these expenditures had been included on the application for the LIHEAP Leveraging Program grant.

Failure to ensure the same expenditures are not used to meet the requirements of multiple federal programs results in unallowable costs. (Finding Code 05-17)



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**Recommendation:**

We recommend IDHS review the process and procedures in place to identify expenditures used to satisfy the TANF maintenance of effort requirement and implement changes necessary to ensure those same expenditures are not used for any other purpose.

**IDHS Response:**

Agree. We have been working closely with IDPA officials to resolve this issue. IDPA officials have stated to IDHS that State expenditures used on the LIHEAP leveraging application in the future will not include any amounts claimed as TANF MOE. We believe these expenditures should not have been included on the LIHEAP Leveraging Award application, since at the time that application was completed the TANF claim had already been processed.

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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 (\$585,595,000)  
93.767 (\$260,455,000)  
93.775 / 93.777 / 93.778 (\$6,075,828,000)

**Award Numbers:** G-0401 IL TANF/G-0501 IL TANF (93.558)  
(CFDA Number) 05-0405IL5021/05-0505IL5R21 (93.767)  
05-0305IL5028/05-0405IL5028/05-0505IL5028 (93.778)  
05-0305IL5048/05-0405IL5048/05-0505IL5048 (93.775/93.777)

**Questioned Costs:** Cannot be determined

**Finding 05-18** 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 was delinquent (overdue) in performing the eligibility re-determinations for individuals receiving benefits under the TANF, SCHIP, and Medicaid programs based on the following monthly statistics for state fiscal year 2005:

Program/Month	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
<b>TANF</b>			
July	2,771	39,714	6.98%
August	2,982	40,177	7.42%
September	2,977	40,556	7.34%
October	3,123	40,997	7.62%
November	3,176	41,307	7.69%
December	3,203	42,166	7.60%
January	3,165	42,429	7.46%
February	3,090	42,079	7.34%
March	3,031	42,347	7.16%

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Program/Month	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
<b>TANF (cont'd)</b>			
April	2,926	41,939	6.98%
May	3,131	41,796	7.49%
June	3,289	41,756	7.88%
<b>SCHIP</b>			
July	44,381	467,871	9.49%
August	46,441	472,872	9.82%
September	48,285	478,712	10.09%
October	47,552	483,142	9.84%
November	51,828	488,079	10.62%
December	54,859	492,737	11.13%
January	55,779	494,098	11.29%
February	60,047	496,135	9.42%
March	56,729	500,004	11.97%
April	59,870	500,570	12.00%
May	60,373	504,861	11.96%
June	58,698	509,497	11.52%
<b>Medicaid</b>			
July	25,785	354,985	7.26%
August	26,026	355,824	7.31%
September	26,654	357,355	7.46%
October	27,283	358,885	7.60%
November	28,478	360,535	7.90%
December	30,179	362,269	8.33%
January	30,945	363,543	8.51%
February	31,758	364,185	8.72%
March	32,794	365,229	8.98%
April	32,661	366,035	8.92%
May	32,384	367,178	8.82%
June	31,899	368,214	8.66%

In accordance with 42 CFR section 431.10 and the OMB Circular A-133 Compliance Supplement, dated May 2005, 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.

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In discussing these conditions with IDHS officials, they stated while staff shortages have had direct impact on the rate of completion of work, the audit findings are based on a completion rate of 100%. During the fiscal years of 2004 and 2005, IDHS has implemented corrective actions in order to comply with IDHS TANF State Plan and Federal guidelines.

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 05-18, 04-15, 03-17)

#### **Recommendation:**

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

#### **IDHS Response:**

Agree. IDHS agrees to review the Division's current process for performing eligibility re-determinations and consider any changes that would ensure improvement of the rates. IDHS has revised the IDHS TANF State Plan to show that the re-determination completion rate will comply with federal guidelines. The revision is currently awaiting approval from USDHHS.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**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 (\$585,595,000)  
**Award Numbers:** G-0401 IL TANF/G-0501 IL TANF  
**Questioned Costs:** Cannot be determined

**Finding 05-19** *Failure to Follow and Document TANF Sanction Procedures*

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.

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. In the event a TANF beneficiary fails to assist IDPA without good cause, IDHS 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 IDPA for non-cooperation without good cause. We noted the following exceptions during our testwork:

- In two 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 period of noncompliance were \$4,940.
- In six cases, IDHS did not evaluate beneficiaries for non-cooperation within required timeframes. There was not evidence in these case files documenting the reasons for these delays. Delays in evaluating cases ranged from nine to 79 days. Benefits paid to these individuals during the period of noncompliance were \$3,130.
- IDHS did not sanction beneficiaries for non-cooperation or document good cause existed for the non-cooperation with IDPA. Upon further discussions with IDHS and IDPA management, we noted the process for identifying individuals who did not cooperate with IDPA was suspended during the period May 13, 2004 through September 30, 2004, and as a result, approximately 3,712 cases were not evaluated to determine whether sanctions were required during this period. Benefits paid to these individuals during the period from May 13, 2004 to June 30, 2004 were \$504,466. Benefits paid to these individuals during the period from July 1 to September 30, 2004 were \$1,784,184.

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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.

In discussing these conditions with IDHS officials, they stated that they disagree with the finding. Delays in the evaluation process could be attributed to the lack of electronic interface between the IV-A (IDHS) and IV-D (IDPA) agencies. Since the IDHS and IDPA computer systems do not interface, the Form 1611 (Notice of Failure to Cooperate) process is manual. The IDPA Division of Child Support Enforcement (DCSE) completes and sends Notice of Failure to Cooperate to IDHS local office. DCSE marks the non-cooperation reason and the date of non-cooperation on the form. IDHS local office receives Form 1611 from DCSE and begins the reconciliation process. The manual process generates inefficiencies in the delivery and processing of the 1611s.

Failure to sanction beneficiaries for non-cooperation with Child Support Enforcement efforts 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. (Finding Code 05-19, 04-16, 03-21)

#### **Recommendation:**

We recommend IDHS 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 Plan.

#### **IDHS Response:**

Disagree. The two cases cited in the first dot point (In two cases, IDHS did not sanction beneficiaries for non-cooperation) did not cooperate with Child Support and are no longer receiving TANF cash. Benefits paid to these two individuals for the period of non-compliance during the fiscal year ending June 30, 2005 were \$4,940. IDHS will seek to recover the overpayments through all means authorized by statute.

In the second dot point (In six cases, IDHS did not evaluate beneficiaries for non-cooperation within required timeframes) of this finding, there were six cases cited that were not evaluated for non-cooperation on a timely basis. In each case, a reconciliation was performed, and it was determined a sanction would have been inappropriate. Benefits paid to these six individuals during the period of non-compliance were \$2,453.

The third dot point (IDHS did not sanction beneficiaries for non-cooperation or document good cause existed for the non-cooperation with IDPA) is a repeated finding due to a cross over in fiscal years of the one-time implementation of IDPA's new intake model. The cases that were impacted during IDPA's implementation were re-evaluated to avoid imposing a sanction on families that may have been compliant during IDPA implementation. IDPA's new intake model is now fully implemented and IDHS ensures that all TANF recipients who are reported as non-cooperative are reconciled and sanctioned as appropriate.

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

Although IDHS provided documentation supporting that cases included in the first and second bullets of the finding above were evaluated or sanctioned in a period subsequent to our test period, the documentation did not clearly demonstrate that IDHS had determined good cause existed in our test period and that a sanction was not required during the tested period. As such, we do not believe IDHS complied with the applicable regulations in these cases.

In addition, the TANF State Plan clearly states IDHS 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 above, for the period from May 13, 2004 through September 30, 2004, IDHS did not evaluate 3,712 TANF cases in which a notice of noncooperation was generated by the KIDS system to determine whether good cause existed. Instead, IDHS and IDPA agreed to grant these cases amnesty due to the 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 existed without first evaluating the specific facts and circumstances pertaining to each case in accordance with its established policies and procedures.

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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 (\$585,595,000)  
**Award Numbers:** G-0401 IL TANF/G-0501 IL TANF  
**Questioned Costs:** \$1,871,225

**Finding 05-20** 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 year ended June 30, 2005, IDHS claimed approximately \$1.9 million in expenditures under the 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 officials, they stated that IDHS stopped claiming Regional Safe Schools program expenditures at the end of Federal Fiscal Year 2004 (September 30, 2004) in accordance with the USDHHS program guidance issued April 14, 2005 and the audit recommendation in the State Fiscal Year 2004 Single Audit issued May 16, 2005. The prior years audit recommendations have been resolved with USDHHS and they are aware of the time periods that IDHS claimed these expenditures.

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 05-20, 04-14, 03-16)



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**Recommendation:**

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:**

Partially agree. IDHS has complied with the federal program instruction TANF-ACF-2005-01 on educational costs issued in April 2005.

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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 (\$94,971,000)  
**Award Numbers:** H126A04001813/H126A050018A  
**Questioned Costs:** \$17,905

**Finding 05-21** *Unallowable Expenditures Charged to the Vocational Rehabilitation Program*

IDHS made unallowable expenditures on behalf of eligible beneficiaries of the Rehabilitation Services – Vocational Rehabilitation Grants to States (Vocational Rehabilitation) program.

The Vocational Rehabilitation program is designed to provide services to certain individuals who have physical or mental impairments that impede them from attaining employment. Services provided under the Vocational Rehabilitation program vary and are designed specifically for each beneficiary based upon the facts and circumstances faced by the beneficiary. Most services are considered allowable if they are required to assist the beneficiary to attain his/her employment goal and are documented in the beneficiary's Individualized Plan for Employment (IPE).

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

- In two cases, a signed copy of the Individualized Plan for Employment (IPE) was not on file for the beneficiary. Payments made during the year ended June 30, 2005 for services related to these beneficiaries totaled \$2,297.
- In one case, payments were made on behalf of a beneficiary to pursue an undergraduate degree which was not consistent with the client's vocational goal as documented in her IPE. The beneficiary's IPE indicated her vocational goal was to retain her current position as a sales clerk and the services necessary to assist her in achieving this goal consisted primarily of the purchase of hearing devices. We noted the beneficiary's IPE did not document how the undergraduate degree supported the vocational goal. In addition, a newspaper article included in the case file indicated the beneficiary did not intend to use her undergraduate degree, but rather she obtained her degree to "fulfill a lifelong love of learning." As these expenditures do not appear to be necessary to assist the beneficiary in attaining her vocational goal and are not documented in the beneficiary's IPE, they are not allowable. Expenditures made on behalf of this individual to obtain her undergraduate degree during the year ended June 30, 2005 totaled \$666. Expenditures made for the same purpose in previous years were \$1,928.

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- In one case, payments were made on behalf of a beneficiary to establish a business for which a self-employment business plan was not completed. The beneficiary's IPE indicated his vocational goal was to become a Real Estate Sales Agent and the services necessary to assist him in achieving this goal were various educational courses and assistance with purchasing equipment and supplies required for real estate sales. Additionally, the individual did not live in an area in which he would be able to use his real estate sales skills, and as such, the costs for trips to other areas of the state to develop a customer base were charged to the program. As this individual's vocational goal was effectively self-employment, (1) the beneficiary should have had prior business experience and training in the business, (2) a business plan (in addition to the IPE) should have been required, and (3) costs should have only been reimbursable up to 50%. Expenditures made on behalf of this individual during the year ended June 30, 2005 totaled \$10,546. Expenditures made for the same purpose in previous years were \$2,368.

In accordance with 29 USC 722(b)(2) and (3), an IPE must be signed by the eligible individual (or his/her representative) and a qualified vocational rehabilitational counselor and must include (1) a description of the specific employment outcome that is chosen by the individual and is consistent with the individual's unique strengths, resources, priorities, concerns, abilities, capabilities, career interests, and informed choice, (2) a description of the specific rehabilitation services needed to achieve the employment outcome, and (3) timelines for the achievement of employment outcomes. Additionally, according to Title 89 Chapter IV Part 590.315(b) and 590.320 of the Illinois Administrative Code, to be eligible for participation in the self-employment program, the customer must have prior successful business operation experience and previous formal education/training in the business and must complete a business plan. The business plan should include a full description of the proposed business, the customer's qualifications, interest in, and need for self employment as an employment outcome, the estimated total capital needs for establishing the business (including the availability of funds), financial estimates for the first 12 months, plans for business development and marketing, evidence the business has a reasonable chance of success, and commitment for any additional financing required.

In discussing these conditions with IDHS officials, they stated that the findings were as a result of an oversight in processing the cases. The IDHS, Division of Rehabilitation Services has developed a Quality Assurance process to monitor allowability of payments.

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 05-21)

#### **Recommendation:**

We recommend IDHS review its process for determining the allowability of payments on the behalf of beneficiaries and consider the changes necessary to ensure only allowable costs for beneficiaries determined eligible are charged to the federal program.

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**IDHS Response:**

Agree. The IDHS Division of Rehabilitation Services (DRS) has issued a reminder to staff on the importance of obtaining signatures. DRS agree with the second dot point (payments made on behalf of a beneficiary to pursue an undergraduate degree), and has issued reminder to staff regarding the purposes of vocational rehabilitation. The third dot point (payments made on behalf of a beneficiary to establish a business) is the result in a disagreement regarding the interpretation of what qualifies as self-employment and DRS will review its rules to ensure that there is more clarity.

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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 (\$94,971,000)  
**Award Numbers:** H126A04001813/H126A050018A  
**Questioned Costs:** \$656

**Finding 05-22** *Failure to Determine Eligibility In Accordance with Program Regulations*

IDHS did not determine the eligibility of beneficiaries under the Rehabilitation Services – Vocational Rehabilitation Grants to States program (Vocational Rehabilitation) in accordance with federal regulations.

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

- In three cases, IDHS did not determine eligibility within the required 60 day timeframe. No payments were made during year ended June 30, 2005 for services related to these beneficiaries prior to the completion of the eligibility determinations, except those necessary to confirm the beneficiary's disability.
- In one case, services were provided to an individual whose case file did not document the existence of a physical or mental impairment that caused substantial impediment to the attaining employment. The beneficiary's case file contained no medical diagnosis of a physical or mental impairment except a record of an emergency room visit which indicated the individual suffered from a headache. As the individual does not appear to have a documented disability, payments totaling \$401 which were made for services on her behalf during year ended June 30, 2005 are not allowable.

Upon further investigation, we noted the case worker responsible for the eligibility determination referenced in the second bullet point above was terminated for performance reasons. As a result, we requested IDHS perform a review of all cases determined eligible by this case worker during the audit period and noted the following additional exceptions:

- In two cases, IDHS did not determine eligibility within the required 60 day timeframe. No payments were made during year ended June 30, 2005 for services related to these beneficiaries prior to the completion of the eligibility determinations, except those necessary to confirm the beneficiary's disability.
- In two cases, individuals whose case files did not document the existence of a physical or mental impairment that caused substantial impediment to attaining employment were found to be eligible by the case worker; however, limited services were provided in these cases due to the fact the beneficiaries failed to continue participation in the program. Payments made to these individuals during the year ended June 30, 2005 were \$255.

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In accordance with Section 102(a)(1) of the Rehabilitation Act, an individual is eligible for assistance if the individual has a disability as defined in 29 USC 705(20)(a) and requires services to prepare for, secure, retain, or regain employment. Additionally, according to Section 102(a)(6) of the Rehabilitation Act, IDHS is required to determine client eligibility within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for benefits unless one of the criteria for an extension has been met. The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure beneficiary eligibility determinations are performed in accordance with program regulations.

In discussing these conditions with IDHS officials, they stated that delays occurred which prevented the customer from being certified within the prescribed timeframes. IDHS has implemented procedures to ensure eligibility determinations are reviewed.

Failure to properly perform beneficiary eligibility determinations and complete such determinations within the required timeframes may result in expenditures being made on the behalf of ineligible beneficiaries, which are unallowable costs. (Finding Code 05-22, 04-25)

#### **Recommendation:**

We recommend IDHS review its current process for performing eligibility determinations and consider changes necessary to ensure all eligibility determinations are made in accordance with program regulations. In addition, we recommend IDHS implement procedures to ensure eligibility determinations are reviewed for case workers who are terminated for performance reasons.

#### **IDHS Response:**

Agree. The IDHS Division of Rehabilitation Services (DRS) agrees with the finding and has reemphasized to Division staff the need to follow established program rules in regard to these issues.

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

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

**Program Name:** Special Education – Grants for Infants and Families with Disabilities  
Temporary Assistance for Needy Families  
Social Services Block Grant  
Maternal and Child Health Services Block Grant to States

**CFDA # and Program Expenditures:** 84.181 (\$36,428,000)  
93.558 (\$585,595,000)  
93.667 (\$87,826,000)  
93.994 (\$21,901,000)

**Award Numbers:** H181A030001/H181A040003/H181A050007 (84.181)  
(CFDA number) G-0401ILTANF/G-0501ILTANF/CANG996115 (93.558)  
G-0401ILSOSR/G-0501ILSOSR (93.667)  
B04MC04271-01-03 (93.994)

**Questioned Costs:** Cannot be determined

**Finding 05-23** *Improper Cost Allocation Methodology*

IDHS has not amended the allocation methodology included in the most recently submitted Public Assistance Cost Allocation Plan (PACAP) to accurately allocate the costs of its Early Intervention Program (State EI) to all applicable federal programs.

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 December 31, 2004, we noted the allocation methodology included in the PACAP for the State EI program does not reflect the actual activities of the program. The cost allocation methodology currently included in the PACAP requires State EI costs to be allocated to the Medicaid Cluster based upon beneficiary eligibility statistics (i.e. number of Medicaid eligible cases in relation to total cases) with the remainder of these expenditures to be funded by the State. Based upon this methodology, IDHS used the non-Medicaid PACAP expenditures to meet its Special Education – Grants for Infants and Families with Disabilities program (Part C) maintenance of effort (MOE) requirement. However, since the non-Medicaid State EI beneficiary payments are federally reimbursed under

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Part C and the Social Services Block Grant programs and are also used to meet the MOE requirements for Part C and the Maternal and Child Health Services Block Grant to States, the remaining state funded expenditures should be further allocated to each of the benefiting federal and state programs. Consequently, a portion of the non-Medicaid PACAP expenditures used to meet the Part C MOE requirements are not attributable to the Part C program and should not have been used to meet the MOE requirements.

According to 45 CFR 95.509(a)(4), a State shall promptly amend the cost allocation plan and submit the amended plan to the Division of Cost Allocation if other changes occur which make the allocation basis or procedures in the approved cost allocation plan invalid. 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 that the cost allocation methodology as defined in the Public Assistance Cost Allocation Plan (PACAP) was sufficient under their interpretation of the Part C MOE requirement. IDHS followed PACAP methodology that is on file with the United States Department of Health and Human Services (U.S. DHHS), Division of Cost Allocation.

Failure to amend PACAP cost allocation methodologies for changes in program administration may result in disallowances of costs. (Finding Code 05-23)

#### **Recommendation:**

We recommend IDHS review the process and procedures in place to prepare PACAP amendments and implement changes necessary to ensure cost allocation methodologies accurately reflect programmatic activities.

#### **IDHS Response:**

Agree. IDHS will submit an amendment to USDHHS to change the allocation methodology for distributing administrative costs of the Early Intervention program. The USDHHS Division of Cost Allocation must also approve the amended language. No net change in federal funding is expected as a result of this amendment.



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For the Year Ended June 30, 2005

**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 (\$585,595,000)  
**Award Numbers:** G-0401 IL TANF/G-0501 IL TANF  
**Questioned Costs:** Cannot be determined

**Finding 05-24** *Failure to Obtain Documentation of Assignment of Child Support Rights*

IDHS did not obtain written documentation from beneficiaries of the Temporary Assistance for Needy Families (TANF) program supporting they had assigned their rights to child support payments to the State.

As a condition of receiving cash assistance under the TANF program, beneficiaries are required to assign their rights to collections of child support payments to the State during the time periods the individuals are receiving TANF cash benefits. IDHS has designed its standard application for benefits to include an acknowledgement that the applicant understands child support payments collected on his or her behalf may be retained by the State as long as TANF benefits are being received. During our testwork over 50 TANF beneficiaries, we noted two beneficiaries for which the standard application was not used and for which an acknowledgement of assigning child support payments to the State was not available. Upon further investigation, it was determined that these beneficiaries completed a short form of the application which does not include the client rights and responsibilities certification page. IDHS allows applicants to complete the short form application when the applicant was previously included as a dependent on another case prior to making his/her own application or if the applicant previously received assistance. IDHS could not identify the number of applicants for which the short form application (without the rights and responsibilities certification) had been used.

According to 42 USC 608(a)(3)(A), the State must require a family receiving TANF benefits to assign their rights to support from any other person to the extent of the TANF benefits they receive.

In discussing these conditions with IDHS officials, they stated the short form application was used to apply for the Temporary Assistance for Needy Families (TANF) cash when there is an established TANF Medical Assistance No Grant (MANG) case. In cases that have used a short form application, the regular application with the child support assignment of rights is typically present. The Division of Human Capital Development (HCD) staff has reviewed the Department policy, and the assignment of rights requirement is met in all new cases via the application process. In both cases cited by the auditor, the initial applications in the two cases were either 1) from a time period when the assignment of rights language was not present on the application, and 2) taken in a Teen Parent Services office that has been closed for several years. HCD review also noted that in both cases, documents were present that strongly indicated IDHS issued and explained child support requirements, as well as documents showing the customer knew and understood these requirements.

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Failure to obtain documentation that TANF recipients have assigned their rights to child support collections to the State may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 05-24)

**Recommendation:**

We recommend IDHS obtain written documentation of the assignment of child support rights from all TANF beneficiaries.

**IDHS Response:**

Agree. In both cases, the Child Support assignment of rights has been secured and incorporated in the case file. Current policy covers these instances by requiring the regular application presence in the record if the short form is used. Although this is not a systemic problem, we agree to ensure all staff are aware of the assignment of rights requirements. The application form used in all current applications includes the assignment of rights language.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**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 (\$183,443,000)  
84.126 (\$94,971,000)  
93.558 (\$585,595,000)  
93.575 / 93.596 (\$225,742,000)  
93.667 (\$87,826,000)  
93.959 (\$66,393,000)

**Award Numbers:** 2IL700007 (10.557)  
(CFDA number) H126A04001813/H126A050018A (84.126)  
G-0401 IL TANF/G-0501 IL TANF (93.558)  
G0401ILCCDF/G-0501ILCCDF (93.575)  
G992115/G996005/G999004/G999005 (93.596)  
G-0401ILSOSR/G-0501ILSOSP (93.667)  
04B1ILSAPT-03/05B1ILSAPT01 (93.959)

**Questioned Costs:** None

**Finding 05-25** *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.

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During our testwork of 150 subrecipients (30 for each program) of the WIC, Vocational Rehabilitation, TANF, Child Care Cluster, and Title XX programs, we noted the following:

Program	Number of Subrecipients Not Notified of Review Results within 60 days	Number of Days to Report Review Findings	Number of Subrecipients Not Notified of Review Results	Number of Subrecipients for which No Corrective Action Plan Was Obtained
WIC	1	96 days	None	1
Vocational Rehabilitation	2	61 – 62 days	8	1
TANF	6	62 – 192 days	1	None
Child Care	8	84 – 193 days	None	3
Title XX	None	None	3	None

In addition, during our testwork of expenditures to subrecipients of the Vocational Rehabilitation, TANF, Child Care Cluster, Title XX, and SAPT programs, we noted 15 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 2005 Subrecipient Expenditures	Total Fiscal Year 2005 Program Expenditures
Vocational Rehabilitation	4	None performed	\$1,822,110	\$23,746,000	\$94,971,000
TANF	2	None performed	\$5,862,941	\$256,498,000	\$585,595,000
Child Care	4	3 to 6	\$3,559,211	\$195,248,000	\$225,742,000
Title XX	3	5	\$829,675	\$37,974,000	\$87,826,000
SAPT	2	None performed	\$3,880,382	\$62,755,000	\$66,393,000

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 stated that this was a finding that was brought to IDHS attention in prior audit. At the time of FY'05 audit, IDHS was still working on the implementation of corrective actions.

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. Additionally, failure to adequately monitor subrecipients may result in subrecipients not

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For the Year Ended June 30, 2005

properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 05-25, 04-22, 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. In addition, we recommend IDHS ensure programmatic on-site reviews are performed for subrecipients in accordance with established policies and procedures.

**IDHS Response:**

Agree. During fiscal year 2005 IDHS clarified monitoring procedures to ensure the timely performance of on-site reviews and communication of follow up on on-site monitoring findings. IDHS has implemented procedures to ensure all subrecipients are monitored and that timely corrective action and notification is taken.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

**Federal Agency:** US Social Security Administration

**Program Name:** Social Security Disability Insurance

**CFDA # and Program Expenditures:** 96.001 / 96.006 (\$66,301,000)

**Award Numbers:** 0404ILD100/0504ILD100

**Questioned Costs:** Cannot be determined

**Finding 05-26** *Failure to Follow Illinois Procurement Code*

IDHS did not follow the Illinois Procurement Code for certain procurements made under the Social Security Disability Insurance (SSDI) cluster.

During our testwork over 30 procurements made from the SSDI cluster, we noted IDHS purchased approximately \$37,800 in envelopes from a vendor with whom a contract had not been executed. The procurement was subdivided into 10 separate purchases ranging from \$238 to \$8,919 to avoid the State's bidding and contract requirements for purchases in excess of \$25,000. Procurement expenditures totaling \$7,177,498 were charged to the SSDI cluster during the year ended June 30, 2005.

In accordance with 20 CFR 437.36(a), a State must follow the same policies and procedures it uses for procurements for its non-Federal funds. Section 20-80(b) of the Illinois Procurement Code (30 ILCS 500) requires a copy of the written determination (i.e. contract, purchase order, grant, or lease agreement) for obligations exceeding \$10,000 to be filed with the Comptroller within 15 days of its execution. Section 20-5 of the Illinois Procurement Code (30 ILCS 500) and applicable administrative rules (44 IL Adm Code 7.2020) require all State contracts greater than \$25,000 to be awarded by competitive sealed bidding unless otherwise authorized by law. Additionally, section 20-20(a) of the Illinois Procurement Code (30 ILCS 500) prohibits artificially dividing purchases to constitute a small purchase (defined as less than \$25,000).

In discussing these conditions with IDHS officials, they stated they were not aware that purchases of consumable supplies, made as needed, are subject to the Illinois Procurement Code. IDHS has made adjustments to ensure Illinois Procurement Code is complied with henceforth.

Failure to follow the Illinois Procurement Code may result in violations of federal procurement regulations and the loss of federal funding. (Finding Code 05-26, 04-27)

**Recommendation:**

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

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**IDHS Response:**

Agree. IDHS has developed procedures to address the audit recommendation. Monitoring tools have been developed to track compliance with the new policy.

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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 (\$183,443,000)  
84.126 (\$94,971,000)  
93.558 (\$585,595,000)  
93.575 / 93.596 (\$225,742,000)  
93.667 (\$87,826,000)  
93.959 (\$66,393,000)

**Award Numbers:** 2IL700007 (10.557)  
(CFDA number) H126A04001813/H126A050018A (84.126)  
G-0401 IL TANF/G-0501 IL TANF (93.558)  
G0401ILCCDF/G-0501ILCCDF (93.575)  
G992115/G996005/G999004/G999005 (93.596)  
G-0401ILSOSR/G-0501ILSOSP (93.667)  
04B1ILSAPT-03/05B1ILSAPT01 (93.959)

**Questioned Costs:** None

**Finding 05-27** Untimely Review of OMB Circular A-133 Audit Reports

IDHS did not review OMB Circular A-133 audit reports received from its subrecipients for the Special Supplemental Nutrition 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 (Child Care), Social Services Block Grant (Title XX), and Block Grants for Prevention and Treatment of Substance Abuse (SAPT) programs on a timely basis.

Subrecipients who receive more than \$500,000 in federal awards are required to submit an OMB Circular A-133 audit report to IDHS. The Office of Contract Administration is responsible for reviewing these reports and working with program personnel to issue management decisions on any findings applicable to IDHS programs. A single audit desk review checklist is used to document the review of the OMB Circular A-133 audit reports.



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We selected a total sample of 180 subrecipient monitoring files to review from the above programs. During our review of the subrecipient monitoring files, we noted that for 20 subrecipient files IDHS had not completed the desk review of the subrecipient OMB Circular A-133 reports within 60 days of their receipt by IDHS. These reviews were completed as follows:

<b>Desk Review Period</b>	<b>Number of Subrecipients</b>
61-90 days after receipt	4
91-120 days after receipt	7
121-150 days after receipt	2
151-180 days after receipt	4
180 + days after receipt	3

Of the three subrecipients reviewed six months after the date of receipt of the audit report, IDHS was required to issue management decisions and did so within the required six-month timeframe.

IDHS' subrecipient expenditures under the federal programs for the year ended June 30, 2005 were as follows:

<b>Program</b>	<b>Total Fiscal Year 2005 Subrecipient Expenditures</b>	<b>Total Fiscal Year 2005 Program Expenditures</b>	<b>%</b>
WIC	\$175,139,000	\$183,443,000	95.5%
Vocational Rehabilitation	\$23,746,000	\$94,971,000	25.0%
TANF	\$256,498,000	\$585,595,000	43.8%
Child Care	\$195,248,000	\$225,742,000	86.5%
Title XX	\$37,974,000	\$87,826,000	43.2%
SAPT	\$62,755,000	\$66,393,000	94.5%

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. Effective internal controls require monitoring procedures to be performed on a timely basis.

In discussing the desk review process with IDHS officials, they stated the annual cycle of receipt of reports is uneven, with 75% of all required reporting agencies having a June, July or August fiscal year end.

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 05-27)

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#### **Recommendation:**

We recommend IDHS establish a review period of not more than 60 days from the receipt of the OMB Circular A-133 audit reports.

#### **IDHS Response:**

Agree. The auditors have indicated that there is no timeframe required for review prescribed in the regulations; however, the auditors have interpreted a reasonable timeframe to be 60 days. Effective March 31, 2006, internal procedure has been changed so that within 15 business days of receiving forwarded reports from Springfield, the Audit Review Supervisor scans each report for any findings. Reports with findings are prioritized for review before reports without findings; review is usually completed within 60 days. Management decisions on IDHS findings will continue to be issued within six months as required by A-133.

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Schedule of Findings and Questioned Costs

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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 (\$183,443,000)  
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93.558 (\$585,595,000)  
93.575 / 93.596 (\$225,742,000)  
93.667 (\$87,826,000)  
93.959 (\$66,393,000)

**Award Numbers:** 2IL700007 (10.557)  
(CFDA number) H126A04001813/H126A050018A (84.126)  
G-0401 IL TANF/G-0501 IL TANF (93.558)  
G0401ILCCDF/G-0501ILCCDF (93.575)  
G992115/G996005/G999004/G999005 (93.596)  
G-0401ILSOSR/G-0501ILSOSP (93.667)  
04B1ILSAPT-03/05B1ILSAPT01 (93.959)

**Questioned Costs:** None

**Finding 05-28** *Inadequate Documentation of Risk Assessments of Subrecipients*

IDHS did not maintain adequate documentation for subrecipient risk assessments performed.

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. Historically, OCA has used a risk-based approach to select subrecipients for these reviews. During fiscal year 2005, OCA implemented a revised risk assessment process which uses a weighted mathematical formula to calculate a risk score for each IDHS subrecipient. Each subrecipient's risk score is calculated based upon the accumulated points assigned for 25 risk factors identified by IDHS. IDHS has defined higher risk subrecipients (those selected for review) as subrecipients with risk scores over +1 standard deviation of the mean risk score for the entire population. A database has been developed to document the calculation of each subrecipient's risk score, the mean risk score, and the standard deviation.

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During our review of the risk score calculations for 180 subrecipients (30 for each program) selected for testwork from the Special Supplemental Nutrition Programs for Women, Infants, and Children; Rehabilitation Services – Vocational Rehabilitation Grants to States; Temporary Assistance for Needy Families; Child Care Cluster; Social Services Block Grant; and Block Grants for Prevention and Treatment of Substance Abuse programs, we noted the database containing the fiscal year 2005 risk score calculations used to select subrecipients for fiscal on-site reviews was overwritten when OCA updated the risk factors in subsequent periods. As a copy of the database was not maintained, adequate documentation does not exist to support the risk scores calculations performed to select subrecipients for fiscal on-site reviews performed during the year ended June 30, 2005.

Subsequent to the completion of our testwork, IDHS provided a hard copy of the risk score calculations for certain providers for which on-site monitoring procedures were performed during the year ended June 30, 2005. However, the risk score calculations provided represented less than 10% of IDHS' population of subrecipients.

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. Effective internal control should include maintaining adequate documentation for risk assessments performed.

In discussing the desk review process with IDHS officials, they stated it was an oversight not to maintain a snapshot or copy of the risk factors in the database as risk assessments were calculated for the first and subsequent use of a the new tool selecting Provider Reviews for the fiscal year.

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 05-28, 04-24, 03-23)

#### **Recommendation:**

We recommend IDHS implement procedures to ensure documentation of subrecipient risk assessments is maintained.

#### **IDHS Response:**

Agree. Effective March 31, 2006, internal procedure has been changed so that a copy of the database is retained each time the risk assessment is performed for the selection of subrecipients at highest risk for assignment of on-site provider review visits.

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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 (\$66,393,000)

**Award Numbers:** 04B1ILSAPT-03/05B1ILSAPT01 (93.959)

**Questioned Costs:** None

**Finding 05-29** *Inaccurate Annual Financial Status Report*

IDHS did not properly report obligated and unobligated amounts in the annual Financial Status Report (SF-269) for the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) program.

During our testwork over the Financial Status Report for the year ended September 30, 2004, we noted the amounts for total unliquidated obligations (line d), federal share of unliquidated obligations (line f), and unobligated balance of federal funds (line i) did not agree to supporting documentation prepared from IDHS' accounting system. Upon further investigation, we noted the amounts reported in the Financial Status Report were based on the amounts recorded in the accounting system; however, the amounts reported were manually adjusted for amounts IDHS intended to obligate, but which were not supported by signed contracts as of the date of the report. These line items were inaccurately reported as follows:

Report Line Item	Amount Per Report	Amount Per Supporting Documentation	Difference
Total unliquidated obligations	\$21,050,438	\$19,626,609	\$1,423,829
Federal share of unliquidated obligations	0	\$19,626,609	(\$19,626,609)
Total federal share	63,778,451	62,354,622	\$1,423,829
Unobligated balance of federal funds	6,699,003	5,275,174	1,423,829

According to 45 CFR 96.30(b)(1), after the close of each statutory period for the obligation of block grant funds and after the close of each statutory period for the expenditure of block grant funds, each grantee shall report to the Department: (i) total funds obligated and total funds expended by the grantee during the applicable statutory periods; and (ii) the date of the last obligation and the date of the last expenditure. Grantees are required to submit this information required on OMB Standard Form 269A, Financial Status Report (short form). 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,

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regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure amounts reported in required financial reports are accurate.

In discussing these conditions with IDHS officials, they stated these adjustments were made to reflect obligations in process that were paid in the next quarter. All reported obligations were expended before the end of the grant period.

Inaccurate reporting of expenditure information may prevent USDHHS from properly monitoring and evaluating IDHS' compliance with program laws and regulations. (Finding Code 05-29)

#### **Recommendation:**

We recommend IDHS review the process and procedures in place to prepare Financial Status Report and supporting schedules and implement changes necessary to ensure these reports are accurate.

#### **IDHS Response:**

Agree. IDHS has implemented the use of new accounting reports for use in preparing the SAPT financial status reports.

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

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

**Program Name:** State Children's Insurance Program

**CFDA # and Program Expenditures:** 93.767 (\$260,455,000)

**Questioned Costs:** Cannot be determined

**Finding 05-30** Missing Documentation in Client Eligibility Files

IDHS could not locate case file documentation supporting client eligibility determinations for beneficiaries of the State Children's Insurance Program (SCHIP) program.

During our test work of SCHIP beneficiary payments, we selected 30 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits. We noted one SCHIP case in our sample for which documentation did not exist supporting whether redeterminations and/or income verification procedures were performed within required timeframes. Subsequently, IDHS provided copies of redetermination forms documenting that the redeterminations had been performed; however, the information in these forms could not be verified to the source documentation contained in the case files prior to the completion of our audit.

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.

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 May 2005, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved SCHIP State plan. The current State Plan requires re-determinations of eligibility for beneficiaries on an annual basis.

In discussing these conditions with IDHS officials, they stated that the finding is due to paper document filing error.

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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 05-30, 04-18, 03-20, 02-26, 01-15)

**Recommendation:**

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

**IDHS Response:**

Agree. In the case cited, documentation was located and now incorporated in the case record.



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**State Agency:** Illinois Department of Revenue (IDOR)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Temporary Assistance for Needy Families  
**CFDA # and Program Expenditures:** 93.558 (\$585,595,000)  
**Award Numbers:** G-0401ILTANF/G-0501ILTANF  
**Questioned Costs:** \$840

**Finding 05-31** *Inadequate Process for Determining the Allowability of Earned Income Credits*

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

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

During our testwork over 60 earned income tax credits claimed under the TANF program, we noted IDOR does not have adequate procedures to ensure earned income tax credits reported to IDHS are limited to amounts actually disbursed to tax payers. Specifically, we noted nine earned income tax credits claimed did not represent refunds disbursed to taxpayers. Rather, the refunds were offset against amounts owed by the taxpayer. Earned income tax credit amounts claimed for these taxpayers totaled \$840 during the year ended June 30, 2005.

In addition, IDOR's procedures for verifying the validity of the taxpayer's earned income tax credit claim with the federal tax returns are not completed prior to paying refunds to the taxpayer or preparing the earned income tax credit claiming report for IDHS. IDOR performs a series of data edits designed to identify individuals who may not meet the federal earned income tax credit criteria; however, these edit checks are subject to verification procedures once the federal tax return is received. These verification procedures are not performed until January of the following year and result in adjustments in subsequent claims.

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

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In discussing these conditions with IDOR officials, they stated they disagreed with the finding.

Failure to establish effective procedures to ensure expenditures claimed under federal programs meet allowability requirements results in unallowable costs. (Finding Code 05-31)

#### **Recommendation:**

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

#### **IDOR Response:**

The auditors present two issues within the finding. The first issue is the auditors' assertion that amounts of refundable Earned Income Credits that are offsets against other obligations of the recipient (such as past-due child-support) do not qualify as TANF expenditures.

We disagree. The Illinois refundable Earned Income Credits do meet all the requirements of 45 CFR Section 260.33(b), and therefore qualify as TANF expenditures. There is no requirement in that regulation or in any other regulation that could apply here that requires TANF expenditures to be made to the recipient in cash, rather than made for the recipient's benefit by paying obligations of the recipient. It is a long-established principle of law as well as financial accounting that payment of an obligation or expense on behalf of a person is the same thing as paying cash to the person. If cash payments to the recipient were required, the regulations should say so, as they do in the case of "welfare to work" assistance, where 45 CFR Section 260.32 state that benefits must be provided to the recipient in cash or instruments convertible into cash.

The second issue deals with verifying that the recipient actually qualifies for the amount claimed. The auditors' believe that the State of Illinois must wait until federal income tax return information is received from the IRS towards the end of each year and verify the eligibility of the credit claims against that information before requesting TANF reimbursement for its expenditures.

IDOR tests the claimed credit against information contained on the Illinois returns before allowing the refund as instructed per IDHS. The department also tests the credits against the federal return information that is provided by the recipient as soon as the federal information is available to us. Based on the review of federal information any reduction to a refundable credit that is identified is reported to the federal government.

IDHS has written to Washington to request confirmation of the IDOR TANF process. We will wait to respond further until we have received a response from IDHS.

#### **Auditors' Comment**

As stated in our finding above, 45 CFR 260.33(b) states that only the refundable portion of a State or local tax credit is considered to be an allowable expenditure. Additionally, 45 CFR 260.30 defines an expenditure as "any amount a State expends, spends, pays out, or disburses consistent with the requirements of parts 260 through 265." We do not agree with IDOR's assessment that the offsetting of other liabilities to the State

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with the earned income tax credits meets the definition of expenditure under the TANF regulations. As a result, we do not believe these amounts are allowable for claiming under the TANF program.

Additionally, one of the eligibility criteria for receiving an Illinois earned income tax credit is that the taxpayer receives a federal earned income tax credit. As stated in our finding above, IDOR's procedures for verifying an individual received a federal earned income tax credit are not completed until IDOR verifies the information included on the state tax return to the federal tax return received from the Internal Revenue Service. These verification procedures are not completed until January of the following year and typically result in adjustments being made to the amount previously claimed in subsequent quarters. We do not believe it is reasonable to claim these expenditures without either (1) estimating an allowance for unallowable tax credits based upon historical adjustment information or (2) completing all verification procedures.

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**State Agency:** Illinois Department of Public Aid (IDPA)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Temporary Assistance for Needy Families  
Low-Income Home Energy Assistance  
**CFDA # and Program Expenditures:** 93.558 (\$585,595,000)  
93.568 (\$107,156,000)  
**Award Numbers:** G-0401ILTANF/G-0501ILTANF/CANG996115 (93.558)  
**(CFDA Number)** G-05B1ILLIEA/G-05B2ILLIEA (93.568)

**Questioned Costs:** Cannot be determined

**Finding 05-32** Unallowable Expenditures Used to Meet Requirements of the TANF and LIHEAP Programs

State funded Low-Income Home Energy Assistance program (LIHEAP) expenditures were improperly used both to meet the maintenance of effort (MOE) requirement of the Temporary Assistance for Needy Families (TANF) program and to obtain leveraging incentive awards under the LIHEAP program.

The Illinois Department of Human Services (IDHS) is the state agency responsible for administering the TANF program. As a condition of receiving federal TANF funds, the State is required to maintain a level of “qualified” state funded expenditures for programs or services benefiting eligible families (TANF MOE requirement). In an effort to maximize the State’s reimbursement under the TANF program, IDHS coordinates with a number of state agencies (including IDPA) which have agreed to allow IDHS to use expenditures from their state-funded human service programs to meet the TANF MOE requirement.

Additionally, on an annual basis, IDPA applies for leveraging incentive awards for grantees that use non-federal resources to help low-income persons meet their home heating and cooling needs under the LIHEAP program. As a condition of receiving the leveraging incentive awards, IDPA is required to submit an annual report describing the non-federal resources used to provide these benefits.

During our audit, we noted the state LIHEAP expenditures reported by IDPA on the annual LIHEAP Leveraging reports submitted for awards received in federal fiscal years 2004 and 2005 were also used by IDHS to meet the TANF MOE requirement in each of those years. TANF and LIHEAP regulations prohibit the use of the same expenditures under multiple federal programs.

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The state LIHEAP amounts reported under each program and the leveraging incentive award amounts are as follows:

<b>Federal Fiscal Year</b>	<b>LIHEAP Expenditures Used for TANF MOE</b>	<b>Expenditures Reported for Leveraging Incentive</b>	<b>Leveraging Incentive Award</b>
2004	\$28,381,856	\$73,205,559	\$732,845
2005	\$29,597,894	\$93,681,548	n/a – not awarded

According to 45 CFR 263.6(c), expenditures that a State makes as a condition of receiving federal funds under another program (except for certain childcare expenditures) cannot be used to meet the TANF maintenance of effort requirement. In addition, according to 45 CFR 96.87(f)(15), funds or other resources that have been or will be used as matching or cost sharing for any federal program are not countable under the LIHEAP leveraging incentive program. Finally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure the same expenditures are not used to meet the requirements of multiple federal programs, except where specifically allowed by law.

In discussing these conditions with IDPA officials, they stated that Office of Energy Assistance staff were unclear on the restriction of utilizing the non-federal LIHEAP expenditures on both the LIHEAP Leveraging Report and the TANF Maintenance of Effort (MOE) Report.

Failure to ensure the same expenditures are not used to meet the requirements of multiple federal programs results in unallowable costs. (Finding Code 05-32)

**Recommendation:**

We recommend IDPA review the process and procedures in place to identify expenditures to be used to meet requirements of its federal programs and implement changes necessary to ensure the same expenditures are not used under multiple programs.

**IDPA Response:**

The Department accepts the finding. In future submissions, the LIHEAP expenditures reported on the LIHEAP Leveraging application will be reduced by the amount of LIHEAP expenditures reported on the TANF Maintenance of Effort Report.

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For the Year Ended June 30, 2005

**State Agency:** Illinois Department of Public Aid (IDPA)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Child Support Enforcement  
Low-Income Home Energy Assistance  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.563 (\$94,530,000)  
93.568 (\$107,156,000)  
93.775 / 93.777/ 93.778 (\$6,075,828,000)

**Award Numbers:** 0404IL4004/0504IL4004 (93.563)  
(CFDA Number) G-05B1ILLIEA/G-05B2ILLIEA (93.568)  
05-0305IL5028/05-0405IL5028/05-0505IL5028 (93.778)  
05-0305IL5048/05-0405IL5048/05-0505IL5048 (93.775/93.777)

**Questioned Costs:** None

**Finding 05-33** *Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports*

IDPA does not have an adequate process for ensuring subrecipients of the Child Support Enforcement program (Child Support), the Low-Income Home Energy Assistance program (LIHEAP), and Medicaid Cluster, have complied with OMB Circular A-133 audit requirements.

IDPA requires subrecipients expending more than \$500,000 in federal awards during their fiscal year to submit OMB Circular A-133 audit reports. IDPA program staff for each of the programs listed above are responsible for reviewing the reports and determining whether: (1) the audit reports meet the audit requirements of OMB Circular A-133; (2) federal funds reported in the schedule of expenditures of federal awards reconcile to IDPA records; and (3) type A programs (as defined by OMB Circular A-133) are being audited at least every three years. Additionally, program staff are responsible for evaluating the type of audit opinion issued (i.e. unqualified, qualified, adverse) and issuing management decisions on findings reported within required timeframes.

During our testwork over 10 subrecipients of the Child Support program, 10 subrecipients of the LIHEAP program, and 30 subrecipients of the Medicaid Cluster, we noted the following:

- There were four subrecipients of the LIHEAP program and one subrecipient of the Child Support program for which no OMB Circular A-133 audit report was received. In addition, these subrecipient files did not contain evidence that follow up procedures had been performed by IDPA to obtain the missing audit reports.
- There were one subrecipient of the Child Support program and nine subrecipients of the Medicaid Cluster that received less than \$500,000 in federal funds from IDPA for which IDPA did not receive an OMB Circular A-133 audit report and did not perform procedures to determine whether an audit was required to be performed. Although the funding passed through by IDPA did not exceed \$500,000, these

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subrecipients may have received federal assistance from other organizations that collectively would have exceeded the \$500,000 threshold required for subrecipients to have an OMB Circular A-133 audit.

- There were six subrecipients of the LIHEAP program for which A-133 audit reports were obtained within required timeframes; however, IDPA had not performed desk review procedures over these reports as of the date of our testwork.
- We also noted the standard A-133 audit report desk review checklist was not completed for the eight Child Support subrecipients selected in our sample for which A-133 reports were received. Upon further investigation, we determined IDPA had implemented an electronic database system to document the results of its desk reviews; however, the database does not require the reviewer to document the procedures performed to determine whether all required elements of the OMB Circular A-133 audit report are present.

Subrecipient expenditures under the federal programs for the year ended June 30, 2005 were as follows:

<b>Program</b>	<b>Total Fiscal Year 2005 Subrecipient Expenditures</b>	<b>Total Fiscal Year 2005 Program Expenditures</b>	<b>%</b>
Child Support	\$20,026,000	\$94,530,000	21.2%
LIHEAP	95,070,000	107,156,000	88.7%
Medicaid Cluster	65,119,000	6,075,828,000	1.1%

According to OMB Circular A-133 § .400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 compliance supplement, dated May 2005, a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient’s audit period, 2) issue a management decision on audit findings within 6 months after receipt of the subrecipient’s audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

In discussing these conditions with IDPA officials, they stated:

- The LIHEAP program was transferred from the Illinois Department of Commerce and Economic Opportunity (DCEO) to IDPA in State fiscal year 2005. DCEO’s A-133 review process was centralized, whereas IDPA’s process is decentralized. As a result, staff performing the reviews were not transferred to the Department.
- Child Support was unaware that the database needed to mirror the desk review checklist.
- OMB Circular A-133 does not require from subrecipients a certification of whether the \$500,000 threshold had been reached.

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Failure to obtain and adequately review subrecipient OMB Circular A-133 audit reports in a timely manner may result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 05-33)

#### **Recommendation:**

We recommend IDPA establish procedures to ensure all subrecipients receiving federal awards have audits performed in accordance with OMB Circular A-133 and centralize its procedures for performing desk reviews of A-133 audit reports for all federal programs. Additionally, we recommend IDPA revise the database used to document desk reviews to include the specific procedures performed to assess whether subrecipient A-133 audit reports meet the applicable reporting standards.

#### **IDPA Response:**

The Department accepts the finding. In addition:

- The Department is in the process of mitigating risk by centralizing the Circular A-133 review of audit reports. Approval has been received to add additional permanent staff to perform on-site reviews.
- The Department will request subrecipients to provide information on the total federal awards they have received from all sources.
- Child Support Enforcement has submitted a PIR to implement changes to their database to ensure documentation of the specific procedures performed.



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For the Year Ended June 30, 2005

**State Agency:** Illinois Department of Public Aid (IDPA)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Temporary Assistance for Needy Families  
**CFDA # and Program Expenditures:** 93.558 (\$585,595,000)  
**Award Numbers:** G-0401 IL TANF/G-0501 IL TANF  
**Questioned Costs:** Cannot be determined

**Finding 05-34** *Failure to Enforce Sanctions over TANF Recipients*

IDPA did not refer recipients of the Temporary Assistance for Needy Families (TANF) program who have been non-cooperative in establishing paternity under the Child Support Enforcement Program to the Illinois Department of Health and Human Services (IDHS) to enforce sanctions.

IDPA 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, IDPA is required to refer the case to IDHS for sanctions (reduction or elimination) of their TANF benefits. We sampled a selection of 50 TANF cases that should have been referred to IDHS by IDPA for non-cooperation in establishing paternity. We reviewed the case files to ensure that the case was referred to IDHS and IDHS took the proper course of action to either sanction or solicit cooperation from the TANF recipient with respect to paternity establishment.

In the 50 cases reviewed, we noted the following:

- IDPA did not refer four cases to IDHS in a timely manner which resulted in IDHS not being able to take the proper action to either reduce or deny TANF benefits. Benefits paid to these individuals during the year ended June 30, 2005 were \$2,525.
- IDHS did not sanction beneficiaries for non-cooperation or document good cause existed for the non-cooperation with IDPA. Upon further discussions with IDHS and IDPA management, we noted the process for identifying individuals who did not cooperate with IDPA was suspended during the period May 13 through September 30, 2004, and as a result, approximately 3,712 cases were not evaluated to determine whether sanctions were required during this period. Benefits paid to these individuals during the period from May 13, 2004 to June 30, 2004 were \$504,466. Benefits paid to these individuals during the period July 1, 2004 to September 30, 2004 were \$1,784,184.

Per 45 CFR 264.30 and 264.31, the State agency, who is responsible for administering Title IV-D of the Social Security Act and Child Support Enforcement for TANF must assist with the paternity establishment process though sanctioning the related TANF cases in an attempt to promote cooperation of the parent. If the State finds that the individual is not cooperating in establishing paternity, or in establishing, modifying, or enforcing a support order with respect to a child of the individual, and reports that information to the State agency responsible for TANF, the State TANF agency must (1) deduct an amount equal to not less than 25

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percent from the TANF assistance that would otherwise be provided to the family of the individual, and (2) may deny the family any TANF assistance.

In discussing these conditions with IDPA officials, they stated the Division of Child Support Enforcement introduced a new intake process in April 2004, which involved mailing clients a questionnaire. During transition to the new system some clients missed scheduled interviews, due to timing problems in the scheduling process rather than non-cooperation on their part. To address this, the Department rescheduled appointments and did not report clients, who had failed to show for interviews, as non-cooperative until the new intake system was fully implemented.

Failure to enforce sanctions against non-cooperative parents results in the overpayment of TANF benefits. (Finding Code 05-34, 04-29)

#### **Recommendation:**

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

#### **IDPA Response:**

The Department does not agree with this finding. The Department notes that this repeat finding is due to the cross-over in fiscal years of a one-time implementation of the Division of Child Support Enforcement's new intake model. During the implementation period, the Department delayed referral of cases impacted by transition until a proper evaluation determined the cases to be non-cooperative. Upon such determination, the Department promptly referred all such cases to IDHS to enable initiation of the sanction enforcement process. The transition period has ended and the new intake process continues to ensure that all TANF recipients who are non-cooperative are referred to IDHS for proper sanctions.

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

The TANF State Plan clearly states IDHS 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 cooperating with the Child Support Enforcement program. As discussed in the finding above, for the period from May 13, 2004 through September 30, 2004, IDHS did not evaluate 3,712 TANF cases in which a notice of non-cooperation was generated by the KIDS system to determine whether good cause existed. Instead, IDHS and IDPA agreed to grant these cases amnesty due to the 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 existed without first evaluating the specific facts and circumstances pertaining to each case in accordance with its established policies and procedures.

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For the Year Ended June 30, 2005

**State Agency:** Illinois Department of Public Aid (IDPA)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Low-Income Home Energy Assistance  
**CFDA # and Program Expenditures:** 93.568 (\$107,156,000)  
**Award Numbers:** G-05B1ILLIEA/G-05B2ILLIEA  
**Questioned Costs:** None

**Finding 05-35** Failure to Maintain Supporting Documentation for Performance Report

IDPA did not maintain adequate supporting documentation for household data included in the Annual Report on Households Assisted by the Low-Income Home Energy Assistance program (LIHEAP).

The Report on Households Assisted by LIHEAP is submitted annually as part of the application for block grant funds each year. The report is designed to provide data for the preceding fiscal year relative to: (1) the number and income levels of the households assisted for each component (heating, cooling, crisis, and weatherization), (2) the number of households served that contained young children, elderly, or persons with disabilities, and (3) the number and income levels of households applying for assistance. IDPA generates the report directly from the beneficiary information system which local administering agencies (LIHEAP subrecipients) use to report application data for program beneficiaries.

During our testwork over the Federal Fiscal Year 2005 Annual Households Assisted by LIHEAP report, we noted IDPA did not maintain documentation supporting the household information reported. IDPA queried the system for the household data relative to the number of individuals receiving heating assistance during our audit; however, the number of individuals included in each heating assistance demographic category per the query did not agree to the number of individuals included in the same category in the report submitted. IDPA was not able to reconcile the differences identified or provide supporting detail for the other assistance categories. The unreconciled differences identified were as follows:

Report Line Item	Number of Individuals Per Report	Number of Individuals Per Supporting Documentation	Difference
Under 75% Poverty	146,400	149,618	3,218
75 to 100% Poverty	76,728	71,517	(5,211)
101 to 125% Poverty	53,732	53,767	35
126 to 150% Poverty	34,105	34,906	801
60 years or older	109,753	146,200	36,477
Disabled	93,990	121,103	27,113
Age 5 years or under	60,633	65,669	5,036

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In accordance with 45 CFR 96.82(a), each grantee which is a State or an insular area which receives an annual allotment of at least \$200,000 shall submit to the Department, as part of its LIHEAP grant application, the data required by section 2605(c)(1)(G) of Public Law 97-35 (42 U.S.C. 8624(c)(1)(G)) for the 12-month period corresponding to the Federal fiscal year (October 1-September 30) preceding the fiscal year for which funds are requested. The data shall be reported separately for LIHEAP heating, cooling, crisis, and weatherization assistance. 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 maintaining adequate supporting documentation for all reports submitted to federal grantor agencies.

In discussing these conditions with IDPA officials, they state the report provided to the auditors is a point-in-time report and the discrepancies appear to be the result of a timing difference between when the report was generated for submission to USDHHS, and the subsequent supporting documentation report was generated for the auditors.

Failure to maintain supporting documentation inhibits the ability to perform an audit of the program in accordance with OMB Circular A-133 and could result in inaccurate data being included in the annual performance report. (Finding Code 05-35)

#### **Recommendation:**

We recommend IDPA implement procedures to ensure adequate supporting documentation is maintained for all federal reports.

#### **IDPA Response:**

The Department accepts the finding and the Office of Energy Assistance will implement procedures to ensure adequate supporting documentation is generated and maintained for all federal reports.

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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 (\$6,075,828,000)

**Award Numbers:** 05-0305IL5028/05-0405IL5028/05-0505IL5028 (93.778)  
**(CFDA Number)** 05-0305IL5048/05-0405IL5048/05-0505IL5048 (93.775/93.777)

**Questioned Costs:** None

**Finding 05-36** *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 implemented procedures in fiscal year 2005 to track information requests sent to employers; however, IDPA has not implemented procedures to 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 require 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 stated the limited staff resources were better utilized by concentrating efforts on other areas of identifying third-party insurers and maintaining the accuracy of the MMIS TPL database. The employed recipient match is not a mandated TPL activity under 42 CFR 433.135 through 433.154. Illinois employers have no legal obligation (state or federal) to respond to TPL's inquiries regarding possible employer-provided health insurance coverage. The match is one of ten or more mechanisms used by TPL to identify potential third-party resources.

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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: 05-36, 04-31, 03-28, 02-14, 01-03)

#### **Recommendation:**

We recommend IDPA implement procedures for 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:**

The Department does not agree with the finding. In state fiscal year 2005, the Department implemented a tracking system in response to auditor's concerns. Taken as a whole, our system has proven very effective in identifying and collecting from third-party employers. National reports indicate Illinois is recognized by the federal government as one of the top states in third-party collections. In addition, the HHS-CMMS representative has expressed non-concurrence with this finding and we continue to work with HHS-CMMS to pursue resolution of this finding.

#### **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.

As of the date of our report, this finding has not been resolved with USDHHS.

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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 (\$94,530,000)  
**Award Numbers:** 0404IL4004/0504IL4004  
**Questioned Costs:** None

**Finding 05-37** *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 60 child support cases, we noted the following:

- Six cases (10%) in which interviews with custodial parents were not scheduled for timeframes ranging from 29 days to 37 days after the referral or application had been received.
- Two cases (3%) in which interviews with custodial parents were performed; however, location procedures for the non-custodial parent were not performed or adequately documented.
- One case (2%) in which the case should have been closed, but remained active.

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 stated three of the six cases involved interviews with clients prior to the implementation of the business process re-engineering. The remaining three cases were put into the scheduling queue by priority for the next available appointment. Although staff strive to fully

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document all events and follow-up actions, in a few instances documentation was missing, resulting in the delay of further action.

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 05-37, 04-32, 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:**

The Department accepts the finding. Prior to a face-to-face interview, the client is sent a questionnaire to obtain needed case information. When the needed information is received, the client is scheduled for the next available appointment. Management has addressed with field staff the need for complete documentation and follow-up actions. The reduction in the number of exceptions noted during this audit period demonstrates the positive effect of the business process re-engineering the Department has implemented.



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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 (\$6,075,828,000)

**Award Numbers:** 05-0305IL5028/05-0405IL5028/05-0505IL5028 (93.778)  
**(CFDA Number)** 05-0305IL5048/05-0405IL5048/05-0505IL5048 (93.775/93.777)

**Questioned Costs:** None

**Finding 05-38** *Inadequate Monitoring of Subrecipients*

IDPA is not adequately monitoring subrecipients of the Medicaid Cluster.

IDPA passed through approximately \$65,119,000 in Medicaid funding to the Local Education Agencies (LEAs) during the year ended June 30, 2005 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.
- On-site reviews were not performed during the year ended June 30, 2005 for any of the 30 LEAs selected for testwork. We also noted only 29 LEAs were subject to on-site reviews out of approximately 900 LEAs that received Medicaid funding during the year ended June 30, 2005.

According to OMB Circular A-133 §\_\_\_400(d)(3), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In discussing these conditions, IDPA officials stated they have documented procedures; however, they are not at a level sufficient for audit purposes.

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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 05-38, 04-30, 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 determining which subrecipients should be selected for on-site reviews. 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 will work to refine our documentation criteria and procedures to ensure an audit trail is present. In State fiscal year 2005, the Department secured the services of two temporary staff to assist in the performance of on-site reviews. In addition, the Department is in the process of centralizing the A-133 review process and has obtained approval to add additional permanent staff to perform on-site reviews. We do agree that documentation could be consolidated to make it easier for external entities to assess the Department's procedures. However, we disagree with the statement that adjustments were not identified timely. Claiming of subrecipient costs is completed through a quarterly process, as defined by the Federal Centers for Medicare and Medicaid Services. Federal rules also allow local governments up to two years to claim Medicaid costs. As a result, the identification of potential errors often cannot be known until several quarters after costs are incurred.

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

As noted in the response above, the current procedures used by IDPA results in errors and adjustments in subrecipient expenditure claims being identified and returned to the Medicaid program several quarters after the costs are incurred and reported to IDPA. We believe these adjustments should be identified and made in a more timely manner.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**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 (\$94,530,000)  
**Award Numbers:** 0404IL4004/0504IL4004  
**Questioned Costs:** None

**Finding 05-39** *Failure to Establish Support Orders Within Required Timeframe*

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.

IDPA is responsible for administering the Child Support Enforcement Program. The objectives of this program are to enforce support obligations owed by non-custodial parent, to locate absent parents, establish paternity, and obtain child and spousal support. During our testwork of 30 child support cases, we noted one case in which IDPA never initiated support order procedures or documented unsuccessful attempts to serve process.

According to 45 CFR 303.4(d), the State IV-D agency must establish a support order or complete service of process necessary to commence proceedings to establish a support order and, if necessary paternity (or document unsuccessful attempts to serve process, in accordance with the State's guidelines defining diligent efforts within 90 calendar days of locating the non-custodial parent).

In discussing these conditions with IDPA officials, they stated that, although the Department strives to comply with the 90-day timeframe in every instance, cases are dependent upon the judicial scheduling of court dates. Some judicial cases have mitigating circumstances that prolong the court process and result in a support order not being entered within the 90-day timeframe.

Failure to properly establish a support order or document unsuccessful attempts to establish the support order could result in child support payments not being collected and remitted to the custodial parent. (Finding Code 05-39, 04-34)

**Recommendation:**

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

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**IDPA Response:**

The Department accepts the finding and has implemented practices to reduce the timeframe in which orders are established. The Department sought and obtained legislation allowing Cook County to use private process servers during the administrative process; thus giving the Department another avenue to pursue orders in a timely manner. The Department continues to work with legal representatives to improve timeliness and the documentation of legal actions.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**State Agency:** Illinois Department of Public Aid (IDPA)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** State Children's Insurance Program  
**CFDA # and Program Expenditures:** 93.767 (\$260,455,000)  
**Award Numbers:** 05-0405IL5021/05-0505IL5R21

**Questioned Costs:** None

**Finding 05-40** *Failure to Include a Program in the Treasury State Agreement*

IDPA did not include the State Children's Insurance Program (SCHIP) in the Treasury State Agreement (TSA) for the year ended June 30, 2005.

Annually, the State of Illinois negotiates the TSA with the U.S. Department of 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 single audit data available. During our cash management testwork we noted IDPA did not include SCHIP in the TSA. Based upon the June 30, 2004 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, 2005, and as such, 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 not 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 matter with IDPA personnel, Department staff stated the initial TSA for State fiscal year 2005 required that major Federal assistance programs should be determined based on the State Single Audit for fiscal year ending June 30, 2003. The SCHIP grant expenditures did not exceed \$60,000,000 in State fiscal year 2003; however, the Department should have amended the TSA to include the SCHIP grant when it qualified as a major Federal assistance program in fiscal year 2005.

Failure to include all required programs in the TSA is a violation of the Cash Management Improvement Act (CMIA) and may result in IDPA utilizing an unapproved funding technique. (Finding Code 05-40)

#### **Recommendation:**

We recommend IDPA work with the Governor's Office of Management and Budget to ensure all programs exceeding the CMIA threshold are included in the TSA.

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For the Year Ended June 30, 2005

**IDPA Response:**

The Department agrees with the finding. In January 2006, the Department provided the Illinois Governor's Office of Management and Budget with the information necessary to submit an amendment to the TSA for State fiscal year 2006 and include the SCHIP grant.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

**CFDA # and Program Expenditures:** 93.563 (\$94,530,000)  
93.775 / 93.777/ 93.778 (\$6,075,828,000)

**Award Numbers:** 0404IL4004/0504IL4004 (93.563)  
(CFDA Number) 05-0305IL5028/05-0405IL5028/05-0505IL5028 (93.778)  
05-0305IL5048/05-0405IL5048/05-0505IL5048 (93.775/93.777)

**Questioned Costs:** None

**Finding 05-41** *Failure to Obtain Suspension and Debarment Certifications from Subrecipients*

IDPA did not obtain required certifications that subrecipients were not suspended or debarred from participation in Federal assistance programs for its Child Support Enforcement program (Child Support) and Medicaid Cluster programs.

During our review of 10 subrecipients of the Child Support program and 30 subrecipients of the Medicaid Cluster, we noted IDPA did not include a suspension and debarment certification in its subrecipient agreements. As a result, IDPA did not receive certifications that any of the subrecipients of the Child Support and Medicaid Cluster programs were not suspended or debarred from participation in Federal assistance programs. Additionally, IDPA did not perform a verification check with the "Excluded Parties List System" (EPLS) maintained by the General Services Administration for any of its subrecipients. During the year ended June 30, 2005, IDPA passed through approximately \$20,026,000 and \$65,119,000 to subrecipients of the Child Support program and Medicaid Cluster, respectively.

According to 45 CFR 92.35, grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension." The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required certifications for covered contracts and subawards are received, documented, and not made with a debarred or suspended party.

In discussing these conditions with IDPA officials, they stated the suspension and debarment clause was not included in the Medicaid Cluster subrecipient intergovernmental agreements and was removed from the Child Support intergovernmental agreements because of the guidance that a county entity could not be suspended or debarred. Although employees from a county entity could be suspended or debarred, the governmental unit itself was responsible for the agreement.

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Schedule of Findings and Questioned Costs

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Failure to obtain the required certifications or perform verification procedures with the EPLS could result in the awarding of Federal funds to subrecipients that are suspended or debarred from participation in Federal assistance programs. (Finding Code 05-41)

**Recommendation:**

We recommend IDPA establish procedures to ensure grantees receiving individual awards for \$25,000 or more certify that their organization is not suspended or debarred or otherwise excluded from participation in Federal assistance program.

**IDPA Response:**

The Department accepts the finding. As Child Support's three-year contracts expire, the suspension and debarment clause will be included in the new contracts. During the fiscal year, Child Support and Medicaid Cluster staff will perform a verification check, using the "Excluded Parties List System" web site.



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**State Agency:** Illinois Department of Public Aid (IDPA)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Low-Income Home Energy Assistance  
**CFDA # and Program Expenditures:** 93.568 (\$107,156,000)  
**Award Numbers:** G-05B1ILLIEA/G-05B2ILLIEA  
**Questioned Costs:** None  
**Finding 05-42** *Inaccurate Annual Financial Status Report*

IDPA did not properly report obligated and unobligated amounts in the annual Financial Status Report (SF-269) for the Low-Income Home Energy Assistance program (LIHEAP).

During our testwork over the Financial Status Report for the year ended September 30, 2004, we noted the amounts for total unliquidated obligations (line d), federal share of unliquidated obligations (line f), and unobligated balance of federal funds (line i) were inaccurately reported as follows:

Report Line Item	Amount Per Report	Amount Per Supporting Documentation	Difference
Total unliquidated obligations	\$0	\$24,508,344	\$(24,508,344)
Federal share of unliquidated obligations	0	24,508,344	(24,508,344)
Unobligated balance of federal funds	24,508,344	0	24,508,344

As all LIHEAP funds are obligated in the year the award is received, there are no unobligated federal funds to report on the Financial Status Report. The amount reported as unobligated federal funds consisted of funds obligated to the local administering agencies at the beginning of the grant year. As a result, the Financial Status Report does not accurately reflect the financial status of the LIHEAP program.

According to 45 CFR 96.30(b)(1), after the close of each statutory period for the obligation of block grant funds and after the close of each statutory period for the expenditure of block grant funds, each grantee shall report to the Department: (i) total funds obligated and total funds expended by the grantee during the applicable statutory periods; and (ii) the date of the last obligation and the date of the last expenditure. Grantees are required to submit this information required on OMB Standard Form 269A, Financial Status Report (short form). Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure amounts reported in required financial reports are accurate.

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In discussing these conditions with IDPA officials, they indicated they were not using the latest version of the OMB form 269, which did not clearly distinguish between obligated and unobligated funds. This resulted in the unliquidated obligation amount being reported on a line entitled, "Unliquidated Balance of Federal Funds". On the revised form, this line was changed to, "Unobligated Balance of Federal Funds".

Inaccurate reporting of expenditure information may prevent USDHHS from properly monitoring and evaluating IDPA's compliance with program laws and regulations. (Finding Code 05-42)

#### **Recommendation:**

We recommend IDPA review the process and procedures in place to prepare Financial Status Report and supporting schedules and implement changes necessary to ensure these reports are accurate.

#### **IDPA Response:**

The Department accepts the finding and will implement use of the revised Standard Form 269A.

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### Schedule of Findings and Questioned 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:** Low-Income Home Energy Assistance  
**CFDA # and Program Expenditures:** 93.568 (\$107,156,000)  
**Award Numbers:** G-05B1ILLIEA/G-05B2ILLIEA  
**Questioned Costs:** None  
**Finding 05-43** *Inadequate Process for Monitoring Earmarking Requirements*

IDPA does not adequately monitor earmarking requirements related to energy needs reduction for the Low-Income Home Energy Assistance Program (LIHEAP)

Under the LIHEAP program, IDPA 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, IDPA establishes a budget for each subrecipient, which includes the maximum to be spent on these activities. IDPA also reviews each individual subrecipient's budget to actual performance relative to these requirements to ensure the subrecipient has not exceeded the maximum percentage allowed.

During our testwork, we noted IDPA does not have procedures in place to accumulate and monitor statewide expenditures for the home energy needs reduction programs to ensure compliance with the earmarking requirement on an aggregate basis. Subsequent to our testing, IDPA prepared a schedule which aggregated the statewide expenditures for home energy needs assistance and demonstrated the federal earmarking requirement was not exceeded.

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 implementing procedures to monitor compliance with earmarking requirements on a statewide basis.

In discussing these conditions with IDPA officials, they stated the Office of Energy Assistance ensures that the earmarking requirements are met by only distributing at or below the allowable amounts in each specific budget category (specifically, program support and administration); therefore, only amounts to be expended that are at or below the earmarking levels are allowed. Due to these control measures, we saw no need for earmarking monitoring on a statewide basis after budgets were executed.

Failure to adequately monitor the earmarking requirements could result in federal funds being expended for unallowable costs. (Finding Code 05-43)

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**Recommendation:**

We recommend IDPA establish procedures to monitor compliance with the earmarking requirements of the LIHEAP program on an aggregate statewide basis.

**IDPA Response:**

The Department accepts the finding. The Office of Energy Assistance has requested the preparation of a statewide report of the obligated amounts, by budget category, to enable monitoring of the earmarking requirements on a statewide basis.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

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

**Program Name:** Adoption Assistance

**CFDA # and Program Expenditures:** 93.659 (\$81,293,000)

**Award Numbers:** 0501IL1407

**Questioned Costs:** \$ 4,091

**Finding 05-44** Missing Documentation in Eligibility Files

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

The Adoption Assistance program provides funds to States for adoption assistance agreements with parents who adopt eligible children with special needs. Under this program, DCFS is required to enter into adoption assistance agreements with adoptive parents who receive subsidy payments or reimbursement of nonrecurring adoption expenses on behalf of a special needs child. The adoption assistance agreement specifies the nature and amount of monthly assistance to be given to parents, as well as the nonrecurring expenses that will be reimbursed.

During our testwork of Adoption Assistance beneficiary payments, we reviewed 50 case files for compliance with eligibility requirements and allowability of related benefits. We noted the following exceptions:

- In one case, DCFS could not locate the final “adoption decree” evidencing the child was legally adopted. DCFS claimed adoption subsidy payments on behalf of this child totaling \$1,422 during the year ended June 30, 2005.
- In one case, DCFS claimed reimbursement for adoption subsidy payments which were not included in the adoption assistance agreement. Per review of case file documentation, the adoption assistance agreement only provided for the reimbursement of nonrecurring adoption expenses. DCFS claimed adoption subsidy payments on behalf of this child totaling \$2,669 during the year ended June 30, 2005.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursements contracts, and other agreements with state and local governments. To be allowable under federal awards, cost must meet certain general criteria. Those criteria, among other things, require that the expenditures must be necessary, reasonable, and supported by adequate documentation. Per 45 CFR 1356.40, the agreement for the subsidy must contain information concerning the nature of services to be provided and be signed and in effect prior to the final adoption decree.

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In discussing these conditions with DCFS officials, they stated the documents requested were for two adoptions that took place a number of years ago and the documents were thought to have originally been filed with in the original foster care case files and put into achieves. When those files were retrieved, the documents were not included and apparently had been misplaced.

Failure to maintain case file documentation, including adoption assistance agreements and adoption decrees, could result in payments to ineligible beneficiaries. (Finding Code 05-44)

#### **Recommendation:**

We recommend DCFS review its procedures for documenting and executing adoption agreements and implement changes necessary to ensure adoption assistance agreements and final adoption decrees exist for all children for whom adoption subsidy payments and nonrecurring expenditures are claimed.

#### **DCFS Response:**

The Department agrees and will review procedures for obtaining and retaining the agreements. Changes will be made, if necessary, to ensure adoption assistance agreements and final adoption decrees are retained for all children. The Department will make the appropriate claiming adjustments for actual amounts included in claims relating to the beneficiary payments questioned by the auditor.

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

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

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

**CFDA # and Program Expenditures:** 93.658 (\$249,474,000)

**Award Numbers:** 0501IL1401

**Questioned Costs:** \$ 9,391

**Finding 05-45** *Failure to Ensure That Required Judicial Determinations Were Made*

DCFS did not ensure that required judicial determinations were made in applicable court rulings, including those pertaining to “Reasonable Efforts” and “Contrary to the Welfare.”

The Foster Care Program provides funds to States for the purpose of providing safe, appropriate, 24-hour substitute care for children who are under the jurisdiction of the DCFS and need temporary placement and care outside of their home. As the State administering agency of this program, DCFS receives reports and referrals of children in potentially compromising living situations, including those who are suspected to be abused or neglected. Children in imminent danger may be taken into protective custody. Otherwise, an investigation is performed to determine whether it is necessary to remove the child from the living environment, or if services can be provided to remedy the situation without placement. If removal from the living environment is required as a result of protective custody or an investigation, DCFS presents a motion to the court to gain temporary custody (also known as shelter care) of the minor, resulting from founded reports of abuse or neglect. To be eligible for reimbursement under the Foster Care program, DCFS is required to receive a judicial determination (court ruling) within 60 days as to what living arrangement is in the child’s best interest and whether or not DCFS has made reasonable efforts to prevent removal by following the proper investigative procedures prior to removing the child from the home.

During our testwork over Foster Care beneficiary payments, we selected 50 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits. We noted the following exceptions during our testwork:

- In one case, a judicial determination of reasonable efforts to prevent a child’s removal from the home was not made in any of the court orders we reviewed.
- In two cases, a judicial determination of reasonable efforts to prevent a child’s removal from the home was not made within 60 days from the date that child was removed from the home. The delays in making the judicial determination were 46 and 129 days after the required timeframe.
- In one of the two cases noted above, the court order removing the child from the home did not contain language to the effect that continuing in the residence would be contrary to the welfare of the child, or that placement would be in the best interest of the child.

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DCFS claimed reimbursement for foster care maintenance payments made on behalf of these beneficiaries totaling \$9,955 during the year ended June 30, 2005. Of this amount, \$564 for two of the children is also included as questioned costs related to Finding 05-46, "Failure to Ensure That Foster Care Permanency Hearings Are Performed Within Required Timeframes" and will not be included in the reported questioned costs for this finding to avoid reporting the same questioned costs twice.

According to 45 CFR 1356.21(b), when a child is removed from his/her home, the judicial determination as to whether reasonable efforts were made, or were not required to prevent the removal, must be made no later than 60 days from the date the child is removed from the home. If the determination concerning reasonable efforts to prevent the removal is not made the child is not eligible under the title IV-E foster care maintenance payments program for the duration of that stay in foster care. Further, per 45 CFR 1356.21(b), a child's removal from the home must have been the result of a judicial determination (unless the child was removed pursuant to a voluntary placement agreement) to the effect that continuation of residence in the home would be contrary to the welfare, or that placement would be in the best interest, of the child. The contrary to the welfare determination must be made in the first court ruling that sanctions (even temporarily) the removal of a child from home. If the determination regarding contrary to the welfare is not made in the first court ruling pertaining to removal from the home, the child is not eligible for title IV-E foster care maintenance payments for the duration of that stay in foster care.

In discussing these conditions with DCFS officials, they stated documents supporting one of the judicial determinations requested took place a number of years ago and the document was thought to have originally been filed with in the child's original foster care case file and put into achieves. When the file was retrieved, the documents were not included and apparently were misplaced. The other situations may be attributed in part to one or more procedural and court-related issues with which the Department has taken steps to work with the Illinois Courts to ensure required language is used and that hearings are held within required timeframes. It should be noted that two of the cases cited in this finding were also included in the prior finding, listed above.

Failure to ensure the appropriate judicial determinations are made could result in payments being claimed for ineligible beneficiaries, which are unallowable. (Finding Code 05-45)

#### **Recommendation:**

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

#### **DCFS Response:**

The Department agrees and will review procedures for obtaining and retaining documents pertaining to judicial determinations. Changes will be made, if necessary, to ensure determinations are made within the required timelines and that required language is included in agreements. The Department will make the appropriate claiming adjustments for actual amounts included in claims relating to the beneficiary payments questioned by the auditor.



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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**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 (\$249,474,000)

**Award Numbers:** 0501IL1401

**Questioned Costs:** \$ 564

**Finding 05-46** *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 two of the beneficiaries tested. The delays in performing the permanency hearings for these cases were 75 days and 110 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 two beneficiaries during the “period of ineligibility” totaling \$564. 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 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. The origin of these delays was a

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result of a federal requirement for specific language for permanency hearings, which required further clarification by ACF, and resulted in confusion as to the timeframe specifics of those requirements.

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 05-46, 04-35, 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 will make the appropriate claiming adjustments for actual amounts included in claims relating to the beneficiary payments questioned by the auditor.

In August 2004, staff from the Central and Regional Offices of the Administration for Children and Families (ACF) and the Illinois Department of Children and Family Services (DCFS) conducted an eligibility review of the Illinois title IV-E foster care program. The review identified only four error cases and two ineligible payment cases. Therefore, because less than five cases were in error, ACF determined that the Illinois title IV-E foster care maintenance program is in substantial compliance with the Federal child and provider eligibility requirements for the period under review. Because Illinois was found to be in substantial compliance, a secondary review was not required. The next primary review must be held in three years.

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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 (\$585,595,000)  
93.658 (\$249,474,000)  
93.659 (\$81,293,000)  
93.667 (\$87,826,000)

**Award Numbers:** G-0401 IL TANF/G-0501 IL TANF (93.558)  
(CFDA Number) 0501IL1401 (93.658)  
0501IL1407 (93.659)  
G-0401ILSOSR/G-0501ILSOSP (93.667)

**Questioned Costs:** None

**Finding 05-47** *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 Title IV-E, Adoption Assistance, and Social Services Block Grant programs.

In our sample of 50 subrecipient monitoring files out of a total of 305 subrecipients (totaling \$81,597,509 of \$126,092,212 in total subrecipient expenditures), we noted the following:

- Nine subrecipients had submitted their required audit reports (OMB Circular A-133, financial statement, program-specific) after the 180-day deadline, or applicable extension approved by DCFS. Three of the nine exceeded the 9-month federal reporting deadline. All nine files either contained no documentation of follow-up by DCFS or the follow-up was not performed within a timely manner.
- Two subrecipient audit reports were not reviewed. After these were identified during our audit, the reports were subsequently reviewed.

Additionally, DCFS is not adequately performing on-site monitoring visits to review internal controls or the fiscal and administrative capabilities of its subrecipients. Of the 50 subrecipients selected for testwork, on site fiscal and administrative monitoring procedures have never been performed for 42 of the subrecipients. We also noted fiscal and administrative monitoring procedures did not adequately address all direct and material compliance requirements and were only performed for 25 of the 305 total subrecipients of the Temporary Assistance for Needy Families, Foster Care Title IV-E, Adoption Assistance, and Social Services Block Grant programs during the year ended June 30, 2005.

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Per OMB Circular A-133 Compliance Supplement, dated May 2005, a pass-through entity is required to monitor its subrecipients' activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements, to ensure required audits are performed, to require the subrecipient to take prompt corrective action on any audit findings, and to evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

In discussing these conditions with DCFS officials, they stated procedures are in place to notify subrecipients of audit requirements, track the receipt of all required audits, to ensure all required components are received, and to follow-up on all audits that are not received within the required time frame. Providers generally cannot file reports with DCFS until their financial audits, single audits, and federal tax filings are completed; we have determined that the three late-filed reports were filed with the Department at the time regulatory filings were made with other agencies. The two examples identified of reports not reviewed were isolated incidents and the two reports were subsequently reviewed prior to completion of this audit.

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 05-47, 04-36, 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.
- On-Site fiscal and administrative reviews include procedures over all compliance requirements that are considered direct and material to the Foster Care program.

Additionally, we recommend DCFS evaluate the current staffing of the fiscal monitoring department to ensure resources are adequate. DCFS should formally document its policy relating to the frequency of on-site monitoring for federal programs.

#### **DCFS Response:**

The Department accepts the finding and 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. Revisions of Administrative rules that formalize the procedures followed by the Department are in process and posted. DCFS is also implementing a plan to increase staffing to complete quick reviews of all audits that are received. The size of the audit staff was increased by five beginning in April 2004. Subrecipients selected for audit are generated from the desk reviews completed the prior year that have notable negative issues. In addition, the Office of Field Audits has streamlined the desk review process and implemented procedures to insure communications with the Provider Agencies within a 30-day timeframe.

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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:** Foster Care Title IV-E

**CFDA # and Program Expenditures:** 93.658 (\$249,474,000)

**Award Numbers:** 0501IL1401

**Questioned Costs:** None

**Finding 05-48** *Failure to Ensure Administrative Case Reviews Are Performed Within Required Timeframes*

DCFS did not ensure that administrative case reviews were performed within the federally required timeframes.

DCFS is required to conduct administrative case reviews for each child in the Foster Care program for the purpose of ensuring the children and families who receive services from DCFS or any contracted provider agencies participate in a periodic review to ensure safety, well-being and permanency goals for the child are carried out. Specifically, the status of each child must be reviewed at least once every six months by either a court or by administrative review in order to determine the safety of the child, the continuing necessity for and appropriateness of the placement, the extent of compliance with the case plan, and the extent of progress which has been made toward alleviating or mitigating the causes necessitating placement in foster care, and to project a likely date by which the child may be returned to and safely maintained in the home or place for adoption or legal guardianship.

During our testwork over 50 case files of the Foster Care program, we noted administrative case reviews were not performed within the required timeframe for three of the beneficiaries tested. The delays in performing the permanency hearings for these cases ranged between two days and ten days after the required six-month timeframe. Additionally, DCFS does not have an adequate process in place to ensure administrative case reviews were conducted within required timeframes for all beneficiaries.

According to 42 USC 675(5)(B), the status of each child is reviewed periodically but no less frequently than once every six months by either a court or an administrative review in order to determine the safety of the child, the continuing necessity for and appropriateness of the placement, the extent of compliance with the case plan, and the extent of progress which has been made toward alleviating or mitigating the causes necessitating placement in foster care, and to project a likely date by which the child may be returned to and safely maintained in the home or placed for adoption or legal guardianship.

In discussing these conditions with DCFS officials, they stated this matter is consistent with the internal audit conducted during 2005 after which the Department implemented recommendations and changes beginning in August 2005. In addition, the reason for apparent noncompliance was an unwritten policy that case reviews will be considered timely if performed within 30 days of the assigned cycle date and the re-scheduled reviews could occur a few days after the end of the sixth month.

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Failure to conduct administrative case reviews within the required timeframes inhibits DCFS's ability to evaluate and monitor the safety, well-being and permanency goals for the child. (Finding Code 05-48)

**Recommendation:**

We recommend DCFS implement procedures to monitor whether or not administrative case reviews have been conducted for all children in foster care within federally prescribed timeframes.

**DCFS Response:**

The Department agrees and will continue to stress the importance of conducting administrative case reviews within required timeframes. Specific action steps were begun in August 2005 to see that all administrative case reviews be performed in required intervals, that family meetings are properly addressed, and that corrective action plans are monitored for follow-up activity.

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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:** Foster Care Title IV-E

**CFDA # and Program Expenditures:** 93.658 (\$249,474,000)

**Award Numbers:** 0501IL1401

**Questioned Costs:** \$ 2,300

**Finding 05-49** Unallowable Costs Charged to the Foster Care Title IV-E Program

DCFS claimed expenditures that are unallowable under the Foster Care Title IV-E (Foster Care) program.

During our testwork of beneficiary payments of the Foster Care program, we selected fifty payments totaling \$23,325 and noted one payment of \$4,600 that was for reimbursement of college tuition paid on behalf of a ward, which is an unallowable cost. As DCFS claimed reimbursement for 50% of the payment, the amount considered to be unallowable is \$2,300

In accordance with 42 USC 672(a), Title IV-E Foster Care maintenance payments may be made on behalf of eligible children, and payments shall be limited so as to include only those items as defined per 42 USC 675(4)(A) as the following: payments to cover the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation. As college tuition is not covered by the above definition, it is deemed an unallowable cost of the program.

In discussing these conditions with DCFS officials, they stated the cost was incurred during fiscal year 1999 and not paid by DCFS. It was subsequently awarded and paid by the Illinois Court of Claims in April 2003 and reported to the Department. The claiming of the unallowable cost resulted from an improper coding of the expenditure as book and school fees, and an oversight in the review over the coding of the transaction when recording entries for payments made by the Court.

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 05-49)

**Recommendation:**

We recommend DCFS implement procedures to ensure only expenditures made for allowable costs are claimed. These procedures should include a review of the coding of expenditures paid through the Court of Claims by an individual knowledgeable of the claiming requirements under the Foster Care program.



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**DCFS Response:**

The Department agrees that adjustments should be reviewed and has modified procedures for processing and recording such adjustments to detect and prevent recording of inappropriate costs. The Department will make the appropriate claiming adjustment for the transaction amount inappropriately included in the claim.

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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 (\$585,595,000)  
93.658 (\$249,474,000)  
93.659 (\$81,293,000)  
93.667 (\$87,826,000)

**Award Numbers:** G-0401 IL TANF/G-0501 IL TANF (93.558)  
(CFDA Number) 0501IL1401 (93.658)  
0501IL1407 (93.659)  
G-0401ILSOSR/G-0501ILSOSP (93.667)

**Questioned Costs:** Cannot be determined

**Finding 05-50** *Improper Classification of Employees in the PACAP*

DCFS did not properly classify employees in the Public Assistance Cost Allocation Plan (PACAP).

DCFS administers several federal and state programs to protect and serve the welfare of the State's children. In administering each of these programs, DCFS 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, DCFS 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 DCFS. DCFS has developed the methodologies for allocation costs to its programs, which DCFS believes best represents the actual costs associated with the program.

During our review of 60 payroll expenditures totaling \$885,705 allocated to federal programs during the year ended June 30, 2005, we noted seven employees were not properly classified (coded) based on their current position. Of the seven employees that were not properly classified, six did not have any impact on the allocation of costs to federal programs because improper classifications resulted in the respective employees' payroll cost being allocated to the same cost pool. One of the seven employees was improperly classified as a direct employee instead of indirect. In this case, the employee's payroll should have been allocated to federal programs through the indirect cost allocation plan, rather than as a direct charge through the PACAP. Total payroll and fringe benefit costs for this employee during the year ended June 30, 2005 were \$56,315.

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

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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 individual costs must be allocable to federal awards and be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.

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. Effective internal controls should include procedures to ensure payroll classification changes are updated on a timely basis.

In discussing these conditions with DCFS staff, they stated the employee classification codes are not always received by the payroll unit and updated in the payroll system in a timely manner due, in part, to a lack of staffing in the payroll unit. Had the correct codes been used for the seven instances identified during the audit, the amount claimed for the year would have increased by \$740. Even though the PCAP is an estimation process that records an allocation of payroll costs attributable to various programs, the position codes for each individual are the bases for the allocation and should match those contained on supporting personnel documents.

Failure to properly classify employees in the payroll system could result in the improper allocation of costs to federal programs and may result in the disallowance of costs. (Finding Code 05-50)

#### **Recommendation:**

We recommend DCFS implement procedures to ensure the payroll classifications (codes) are updated in the payroll system on a timely basis. Additionally, DCFS should evaluate the current staffing of the payroll department to ensure resources are adequate.

#### **DCFS Response:**

The Department agrees and has implemented a process to input all unprocessed paper documents in the payroll unit and bring automated system record up-to-date. The increase in the claim amount was included in the March 2006 claim.

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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 (\$11,349,000)

**Award Numbers:** G-0601IL1400/ G-0501IL1400/ G-0601IL00FP/ G-0401IL00FP/  
G-0301IL00FP

**Questioned Costs:** None

#### **Finding 05-51** *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 50 case files selected for testwork, we noted 11 of the initial case plans being completed within a range of two to 83 days over the 60 day federal requirement. Additionally, in two cases an initial case service plan was not included in the child's case file at the time of review 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 stated timely preparation of case plans is always a 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 05-51, 04-37, 03-35, 02-33, 01-20, 00-20, DCFS 99-5)

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**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 Response:**

The Department agrees and continues to stress the importance of adequate and timely documentation for child case files. Based on the fundamentals of good social work practice, requirements of the Council of Accreditation, and Federal Review Outcomes, Illinois is implementing an Integrated Assessment program that includes preparation of a comprehensive service plan. The service plan will be part of an integrated system that will automate preparation of the plan 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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**State Agency:** Illinois Department on Aging (IDOA)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Aging Cluster  
**CFDA # and Program Expenditures:** 93.044/ 93.045/ 93.053 (\$44,752,000)  
**Award Numbers:** 05AAILT3SP  
**Questioned Costs:** None

**Finding 05-52** *Inadequate Monitoring of Subrecipients*

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

IDOA passes through federal funding to thirteen area agencies on aging (subrecipients) throughout the State. Each of these agencies works with IDOA to develop an annual area plan detailing how funds will be used to meet the goals and objectives of the Aging Cluster programs. IDOA has established policies and procedures for monitoring its subrecipients, which includes: performing informal evaluations (on-site reviews), reviewing periodic financial, programmatic, and single audit reports, and providing training and guidance to subrecipients as necessary.

During our testwork of eight subrecipients of the Aging Cluster with total expenditures of \$29,543,000, we noted no on-site monitoring procedures had been performed since 1998. Total awards passed through to subrecipients of the Aging Cluster were \$42,226,000 during the year-ended June 30, 2005.

According to OMB Circular A-133 \_\_.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring documentation of on-site review procedures adequately supports procedures performed and the results obtained.

In discussing this occurrence with IDOA officials, they state they believed the current monitoring procedures were adequate, but will review what other State Units on Aging are doing and consider any necessary changes.

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 05-52, 04-38, 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**

In response to this finding from last year, the Department has completed the following activities:

The Department accessed information from other State Units on Aging from across the nation to determine the frequency of on-site program and fiscal reviews, the types of documents examined, and the review instruments used for on-site reviews.

The Department has developed and field tested an on-site programmatic review instrument that will be used to review the Area Agencies during their current three year Area Plan cycle.

For subsequent three year Area Plan cycles, the programmatic review instrument will be revised as necessary.

We agree with this recommendation and will conduct financial on-site reviews and programmatic reviews at Area Agencies on Aging at least once during every three year Area Plan cycle.

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**State Agency:** Illinois Department on Aging (IDOA)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Aging Cluster  
**CFDA # and Program Expenditures:** 93.044/ 93.045/93.053 (\$44,752,000)  
**Award Numbers:** 05AAILT3SP  
**Questioned Costs:** None

**Finding 05-53** *Inaccurate Reporting of the Financial Status Report*

IDOA inaccurately prepared the semi-annual financial status reports and the AoA (Administration on Aging) supplemental form during the year ended June 30, 2005.

The IDOA is required to submit a semiannual financial status report and an AoA supplemental form within 30 days after the end of the reporting period. Total expenditures incurred by subrecipients (area agencies on aging or AAA) are reported in the AoA supplemental form. The AAA expenditures are manually compiled by the IDOA using quarterly expenditure reports submitted by each AAA.

During the audit we obtained the IDOA's semiannual financial status report and the AoA supplemental form for the six-month period ended March 31, 2005. We noted the cumulative expenditures to date on the AoA supplemental form for the AAA's were understated by \$1,697,529. Management informed us that it has been their practice to use an estimate of AAA expenditures for the last quarter covered by the semi-annual report due to the timing of receiving the quarterly reports from the AAAs and the requirement to submit the financial status report to the USDHHS within 30 days after the respective six-month period. This estimate of quarterly AAA expenditures (\$7,441,777) has remained the same since 1990 and is not representative of current actual expenditures, which averaged approximately \$10,900,205 per quarter in fiscal year 2005. Additionally, we noted IDOA does not reconcile the financial status report to the general ledger.



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Following is a table summarizing the expenditures reported and the actual expenditures that should have been reported in the AoA supplemental form for the six month periods ended September 30, 2004 and March 31, 2005:

Six month period ended September 30, 2004					
Title	As reported	Actual	Difference		
			Dollars	Percentage	
B	\$ 7,612,051	7,114,141	497,910	7.0	
C-1	5,830,479	5,691,768	138,711	2.4	
C-2	3,847,402	4,573,490	(726,088)	(15.9)	
D	473,671	399,966	73,705	18.4	
E	4,122,236	4,112,236	10,000	0.2	
B (Ombudsman)	505,002	434,793	70,209	16.1	
Administrative	2,457,712	2,346,745	110,967	4.7	
Total	\$ 24,848,553	24,673,139	175,414		

Six month period ended March 31, 2005					
Title	As reported	Actual	Difference		
			Dollars	Percentage	
B	\$ 6,855,354	6,864,709	(9,355)	(0.1)	
C-1	5,135,022	5,034,693	100,329	2.0	
C-2	4,424,886	3,207,328	1,217,558	38.0	
D	410,583	440,494	(29,911)	(6.8)	
E	2,740,549	2,319,535	421,014	18.2	
B (Ombudsman)	424,324	462,669	(38,345)	(8.3)	
Administrative	2,054,316	2,018,077	36,239	1.8	
Total	\$ 22,045,034	20,347,505	1,697,529		

According to 45 CFR 92.41(b) and the OMB Circular A-133 compliance supplement, IDOA is required to submit semiannual financial status reports within 30 days after the reporting period. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure timely and accurate reporting of expenditures in the financial status reports.

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In discussing these conditions with IDOA officials, they stated this was standard practice necessary to meet federal reporting deadlines.

Failure to accurately report expenditures in the financial status reports prevents the USDHHS from effectively monitoring the Aging Cluster Program. (Finding Code 05-53)

#### **Recommendation:**

We recommend IDOA review the process and procedures in place to prepare the semiannual financial status reports and the AoA supplemental form to ensure expenditures are reported in the correct reporting period and are reconciled to the general ledger.

#### **IDOA Response:**

We agree with this recommendation. IDOA will review and update current procedures as necessary to perform general ledger reconciliations to ensure accurate reporting of expenditures in a timely manner. These changes will be implemented in 2007 due to the time constraints with the finalization of this finding.

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**State Agency:** Illinois Department of Public Health (IDPH)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** HIV Care Formula Grants  
**CFDA # and Program Expenditures:** 93.917 (\$37,918,000)  
**Award Numbers:** 2-X07HA00013-15-00/2-XO7HA00013-14-00  
**Questioned Costs:** Cannot be determined

**Finding 05-54** *Inadequate Process for Determining Client Eligibility*

IDPH does not have an adequate process for performing client eligibility determinations for its HIV Care Formula Grant (HIV) program.

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

During our testwork of benefits provided to HIV beneficiaries, we selected 50 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits. We noted the following exceptions during our testwork:

- In fifteen cases, the case file did not contain documentation supporting the beneficiary had been diagnosed with the HIV disease.
- In 30 cases, the case file did not contain the documentation (i.e. wage statements, check stubs, etc.) IDPH (or the subrecipient) used to verify the income reported by the beneficiary on the signed application. In each of these cases, we noted the amount of income documented on the individual's application for program services was at or below 400% of the federal poverty level.

Additionally, in 21 of the 50 cases selected for testwork, the beneficiary's application indicated the beneficiary had no income. Although the individual's income level was below 400% of the poverty level and IDPH confirmed the individual was not receiving benefits under Medicaid, a determination of Medicaid eligibility had not been performed. As a result, no income verification procedures were performed to determine whether the income reported (or lack thereof) was accurate.

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In accordance with US Code 42 USC 300ff-26(b) an individual receiving benefits under the HIV program is required to 1) have a medical diagnosis of the HIV disease and 2) be a low-income individual as defined by the State. Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include collecting and maintaining adequate documentation to support eligibility determinations.

In discussing these conditions with IDPH officials, they stated that because the criticality of initiating and continuing to receive life sustaining drug therapies, the Illinois ADAP has utilized the prescription for HIV medications as sufficient proof of diagnosis. Regarding income verification, many of the ADAP applicants are homeless, transient or recently released from correctional facilities and are without income.

Failure to adequately establish a beneficiary's eligibility may result in expenditures being made to or on behalf of ineligible beneficiaries, which are unallowable costs. (Finding Code 05-54, 04-40)

#### **Recommendation:**

We recommend IDPH review its current process for determining eligibility and consider changes necessary to ensure adequate documentation exists to support eligibility determinations. In addition, IDPH should consider implementing procedures to verify income and insurance information with third party sources (i.e. employers, third party insurers, etc.) and other state agencies.

#### **IDPH Response:**

The Department concurs with the finding and recommendation. Following the last single audit for 2004 which revealed that additional documentation was needed for determining eligibility based on income and HIV status, changes were made to address the issue within the eligibility procedures. These changes were communicated to medical providers, case managers, and all applicants.

This most recent audit reviewed some client records that were processed prior to the changes that were implemented. ADAP now requires copies of laboratory results showing either CD4 count or viral load. Where there is no reported income, ADAP now requires a letter or affidavit of support from the individual or facility which is providing shelter and/or support. Applications without all required documentation are not processed, but are returned with a cover letter stating what information was missing. ADAP continues to check the Medicaid database for eligibility of each applicant prior to approval for ADAP services and prior to authorization for each refill.

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**State Agency:** Illinois Department of Public Health (IDPH)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Centers for Disease Control and Prevention – Investigations and Technical Assistance  
HIV Care Formula Grants

**CFDA # and Program Expenditures:** 93.283 (\$38,805,000)  
93.917 (\$37,918,000)

**Award Numbers:** Various (93.283)  
(CFDA number) 2-X07HA00013-15-00/2-XO7HA00013-14-00 (93.917)

**Questioned Costs:** None

**Finding 05-55** *Inadequate Monitoring of Subrecipients*

IDPH is not adequately monitoring subrecipients receiving federal awards under its Centers for Disease Control and Prevention – Investigations and Technical Assistance (Bioterrorism) and HIV Care Formula Grants (HIV) programs.

IDPH 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 (bi-annually for HIV and quarterly for Bioterrorism), and (4) periodic communication of program requirements. During our testwork of 30 subrecipients of the Bioterrorism program expending \$3,176,000 and eleven subrecipients of the HIV program expending \$5,346,000, we noted the following exceptions:

- Nine of the HIV subrecipients had not been subject to on-site monitoring procedures in 2004 or 2005 as required by IDPH procedures.
- Two of the on-site reviews for subrecipients of the HIV program did not include procedures to review the subrecipient's fiscal and administrative capabilities and internal controls.
- Three of the Bioterrorism subrecipients have never been subject to on-site programmatic monitoring procedures. Upon further investigation, we noted only local health departments have been subject to on-site monitoring procedures.

Additionally, IDPH is not performing on-site monitoring procedures to review the fiscal and administrative capabilities and internal controls of subrecipients of any of its Bioterrorism program.

Total subrecipient expenditures for the Bioterrorism and HIV programs were \$19,378,000 and \$6,495,000, respectively, during the year ended June 30, 2005.

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Per OMB Circular A-133 Compliance Supplement, dated May 2005, 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 IDPH officials, they stated that while much on-site monitoring did occur, staff shortages prohibited all on-site visits from being performed.

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 05-55, 04-42)

#### **Recommendation:**

We recommend IDPH evaluate the current staffing of its monitoring department to ensure resources are adequate to complete reviews within prescribed timeframes. IDPH should also revise the on-site monitoring procedures for its Bioterrorism and HIV programs to include procedures to review the subrecipient's fiscal and administrative capabilities.

#### **IDPH Response:**

The Department concurs with the finding and recommendation. Beginning with grants issued during State fiscal year 2006, the Bioterrorism Program regional staff include a review of the sub-recipients' fiscal and administrative capabilities when performing the on-site monitoring. In addition, fiscal staff in the Bioterrorism Program have begun monitoring expenditure reports more closely and will follow up on any delinquent expenditure reports in a timelier manner. A significant number of HIV/AIDS Section positions were vacated in 2005. This has resulted in some inadequate monitoring of our subrecipients. To resolve this, the HIV/AIDS Section has begun to cross train existing staff and identify potential candidates to fill vacant positions.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**State Agency:** Illinois Department of Public Health (IDPH)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Centers for Disease Control and Prevention – Investigations and Technical Assistance  
HIV Care Formula Grants

**CFDA # and Program Expenditures:** 93.283 (\$38,805,000)  
93.917 (\$37,918,000)

**Award Numbers:** Various (93.283)  
(CFDA number) 2-X07HA00013-15-00/2-X07HA00013-14-00 (93.917)

**Questioned Costs:** None

**Finding 05-56** *Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports*

IDPH does not have an adequate process for ensuring subrecipients of the Centers for Disease Control and Prevention – Investigations and Technical Assistance (Bioterrorism) and HIV Care Formula Grants (HIV) programs have complied with OMB Circular A-133 audit requirements.

IDPH requires subrecipients expending more than \$500,000 in federal awards during their fiscal year to submit OMB Circular A-133 audit reports. IDPH finance staff are responsible for reviewing the reports and determining whether: (1) the audit reports meet the audit requirements of OMB Circular A-133; (2) federal funds reported in the schedule of expenditures of federal awards reconcile to IDPH records; and (3) type A programs (as defined by OMB Circular A-133) are being audited at least every three years. Additionally, finance staff are responsible for evaluating the type of audit opinion issued (i.e. unqualified, qualified, adverse) and issuing management decisions on findings reported within required timeframes.

During our testwork over 30 subrecipients of the Bioterrorism program and eleven subrecipients of the HIV program, we noted the following:

- There were sixteen subrecipients of the Bioterrorism program and eight subrecipients of the HIV program for which no OMB Circular A-133 audit report was received. In addition, these subrecipient files did not contain evidence that follow up procedures had been performed by IDPH to obtain the missing audit reports.
- There were six subrecipients of the Bioterrorism program and one subrecipient of the HIV program for which A-133 audit reports were submitted after the nine month filing deadline. These files contained no documentation IDPH followed up on the delinquent report or approved an extension of the filing deadline.

We also noted the standard A-133 audit report desk review checklist was not completed for the fourteen Bioterrorism and three HIV subrecipients selected in our sample for which A-133 reports were received. Additionally, there was no documentation supporting that management decisions had been issued relative to findings identified in these audit reports.

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Subrecipient expenditures under the federal programs for the year ended June 30, 2005 were as follows:

<b>Program</b>	<b>Total Fiscal Year 2005 Subrecipient Expenditures</b>	<b>Total Fiscal Year 2005 Program Expenditures</b>	<b>%</b>
Bioterrorism	\$19,378,000	\$38,805,000	49.9%
HIV	6,495,000	37,918,000	17.1%

According to OMB Circular A-133 § .400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 compliance supplement, dated May 2005, a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

In discussing these conditions with IDPH officials, they stated the employee exclusively assigned to this responsibility retired during state fiscal year 2005 and has not been replaced.

Failure to obtain and adequately review subrecipient OMB Circular A-133 audit reports in a timely manner may result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 05-56)

**Recommendation:**

We recommend IDPH establish procedures to ensure all subrecipients receiving federal awards have audits performed in accordance with OMB Circular A-133. Additionally, desk reviews of A-133 audit reports should be formally documented using the A-133 desk review checklist in accordance with IDPH's established procedures.

**IDPH Response:**

The Department concurs with the finding and recommendation. Existing staff within the Division of Accounting Services have attempted to maintain the OMB A-133 sub-recipient responsibilities following the retirement of an employee exclusively assigned to this responsibility. As a result, the follow-up on receiving outstanding audit reports has not been as robust as during previous audit periods. It is apparent that the sub-recipient audit position will need to be filled in order to fully meet the requirements set forth in OMB Circular A-133.



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**State Agency:** Illinois Department of Public Health (IDPH)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Centers for Disease Control and Prevention – Investigations and Technical Assistance  
**CFDA # and Program Expenditures:** 93.283 (\$38,805,000)  
**Award Numbers:** Various (93.283)  
**Questioned Costs:** None

**Finding 05-57** *Inadequate Cash Management Procedures for Subrecipients*

IDPH does not have adequate procedures to monitor the cash needs of subrecipients and to determine whether subrecipients are minimizing the time elapsing between the receipt and disbursement of funding for the Centers for Disease Control and Prevention – Investigations and Technical Assistance (Bioterrorism) program.

We reviewed the subrecipient agreements for 30 subrecipients of the Bioterrorism program and noted the payment terms for these contracts stated the subrecipient would be provided grant funding through an annual or quarterly payment. During our testwork, we noted IDPH had not reviewed the cash position of Bioterrorism subrecipients at the time each disbursement was made; however, for purposes of our testwork, IDPH reconciled the cash disbursements made to subrecipient expenditures for our sample of subrecipients. The reconciliations performed demonstrated the subrecipients tested did not receive more than 30 days cash advance. Total payments to subrecipients of the Bioterrorism program were \$19,378,000 during the year ended June 30, 2005.

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, 45 CFR 92.37 requires that pass-through entities monitor cash advances to subrecipients to ensure those advances are for immediate cash needs only. Based on discussions with Federal agencies, we have interpreted “immediate cash needs” as 30 days or less of advance funding. In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include analysis of the subrecipient’s cash position prior to advancing program funds.

In discussing these conditions with IDPH officials, they stated they were not aware of any specific 30 day guideline in any federal circular or correspondence, but do monitor the immediate cash needs of its subrecipients.

Providing subrecipients funding advances of greater than 30 days results in additional costs of financing for the U.S. Treasury. (Finding Code 05-57, 04-43)

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**Recommendation:**

We recommend IDPH review its advance funding policies and techniques for subrecipients and implement a monitoring process to ensure subrecipients receive no more than 30 days of funding on an advance basis.

**IDPH Response:**

The Department concurs with the finding and recommendation. Beginning with grants issued during State fiscal year 2006, all Bioterrorism Program grants are paid on a reimbursement basis, with an initial advance of not more than 1/12 of the total grant amount. This ensures that no more than 30 days of funding will be provided on an advance basis, with the remainder of the funding paid as reimbursements after the subrecipients submit expenditure reports documenting the funds spent.

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**State Agency:** Illinois Department of Public Health (IDPH)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** HIV Care Formula Grants  
**CFDA # and Program Expenditures:** 93.917 (\$37,918,000)  
**Award Numbers:** 2-X07HA00013-15-00/2-XO7HA00013-14-00  
**Questioned Costs:** \$14,910

**Finding 05-58** *Failure to Allocate Compensation Expenditures through the PACAP*

IDPH did not allocate certain compensation expenditures to its federal programs through the Public Assistance Cost Allocation Plan (PACAP).

IDPH administers several federal and state programs designed to protect the health of Illinois residents. In administering each of these programs, IDPH 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, IDPH 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 IDPH. IDPH has developed the methodologies for allocating costs to its programs, which IDPH believes best represent the actual costs associated with the program.

During our review of 30 other than personal services expenditures (totaling \$827,008) charged to the HIV Care Formula Grant (HIV) program, we noted two expenditures (totaling \$14,910) made to a state university for an intern assigned to IDPH. The agreement between IDPH and the university indicated the amounts paid to the university were to be used to “cover all costs associated with the intern, including stipend, professional development, tuition, and other intern and university costs associated with the program.” As the payment to the university represents costs to compensate the intern for work performed, these amounts should have been allocated through the PACAP similar to other payroll and fringe benefit type expenditures.

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. Effective internal controls should include procedures to ensure all expenditures

In discussing these conditions with IDPH officials, they stated the department did not consider the internship expenditures to be personal service expenditures.

Failure to accurately accumulate costs for allocation through the PACAP may result in unallowable expenditures being charged to federal programs. (Finding Code 05-58)

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**Recommendation:**

We recommend IDPH review its procedures for accumulating costs to be allocated through the PACAP and implement changes necessary to ensure all direct compensation costs are included.

**IDPH Response:**

The Department concurs with the finding and recommendation and will ensure the process is in place to allocate all costs associated with the benefited program. The department will obtain a certification from the employee(s) or their direct supervisor to testify that 100% of their time is spent on the designated federal program. This certification will be obtained on quarterly basis and signed by the employee.

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For the Year Ended June 30, 2005

**State Agency:** Illinois Department of Public Health (IDPH)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** HIV Care Formula Grants  
**CFDA # and Program Expenditures:** 93.917 (\$37,918,000)  
**Award Numbers:** 2-X07HA00013-15-00/2-X07HA00013-14-00  
**Questioned Costs:** None

**Finding 05-59** *Inadequate Process for Monitoring Interagency Program Expenditures*

IDPH does not have an adequate process for monitoring interagency expenditures used to satisfy the maintenance of effort (MOE) requirement for the HIV Care Formula Grants (HIV) program.

The HIV program MOE expenditures are incurred by the Illinois Department of Human Services (IDHS) and the Illinois Department of Children and Family Services (DCFS). As the state agency responsible for administering the HIV program, IDPH has executed interagency agreements with IDHS and DCFS which require periodic reporting of summary level expenditure information for preparation of the required financial reports. During our testwork over MOE expenditures, we noted IDPH does not perform monitoring procedures to ascertain that the expenditures used to meet the MOE requirement meet the specific criteria applicable to the HIV program. During the year ended June 30, 2005, IDPH used expenditures totaling \$22,745,000 and \$5,991,000 from IDHS and DCFS, respectively, to satisfy MOE requirements for the HIV program.

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure expenditures used to satisfy MOE requirements meet the criteria specific to the program for which they are being used.

In discussing these conditions with IDPH officials, they stated a significant number of HIV/AIDS Section positions were vacated in 2005 which impacted IDPH's ability to review and monitor interagency expenditures.

Failure to properly monitor interagency expenditures may result in using expenditures that are inconsistent with the objectives of the federal program to meet MOE requirements. (Finding Code 05-59)

**Recommendation:**

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

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Schedule of Findings and Questioned Costs

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**IDPH Response:**

The Department concurs with the finding and recommendation. A significant number of HIV/AIDS Section positions were vacated in 2005. This had impacted our close review and monitoring of interagency expenditures. To resolve this matter, the HIV/AIDS Section has begun to cross train existing staff and identify potential candidates to fill vacant positions. Efforts will also be made to redesign the process for monitoring interagency expenditures.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

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

**Program Name:** Reading First State Grants

**CFDA # and Program Expenditures:** 84.357 (\$37,227,000)

**Award Numbers:** S357C020014/S357C030014/S357C040014

**Questioned Costs:** None

**Finding 05-60** *Failure to Maintain Adequate Documentation of the Eligibility Determinations for Subrecipients*

ISBE did not maintain documentation over the eligibility determinations for subrecipients receiving federal funds under the Reading First State Grants program during the year ended June 30, 2005.

During our review of the awarding of competitive grants to subrecipients, we noted the eligibility calculation and supporting documentation had to be recreated from the data maintained by ISBE's Data Collection Group. Additionally, as the original eligibility determinations were not available, we were unable to site evidence of management review and approval indicating those calculations were accurately compiled and performed in accordance with the criteria established by Federal regulations. During the year ended June 30, 2005, ISBE passed through approximately \$36,009,000 to subrecipients of Reading First State Grants program.

According to 34 CFR 80.20(b)(2), grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure that federal funds are only awarded to eligible subrecipients including maintenance of documentation of eligibility determinations as well as documentation of review of the eligibility determinations by an appropriate level of management who is knowledgeable of the program requirements and maintenance of signed award letters.

In discussing these conditions with ISBE officials, they stated that these conditions were the result of a lack of resources and a loss of institutional knowledge due to retirements and transfers of staff and management in fiscal years 2003 and 2004.

Failure to properly determine eligibility for subrecipients in accordance with Federal regulations and the State Plan and maintain adequate documentation may result in federal funds being awarded to ineligible subrecipients, which are unallowable costs. (Finding 05-60)

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#### **Recommendation:**

We recommend ISBE establish procedures to ensure that adequate documentation is maintained to support the determination of eligibility for subrecipients. ISBE should also establish control designed to reasonably ensure federal funds are only awarded to eligible subrecipients.

#### **ISBE Response:**

The Agency agrees with the finding and has implemented the necessary controls to ensure appropriate awards and the maintenance of all eligibility documentation. Reading First offered the first multiyear grants to subrecipients beginning in fiscal year 2003. Eligibility determinations were made at that time under a different administration. To comply with the federal legislation regarding eligibility, the new administration continued the grant through the end of the designated funding period which ends on August 31, 2006 and concurrently submitted an amendment to the USDE regarding eligibility criteria for the next multiyear cycle.

Once approval was granted from USDE, the Agency initiated a new multi-year cycle in fiscal year 2006. The new Reading First grant program was launched with a request for proposal that included both an eligibility list of districts and an additional list of eligible schools within eligible districts. The eligibility lists were generated with full compliance to the federal legislation. Eligibility information was then publicly announced and posted to the Agency's website so that school personnel throughout the state were aware of eligibility status. In addition, eligible districts were mailed a letter of invitation to apply for the federal Reading First grant. Finally, only those applications from eligible districts that proposed eligible schools for funding were accepted for consideration. Upon receipt of the proposals, Agency staff verified applications against the eligibility lists. Full documentation of eligibility has been compiled for the official Agency records and is available for review



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### Schedule of Findings and Questioned Costs

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**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 (\$44,623,000)  
**Award Numbers:** V048A020013/V048A030013/V048A040013  
**Questioned Costs:** None

**Finding 05-61** *Inadequate Process for Monitoring Interagency Program Expenditures*

ISBE does not have an adequate process for monitoring interagency expenditures made by the Illinois Community College Board (ICCB) under the Vocational Education – Basic Grants to States (Vocational Education) program.

Federal expenditures under the Vocational Education program are comprised of programs operated by both ISBE and ICCB. ICCB expended approximately \$17,531,000, or 39%, of the total Vocational Education program expenditures for the year ended June 30, 2005. As the state agency responsible for administering this program, ISBE has executed an interagency agreement with ICCB. The interagency agreement outlines the following:

- ICCB is responsible and accountable for postsecondary/adult activities and requirements; maintenance of records on fund distribution and expenditures; performance reporting and management information systems; oversight; and all other requirements associated with the postsecondary initiative and requirements of the Perkins state plan.
- ISBE will provide transitional assistance including historical data and programs needed to meet this requirement.
- ICCB and ISBE will collaborate throughout the duration of the period covered by the Perkins state plan to ensure that Perkins requirements are fully met and that the secondary and postsecondary initiatives and statewide leadership activities are effectively coordinated.

ISBE's current monitoring process consists primarily of informal inquiries and the establishment of an interagency agreement. However, there is no documentation that ISBE is performing other programmatic monitoring procedures to ensure that ISBE is administering the program in accordance with the provisions of laws, regulations, and the interagency grant agreement.

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 monitoring procedures for interagency expenditures to ensure compliance with the provision of laws, regulations, and the interagency agreement.

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In discussing these conditions with ISBE officials, they stated these conditions were the result of a lack of resources and turnover in the Career Development and Preparation Division Administrator position throughout fiscal years 2004 and 2005.

Failure to properly monitor interagency expenditures may result in the State not properly administering the federal programs in accordance with the provisions of laws, regulations, and the grant agreement. (Finding Code 05-61)

#### **Recommendation:**

We recommend ISBE establish monitoring procedures to ensure ICCB is administering the Vocational Education program in accordance with the provisions of laws, regulations, and the interagency agreement. All significant monitoring procedures and correspondence should be clearly documented.

#### **ISBE Response:**

The Agency agrees that its oversight of the ICCB's administration of the Vocational Education program should be strengthened. In early fiscal year 2006, the Agency began efforts to improve its monitoring of ICCB's administration of subrecipient awards. In fiscal year 2005, in response to earlier findings, ICCB developed and implemented a fiscal and administrative review to complement programmatic reviews. The Agency requested from ICCB their subrecipient monitoring schedule, monitoring instrument, and monitoring reports. The Agency reviewed these documents and determined that ICCB's processes for monitoring subrecipients were less than adequate. The Agency met with representatives from ICCB to offer technical assistance and strengthen the focus on grant fiscal and administrative processes and requirements. The Agency will continue to work with ICCB as our subrecipient to ensure that ICCB's grant administration and subrecipient monitoring meets federal requirements. The Agency will require documentation of the implementation of improved processes and reports and the Agency's External Assurance Division will conduct on-site visits for assurance of compliance.

The Agency has been working with the federal Office of Vocational and Adult Education (OVAE) to resolve this matter and have shared our correspondence with ICCB. Both the Agency's monitoring of ICCB and ICCB's implementation of improved processes will be documented and made available to OVAE and the Office of the Auditor General.

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For the Year Ended June 30, 2005

**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  
Twenty-First Century Community Learning Centers  
Reading First State Grants  
Improving Teacher Quality State Grants

**CFDA # and Program Expenditures:** 84.010 (\$532,353,000)  
84.027 / 84.173 (\$471,930,000)  
84.048 (\$44,623,000)  
84.287 (\$38,996,000)  
84.357 (\$37,227,000)  
84.367 (\$119,846,000)

**Award Numbers:** S010A020013/S010A030013/S010A040013 (84.010)  
(CFDA Number) H027A020072/H027A030072/H027A040072 (84.027)  
H173A020101/H173A030101/H173A040101 (84.173)  
V048A020013/V048A030013/V048A040013 (84.048)  
S287C020013/S287C030013/S287C040013 (84.287)  
S357C020014/S357C030014/S357C040014 (84.357)  
S367A020012/S367A030012/S367A040012 (84.367)

**Questioned Costs:** None

**Finding 05-62** *Inadequate On-Site Monitoring of Subrecipients*

ISBE does not have an adequate process for selecting subrecipients for on-site reviews under the Title One Grants to Local Educational Agencies, Special Education Cluster, Vocational Education Basic Grants to States, Twenty-First Century Community Learning Centers, Reading First State Grants, and Improving Teacher Quality State Grants programs (collectively referred to as the Education programs).

ISBE selects subrecipients and related Education programs to perform on-site program and fiscal monitoring using a method which inappropriately combines elements of both cyclical and risk-based approaches. This approach results in certain programs that may not be reviewed for several years, if ever.

Specifically, ISBE places each subrecipient receiving funding into a three-year cycle that dictates the year in which ISBE would perform on-site monitoring procedures. After being placed into a cycle (year), ISBE uses a risk-based approach to select the programs that will be reviewed. The objective of this approach is to review programs that comprise at least 50% of the federal expenditures for an individual subrecipient. By first selecting subrecipients based on a cyclical approach and then selecting the individual programs for review based on risk assessments, certain programs administered by subrecipients will not be reviewed for several years, if ever. Additionally, ISBE officials stated that risk assessments for each program are

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performed based on the nature of the program (i.e. certain programs are considered higher risk), prior A-133 Findings, and information received from internal and external sources. However, these risk criteria are not clearly defined nor are the risk assessments documented.

Using this approach, ISBE performed fiscal and programmatic monitoring procedures for subrecipients during the year ended June 30, 2005 as follows:

<b>Program</b>	<b>Total number of subrecipients reviewed</b>	<b>Percentage of subrecipients reviewed</b>	<b>Total subrecipient expenditures</b>	<b>Percentage of subrecipient expenditures reviewed</b>
Title One Grants to Local Educational Agencies	211	27%	\$527,838,000	59%
Special Education Cluster	19	9%	\$ 459,493,000	34%
Vocational Education Basic Grants to States	13	18%	\$ 26,472,000	45%
Twenty-First Century Community Learning Centers	13	18%	\$ 38,673,000	21%
Reading First State Grants	13	16%	\$ 36,009,000	59%
Improving Teacher Quality State Grants	172	20%	\$ 118,301,000	22%

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 ISBE officials, they state that the Agency believes adequate on-site monitoring of subrecipients is best achieved through a combination of cyclical and risk-based approaches, as is evidenced by the percentage of subrecipients and total expenditures monitored for fiscal and programmatic compliance issues.

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 05-62, 04-47, 03-41, 02-39, 01-29, 00-21)

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#### **Recommendation:**

We recommend ISBE utilize either a cyclical or risk based approach for selecting subrecipients to perform on-site monitoring procedures. If a risk based approach is selected, ISBE should establish written procedures including clearly defined risk criteria and required documentation to ensure risk assessments are properly performed.

#### **ISBE Response:**

The Agency agrees with the previous fiscal year 2004 and the above fiscal year 2005 finding regarding the documentation of risk assessment data and processes. As the fiscal year 2004 audit was issued very close to the end of the last year (fiscal year 2005) of the three year monitoring plan cycle, the Agency directed its resources toward fully documenting risk assessments and processes for the new monitoring plans set to begin in fiscal year 2006. However, the Agency maintains that its selected methodology of a combined risk-based and cyclical approach provides an effective and efficient system and is in keeping with current direction coming out of the industry. One resource entitled, *Risk Management: Changing the Internal Auditor's Paradigm* by David McNamme and George M. Selim, states, "A variation of the risk-based approach recognizes that problems can occur in even low risk areas if they are left to themselves for long periods of time. This [cyclical/risk-based] method combines the best features of the risk-based approach with a sampling from all parts of the auditable universe to ensure balanced coverage." Further, the US Department of Education issued the following recommendation dated August 4, 2005 in ACN report number A06F0002 to the Louisiana Department of Education concerning their monitoring efforts:

"Continue to develop and use the risk-based audit plan to assess and monitor all LEAs to ensure that they have systems in place to properly account for, and adequately document and support, the claims submitted for reimbursement from Title I funds."

Additional recent resources such as Thompson's Title I Monitor - August 2004 issued this guidance in the article entitled, *Grantees Are Advised To Develop Methods For Assessing Subgrantee Risk To Improve Monitoring*:

"Subgrantees determined to be high-risk should receive an intensive reviews and undergo greater on-site interaction. And low-risk subrecipients should have some desk review and little on-site interaction."

This clearly suggests that even low risk subrecipients would be required to have on-site reviews. A combination risk/cyclical approach would ensure that both were appropriately addressed. The U.S. Comptroller General has recently developed a guide entitled, "Guide to Opportunities for Improving Grant Accountability" – October 2005, that provides a best practice approach to addressing monitoring issues. It says, "Given the large number of grants awarded, it is important that agencies identify, prioritize, and manage potential at-risk recipients." [On using a self-evaluation instrument,] "the grantee can use the self evaluation to identify weaknesses in its operations, and can request technical assistance from the Department in addressing the weaknesses." The utilization of our monitoring instrument will help to effectively address this issue.

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In an Elementary and Secondary Education Act (ESEA) Title II conference presentation by Dr. Elizabeth Witt, Team Leader of Teacher Quality Programs at USDE, on March 22, 2006, she reviewed findings occurring during the USDE's visits to State Education Agencies, where the USDE identified findings in the IG audits showing the agency did not monitor on a regular or cyclical basis. They further issued findings to those agencies where the only factor was Risk. Clearly, the explicitly expressed intent was to emphasize the need for a combined, balanced approach using both risk-based and a cycle schedule. What is recommended? Regular, systemic review of all grant activities that include using monitoring instruments and other measures that can help to reveal risk factors to determine compliance with program requirements and progress toward meeting application objectives.

The Agency has submitted its overall monitoring approach and plan to the USDE for approval and will continue to work with USDE to implement any suggested changes.

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

As discussed in the finding above, we do not believe it is possible to effectively integrate a cyclical and risk based approach for selecting subrecipients for on-site reviews. We also believe the references above to a publication intended for internal audits and a presentation at a conference is not specific to the finding above and does not contemplate ISBE's methodology of first selecting subrecipients for review overall based on a cyclical approach and then selecting individual programs based on a risk based approach. We believe that if this approach is used, there is a likelihood the same programs will be selected under each review or ISBE will not be able to effectively differentiate risk between programs when there are pervasive risk factors present.

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

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

**Program Name:** Reading First State Grants

**CFDA # and Program Expenditures:** 84.357 (\$37,227,000)

**Award Numbers:** S357C020014/S357C030014/S357C040014

**Questioned Costs:** None

**Finding 05-63** *Failure to Obtain Suspension and Debarment Certifications for Subrecipients*

ISBE did not obtain required certifications that subrecipients were not suspended or debarred from participation in Federal assistance programs.

During our review of 40 subrecipients of the Reading First State Grants program, we noted ISBE did not receive certification from four subrecipients that they were not suspended or debarred from participation in Federal assistance programs nor did they perform a verification check with the “Excluded Parties List System” (EPLS) maintained by the General Services Administration. During the year ended June 30, 2005, ISBE passed through approximately \$36,009,000 to subrecipients of Reading First State Grants program.

According to 34 CFR 80.35, grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, “Debarment and Suspension.” The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required certifications for covered contracts and subawards are received, documented, and not made with a debarred or suspended party.

In discussing these conditions with ISBE officials, they stated these conditions were the result of the agency not having a procedure on their subrecipient document control form to verify that the “certification and assurances for application and award” statements are signed by the superintendent for each local education authority (i.e. subrecipient).

Failure to obtain the required certifications or perform verification procedures with the EPLS could result in the awarding of Federal funds to subrecipients that are suspended or debarred from participation in Federal assistance programs. (Finding 05-63)

**Recommendation:**

We recommend ISBE establish procedures to ensure grantees receiving individual awards for \$25,000 or more certify that their organization is not suspended or debarred or otherwise excluded from participation in

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Federal assistance program. We also recommend ISBE implement a procedure on their subrecipient document control form to verify that the required certifications have been received and signed.

#### **ISBE Response:**

The Agency agrees with the finding, but would like to note that Reading First applicants also already have this certification of assurance (as well as other required assurances) on file in the Agency's eGrant system for Title I grantees. The Agency has implemented the following controls to ensure that the separate Reading First assurances are in place. The Reading First subgrant checklist to implement document control measures has been revised. The checklist includes, among others, the verification of receipt of the Agency's Debarment and Suspension form. Each subgrantee's annual application for funding will be reviewed by support staff and then again by professional staff using the developed checklist to ascertain that all documents have been received and appropriately signed by authorized officials. The Division Administrator will review the checklist prior to sign off on each subgrantee's budget.



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**State Agency:** Illinois State Board of Education (ISBE)  
**Federal Agency:** US Department of Education (USDE)  
**Program Name:** Title One Grants to Local Educational Agencies  
**CFDA # and Program Expenditures:** 84.010 (\$532,353,000)  
**Award Numbers:** S010A020013/S010A030013/S010A040013  
**Questioned Costs:** None

**Finding 05-64** *Failure to Monitor Subrecipient Earmarking Requirements*

ISBE did not monitor earmarking requirements of subrecipient schools in “improvement status” for the Title One Grants to Local Education Agencies (Title One) program.

ISBE is required to review each year the progress of local education agencies (LEAs) (subrecipient schools) that receive Title One funds to determine whether the LEAs have made adequate yearly progress (as defined by the State). LEAs that fail to make adequate yearly progress for two consecutive years are placed in “improvement status” and are required to implement corrective action including, among other things, spending (earmarking) at least ten percent of the Title One funds on professional development needs of the instructional staff (teachers). During our testwork of 40 subrecipients, we noted the budget and expenditure reports that the LEAs are required to submit to ISBE did not include a line item for professional development costs. Accordingly, ISBE was not able to monitor whether LEA’s placed in improvement status were providing the necessary professional development activities for teachers. During the year ended June 30, 2005, ISBE passed through approximately \$84,000,000 to 240 subrecipients of the Title One program that were in improvement status.

According to 20 USC 6316(b)(3)(A)(iii) a subrecipient that is identified in improvement status must develop or revise a local educational plan that addresses the professional development needs of the instructional staff by committing to spend not less than ten percent of the funds received by the subrecipient for each fiscal year in which the subrecipient is identified for improvement. According to OMB Circular A-133 § .400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to monitor professional development expenditures of LEA’s in improvement status.

In discussing these conditions with ISBE officials, they state the requirement for LEA’s in improvement status to spend at least 10% on professional development activities was new in fiscal year 2005. At the time ISBE developed the budget and expenditure report formats, they were not aware of this new requirement.

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Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 05-64)

#### **Recommendation:**

We recommend ISBE revise its budget and expenditure reports for LEA's in improvement status to include a line item for professional development costs.

#### **ISBE Response:**

The Agency agrees that the finding resulted from an USDE on-site monitoring visit at the Agency and has been brought forward by the auditors in the Statewide Single Audit. The finding was originally received in a June 14, 2005 USDE report. The Agency has since implemented corrective actions for fiscal year 2006 and is awaiting USDE review of the Agency's response and supporting documentation for confirmation of the resolution of this finding. The Agency will ensure that the matter is satisfactorily resolved with USDE and will forward the final determination to the USDE department responsible for the Single Audit resolution process.

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**State Agency:** Illinois State Board of Education (ISBE)  
**Federal Agency:** US Department of Education (USDE)  
**Program Name:** Title One Grants to Local Educational Agencies  
**CFDA # and Program Expenditures:** 84.010 (\$532,353,000)  
**Award Numbers:** S010A020013/S010A030013/S010A040013  
**Questioned Costs:** Cannot be determined

**Finding 05-65** *Inadequate Documentation from Subrecipients for Carryover of Funds*

ISBE did not obtain adequate documentation from subrecipients requesting waivers for the carryover of grant awards for the Title One Grants to Local Educational Agencies (Title One) program.

Under the Title One program, subrecipients generally may carryover 15 percent of the current year grant award to the following year. Additionally, subrecipients may request a waiver from ISBE to carry over an additional amount if the request is considered to be “reasonable” and “necessary”. During our testwork of 30 subrecipient waiver requests, we noted the standard waiver form did not include adequate information to allow ISBE to conclude the request was reasonable and necessary including the reason why the 15 percent carryover limit was exceeded and specific plans to reduce the carryover below the statutory maximum. During the year ended June 30, 2005, ISBE approved 19 subrecipient waivers requesting the carryover of \$166,668 to the subsequent year.

According to 20 USC 6339(a)(b)&(c) a subrecipient that receives \$50,000 or more in Title I, Part A funds cannot carryover beyond the initial 15 months of availability more than 15 percent of its Title I, Part A funds. A State educational agency may grant a waiver of the percentage limitation once every three years if the subrecipient’s request is reasonable and necessary. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required waivers for carryover of funds are properly documented and supported.

In discussing these conditions with ISBE officials, they stated that the finding was received previously in an USDE report of June 14, 2005 and the USDE determined that the Agency’s corrective action of implemented on July 5, 2004 satisfactorily resolved the finding.

Failure to obtain adequate documentation from subrecipients requesting a waiver for the carryover of funds could result in grant awards improperly being expended after the period of availability, which are unallowable costs. (Finding Code 05-65)

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#### **Recommendation:**

We recommend ISBE revise its carryover waiver form to require its subrecipients to provide a description of the reasons why the 15 percent carryover limit was exceeded and the specific actions that will be taken to bring the excess carryover below the 15 percent maximum. Additionally, the description should include the specific activities to be carried out and the amount of funds to be expended for each proposed activity.

#### **ISBE Response:**

The Agency agrees that finding resulted from an USDE on-site monitoring visit at the Agency and has been brought forward by the auditors in the Statewide Single Audit. The finding was originally received in a June 14, 2005 USDE report. The Agency implemented the USDE's recommended corrective action which requested the Agency to require subrecipients to submit sufficient documentation to support the waiver requests. Guidance was prepared and disseminated regarding the Title I carryover waiver modification on July 5, 2005. USDE determined that the Agency's implementation of the corrective action satisfactorily resolved his finding. The Agency will inform the USDE department responsible for the Single Audit resolution process of the earlier determination of satisfactory resolution.

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**State Agency:** Illinois State Board of Education (ISBE)  
**Federal Agency:** US Department of Education (USDE)  
**Program Name:** Twenty-First Century Community Learning Centers  
**CFDA # and Program Expenditures:** 84.287 (\$38,996,000)  
**Award Numbers:** S287C020013/S287C030013/S287C040013  
**Questioned Costs:** None

**Finding 05-66** *Failure to Maintain Adequate Documentation for Awards to Subrecipients*

ISBE did not maintain adequate documentation for a competitive grant award made to a subrecipient of the Twenty-First Century Community Learning Centers program during the year ended June 30, 2005.

During our testwork over 40 subrecipients of the Twenty-First Century Community Learning Centers program, we noted one instance in which ISBE could not locate the “continuing” grant application for a subrecipient. During our review of the supporting documentation including ISBE’s eligibility review file, the subrecipient appeared to be eligible. During the year ended June 30, 2005, ISBE passed through approximately \$38,673,000 to subrecipients of the Twenty-First Century Community Learning Centers program.

According to 34 CFR 80.20(b) (2), grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure that federal funds are only awarded to eligible subrecipients including maintenance of documentation of eligibility determinations as well as documentation of review of the eligibility determinations by an appropriate level of management who is knowledgeable of the program requirements.

In discussing these conditions with ISBE officials, they state the application was received and reviewed during the awarding process, but inadvertently misfiled.

Failure to maintain adequate supporting documentation for awards made to subrecipient may result in federal funds being awarded to ineligible subrecipients, which are unallowable costs. (Finding 05-66)

**Recommendation:**

We recommend ISBE review its current process for maintaining documentation for federal awarding purposes for the Twenty-First Century Community Learning Centers program and implement procedures to ensure that documents are filed appropriately.

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**ISBE Response:**

The Agency agrees with the finding and will review its current process for maintaining documentation for federal awarding purposes for the Twenty-First Century Community Learning Centers program continuation grants and implement procedures, including an ongoing logging system, to ensure that documents are filed appropriately.

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**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 (\$44,623,000)  
**Award Numbers:** V048A020013/V048A030013/V048A040013  
**Questioned Costs:** None

**Finding 05-67**      Undocumented Review of Accountability Report

ISBE does not document the review and approval of the Accountability Report (Part IV) Consolidated Annual Performance, Accountability, and Financial Status Report (Accountability Report).

The Accountability 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. This report contains both financial and performance data that is used by the USDE to ensure accountability for performance and fiscal management in contributing to States and school districts' achieving their education goals for all vocational students.

During our review of the process for preparing the Accountability Report for the federal fiscal year ended September 30, 2004, we noted no evidence of a supervisory review. ISBE officials stated the report was reviewed by the Division Administrator for Career Development and Preparation, but this review was not documented.

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 these conditions with ISBE officials, they stated the report was reviewed by the previous Division Administrator for Career Development and Preparation, but the review was not documented.

Failure to adequately review the financial and performance data in the Accountability Report may result in inaccurate reporting which may prevent the USDE from effectively monitoring and evaluating the performance of the Vocational Education Program. (Finding Code 05-67)

**Recommendation:**

We recommend ISBE implement procedures to ensure the Accountability Report is reviewed by individuals independent of the preparation process who are knowledgeable of the reporting requirements. The reviewers should sign and date the report and related supporting documentation to evidence performance of the activity

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and to affix responsibility for its effective completion. ISBE should also consider requiring the financial information in the Accountability Report to be reviewed by the Division Administrator for Financial Funding and Disbursements.

#### **ISBE Response:**

The Agency agrees with the finding and has implemented a documented and detailed review process for the Financial Status Report which has been reviewed and approved by the Office of Vocational and Adult Education of the USDE. For the current year's report submission, both the interim and final Financial Status Reports have been reviewed by the Division Administrator of the Career Development and Preparation Division and Internal Audit. The review process and documentation was approved by the supervisor of Funding and Disbursement division and Internal Audit, and the Career Development and Preparation Division Administrator was trained on the report and review process. The reports and all supporting documentation have been reviewed and signed and the Agency will maintain these records. The Agency is considering automating the Financial Status Reports for future years and will document the report design when implemented.



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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  
Twenty-First Century Community Learning Centers  
Reading First State Grants  
Improving Teacher Quality State Grants

**CFDA # and Program Expenditures:** 10.550 (\$36,028,000)  
10.553/10.555/10.556/10.559 (\$342,770,000)  
10.558 (\$92,269,000)  
84.010 (\$532,353,000)  
84.027 / 84.173 (\$471,930,000)  
84.048 (\$44,623,000)  
84.287 (\$38,996,000)  
84.357 (\$37,227,000)  
84.367 (\$119,846,000)

**Award Numbers:** None (10.550)  
(CFDA Number) 2004IN202052/2005IN202052 (10.558)  
2004IN109942/2005IN109942 (10.553/10.555/10.556/10.559)  
S010A020013/S010A030013/S010A040013 (84.010)  
H027A020072/H027A030072/H027A040072 (84.027)  
H173A020101/H173A030101/H173A040101 (84.173)  
V048A020013/V048A030013/V048A040013 (84.048)  
S287C020013/S287C030013/S287C040013 (84.287)  
S357C020014/S357C030014/S357C040014 (84.357)  
S367A020012/S367A030012/S367A040012 (84.367)

**Questioned Costs:** None

**Finding 05-68** Untimely 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.

Subrecipients who receive more than \$500,000 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

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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 156 subrecipient monitoring files to review from the above programs. During our review of the subrecipient monitoring files, we noted that ISBE had not completed the desk review of the subrecipient OMB Circular A-133 reports within 60 days of their receipt by ISBE for 69 subrecipients. These reviews were completed as follows:

<b>Desk Review Period</b>	<b>Number of Subrecipients</b>
61-90 days after receipt	5
91-120 days after receipt	10
121-150 days after receipt	10
151-180 days after receipt	23
180 + days after receipt	21

We did note that ISBE was not required to issue management decisions for any of the 21 subrecipients reviewed six months, or longer, after the date ISBE received the audit report. ISBE's subrecipient expenditures under the federal programs for the year ended June 30, 2005 were as follows:

<b>Program</b>	<b>Total Fiscal Year 2005 Subrecipient Expenditures</b>	<b>Total Fiscal Year 2005 Program Expenditures</b>	<b>%</b>
Food Donation	\$ 35,766,000	\$ 36,028,000	99.3%
Child Nutrition Cluster	\$ 340,023,000	\$ 342,770,000	99.2%
Child and Adult Care Food	\$ 91,117,000	\$ 92,269,000	98.8%
Title One Grants to Local Educational Agencies	\$ 527,838,000	\$ 532,353,000	99.2%
Special Education Cluster	\$ 459,493,000	\$ 471,930,000	97.4%
Vocational Education – Basic Grants to States	\$ 26,095,000	\$ 44,623,000	58.5%
Twenty-First Century Community Learning Centers	\$ 38,673,000	\$ 38,996,000	99.2%
Reading First State Grants	\$ 36,009,000	\$ 37,227,000	96.7%
Improving Teacher Quality State Grants	\$ 118,301,000	\$ 119,846,000	98.7%

According to OMB Circular A-133 § .400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to 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.

In discussing the desk review process with ISBE officials, they stated that management has reviewed potential risks and determined that controls and processes are adequate to ensure compliance with the federal requirements.

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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 05-68, 04-52, 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.

#### **ISBE Response:**

The agency disagrees with the finding. The highest risk to federal funds being inappropriately expended is if subrecipient findings are not resolved. Accordingly, the OMB A-133 Circular requires management decisions regarding findings to be issued within 180 days. ISBE has met this 180 day timeline in both fiscal year 2004 and fiscal year 2005. The Agency performs an initial review of audit reports to identify all report findings and 'fast tracks' them for resolution to address this highest risk.

It should be noted that the 180 day timeline for resolving findings is the only specific timeline required by the Circular. The only other time requirement regarding the review of subrecipient audit reports is that they be "timely". Besides evaluating and resolving findings, the other purpose of the review is to ensure that the subrecipients' A-133 audit was properly performed. The Agency has slightly over 700 subrecipients that must submit an A-133 audit to the Agency for review and each subrecipient contracts their own accounting or audit firm to perform the audit for them. The quality of the audits varies widely and it is incumbent upon the Agency to perform a detailed review. In several instances, the Agency may require these audit firms to perform additional work in order to meet the audit requirements of Circular A-133. The amount of additional work and the audit firms' schedules can impact when the corrected audits can be completed, submitted, and then reviewed again by the Agency.

The Agency must be primarily concerned that the audit reports meet the necessary federal standards and cannot agree to adhere to an arbitrary deadline not required by the Circular, as this would in some instances result in sacrificing or lowering the quality of the reviews and the reports themselves. The Agency will monitor its processes to ensure that finding resolution, reviews, and audit reports continue to meet statutory timelines and quality requirements.

The Agency will also consult with its cognizant agency, the USDE in its federal Single Audit finding resolution process to ensure that the Agency's processes are adequate. The Agency recently received notification from the USDA in their Single Audit finding resolution process that they determined the Agency's previous findings on this issue resolved.

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

We do not agree with ISBE's assessment that the highest risk of federal funds being inappropriately expended is if subrecipient findings are not resolved. Timely monitoring of subrecipients, including performance of desk reviews, is essential to ensure subrecipient compliance with the applicable provisions of laws, regulations, contracts, and grant agreements. Also, desk reviews of subrecipient OMB Circular A-133 audit

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reports include procedures in addition to following up on findings including reconciliation of federal expenditures to ISBE records and review of risk assessments to ensure the audit was properly performed.

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

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

**Program Name:** Federal Family Education Loans

**CFDA # and Program Expenditures:** 84.032 (\$221,197,000)

**Award Numbers:** None

**Questioned Costs:** Cannot be determined

**Finding 05-69** *Processing and Submission of Re-insurance Claims*

ISAC did not comply with the regulations regarding the submission and processing of reinsurance claims.

During fiscal year 2003, the U.S. Department of Education Office of the Inspector General (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). The final audit report received from ED-OIG indicated ISAC did not comply with the regulations regarding the submission of eligible reinsurance claims. The 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 ED-OIG 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;
- (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;

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- (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.

The ED-OIG audit report states that ISAC's process is not sufficient to fulfill their administrative responsibility contained in 34 CFR 682.406(a) (1) and (3) as stated above. The ED-OIG 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.

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During the year ended June 30, 2005, ISAC has not changed its process for submission and payment of claims. However, subsequent to the ED-OIG audit in 2003, the USDE established an exceptional performer designation for certain lenders and lender servicers. Under this relatively new program, lenders that meet the exceptional performer requirements, including having a compliance audit of their loan portfolio which shows a performance rating of 97% or higher, receive 100% reimbursement on claims and are entitled to receive payments immediately without a claim review by ISAC. Specifically, in accordance with 34 CFR 682.415(b)(5)(ii), "A guaranty agency may not require repurchase of a loan based solely on the lender's violation of the requirement relating to repayment conversion, due diligence, or timely filling. The guaranty agency must pay claims to a lender or lender servicer designated for exceptional performance in accordance with this paragraph for the one-year period following the date the guaranty agency received notification of the lender's or lender servicer's designation under paragraph (b)(2) of this section, unless the Secretary notifies the guaranty agency that the lender's or lender servicer's designation for exceptional performance has been revoked." During the year ended June 30, 2005, ISAC received \$76.2 million out of a total of \$122 million reinsurance claims from lenders that were designated as exceptional performers by the USDE. Accordingly, ISAC's current potential noncompliance is mitigated by the fact that 63% of the current claims are submitted by lenders who have been designated as exceptional performers. For these lenders, ISAC must pay the claim regardless of whether they identify potential violations of the requirements relating to repayment conversion, due diligence, or timely filling.

In discussing these conditions with ISAC officials, they state the conditions identified surround a well-documented disagreement between ISAC and other guarantors across the country, and the Department of Education concerning interpretations of federal guidance and, in particular, the legitimacy of the Common Claim Initiative, which has been in place for numerous years. ISAC believes their current procedures conform with industry practice and federal regulations as interpreted in the Common Manual. In a recent letter dated December 19, 2005 from the General Manager for Financial Partner Services, Student Financial Aid, of the USDE to the National Council of Higher Education Loan Programs (NCHELP), the USDE indicated that a post-claim review process implemented on a sample basis may form the basis for a comprehensive review which would help satisfy the claim processing requirement described above. ISAC is currently working with the ED-OIG and the USDE to resolve the findings and implement a post-claim review process.

Failure to process claims in accordance with the federal regulations could result in the payment of ineligible claims and result in unallowable costs. (Finding Code 05-69, 04-53, 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 necessary changes to conform with those requirements including the establishment of a post-claim review process which meets the requirements of the USDE.

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### Schedule of Findings and Questioned Costs

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#### **ISAC Response:**

ISAC concurs with the recommendation calling for continued consultation with the USDE relative to the interpretation of federal laws and regulations relating to the processing and submission of reinsurance claims. As recently as January 5, 2006, ISAC appealed the preliminary determination of the USDE Federal Student Aid staff relative to the findings of the ED-OIG, for the fiscal year 2003, which gave rise to the concerns expressed in this audit. In addition, ISAC as well as ED-OIG and USDE representatives conferred on March 22, 2006 to review the audit sample, which supported the concerns outlined in the ED-OIG's audit of 2003. We expect that future consultations with the USDE including the ED-OIG will be held in an effort to satisfactorily resolve issues of concern.

ISAC has also initiated an internal project designed to establish a post-claim review process meeting the requirements of USDE as outlined in letter of December 19, 2005. It is expected that the first round of the post-claim review process, developed by ISAC, will be initiated for claims submitted during the second quarter of calendar year 2006. ISAC is also part of the student loan industry-wide work group presently formulating agreed approaches to the post-claim review process, as requested by the USDE.



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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**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 (\$221,197,000)

**Award Numbers:** None

**Questioned Costs:** None

**Finding 05-70** *Failure to Generate Notification Letters to Defaulted Borrowers*

ISAC did not inform borrowers on a timely basis of their rights and obligations for defaulted loans.

ISAC is required to send a notification letter within 30 days to borrowers that have defaulted on a loan. The letter, which is intended to be generated automatically from the loan information system (Odyssey), serves to officially advise the borrower of the Department of Education's regulations. The notification letter details the following rights and obligations of the borrower's under these regulations:

- Advise the borrower that the agency has paid a default claim filed by the lender and has taken assignment of the loan;
- Identify the lender that made the loan and the school of attendance at which the loan was made;
- State the outstanding principal, accrued interest, and any other charges then owing on the loan;
- Demand that the borrower immediately begin repayment of the loan;
- Explain the rate of interest that will accrue on the loan, that all costs incurred to collect the loan will be charged to the borrower, the authority for assessing these costs, and the manner in which the agency will calculate the amount of these costs;
- Notify the borrower that the agency will report the default to all national credit bureaus to the detriment of the borrower's credit rating;
- Explain the opportunities available to the borrower under agency rules to request access to the agency's records on the loan, to request an administrative review of the legal enforceability or past-due status of the loan, and to reach an agreement on repayment terms satisfactory to the agency to prevent the agency from reporting the loan as defaulted to credit bureaus and provide deadlines and method for requesting this relief;
- Unless the agency uses a separate notice to advise the borrower regarding other proposed enforcement actions, describe specifically any other enforcement action, such as offset against Federal or state income tax refunds or wage garnishment that the agency intends to use to collect the debt, and explain the procedures available to the borrower prior to those other enforcement actions for access to records, for an administrative review, or for agreement to alternative repayment terms;

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### Schedule of Findings and Questioned Costs

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- Describe the grounds on which the borrower may object that the loan obligation as stated in the notice is not a legally enforceable debt owed by the borrower;
- Describe any appeal rights available to the borrower from an adverse decision on administrative review of the loan obligation;
- Describe any right to judicial review of an adverse decision by the agency regarding the legal enforceability or past-due status of the loan obligation; and
- Describe the collection actions that the agency may take in the future if those presently proposed do not result in repayment of the loan obligation, including the filing of a lawsuit against the borrower by the agency and assignment of the loan to the Secretary for the filing of a lawsuit against the borrower by the Federal Government.

During our testwork over 30 borrowers who entered into default, we noted seven instances where the notification letter was not generated by the loan information system. Upon further discussion with management, we were informed that ISAC had identified system configuration problems including notification letters for borrowers with multiple loans. In these situations, the loan information system would generate a notification for the first loan of a borrower that defaulted, but would not generate additional letters for subsequent loans that went into default. ISAC officials identified the problem and implemented manual procedures starting in August 2005 to identify all borrowers that required notification letters to be sent. During the year ended June 30, 2005, there were approximately 3,800 defaulted loans for which a notification letter was not generated by the loan information system and were not sent within the required 30 days.

In accordance with 34 CFR section 682.410 (b)(5)(ii), the guaranty agency, after it pays a default claim on a loan but before it reports the default to a credit bureau or assesses collection costs against a borrower, shall provide the borrower with written notice regarding the proposed actions; an opportunity to inspect and copy agency records pertaining to the loan obligation; an opportunity for an administrative review of the legal enforceability or past-due status of the loan obligation; and an opportunity to enter into a repayment agreement on terms satisfactory to the agency.

In discussing these conditions with ISAC officials, they state

Failure to notify borrowers on defaulted loans of their rights and obligations could inhibit the collection of future payments. (Finding Code 05-70)

#### **Recommendation:**

We recommend ISAC implement changes to the loan information system (Odyssey) configuration to ensure notification letters are sent to defaulted borrowers on a timely basis.

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For the Year Ended June 30, 2005

**ISAC Response:**

ISAC concurs and implemented procedures in August of 2005 designed to create a manual means of generating required letters to this subset of borrowers in default. A request to make the programmatic changes to systematically generate the required letters is presently in the work queue. Until such time as the programmatic changes are made, ISAC will continue with the manual means of generating the required letters.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**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 (\$221,197,000)

**Award Numbers:** None

**Questioned Costs:** None

**Finding 05-71** *Untimely Deposits into the Federal Fund*

ISAC does not deposit the federal share of borrower payments into the federal fund within the required 48 hours.

ISAC receives payments on defaulted loans directly from borrowers and indirectly through outside collection agencies. Borrower payments received by outside collections are generally remitted to ISAC bi-weekly which extends the period between receipt of the borrower payments (received from outside collection agencies) and deposited into the federal fund. During our testwork over 30 borrower payments, we noted 8 instances where borrower payments were not made deposited into the federal fund within the required 48 hours. The delays ranged between 4 and 99 days.

In accordance with 34 CFR section 682.419(b)(6)), the guaranty agency is required to deposit into its Federal Fund all funds received on loans on which a claim has been paid, including default collections, within 48 hours of receipt of those funds, minus any portion that the agency is authorized to deposit into the Operating Fund. Forty-eight hours means two calendar days. "Receipt of Funds" means actual receipt of funds by the guaranty agency or its agent, whichever is earlier.

In discussing these conditions with ISAC officials, they stated that delays in receipt of borrower payments from outside legal collection agencies were the reason for non-compliance with the 48-hour rule.

Failure to make deposits into the federal fund within the required time frame could result in lost interest earnings to the federal fund. (Finding Code 05-71)

**Recommendation:**

We recommend ISAC establish procedures to ensure borrower payments from outside collection agencies are received on a timely basis.

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For the Year Ended June 30, 2005

**ISAC Response:**

ISAC has thoroughly evaluated its deposit process and is working with the outside legal collection agencies to reduce processing time for depositing collections into the Federal Fund. In addition, ISAC continues to transfer interest on a monthly basis for those deposits that fall outside the 48-hour deposit period into the Federal Fund.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**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 (\$221,197,000)

**Award Numbers:** None

**Questioned Costs:** Cannot be determined

**Finding 05-72** *Inadequate Process for Assignment of Defaulted Loans*

ISAC does not have an adequate process to ensure all defaulted loans that meet the requirements specified in 34 CFR 682.409 are assigned to the USDE.

ISAC is required to assign all defaulted loans that meet certain criteria as described below as of April 15th of each year to the USDE. During our audit of the Federal Family Education Loan Program, we noted there were approximately 9,009 defaulted loans that meet this criteria as of April 22, 2005 that should have been assigned to the USDE but were not. Management indicated it was their practice to only assign approximately 10,000 loans per year.

According to 34 CFR 682.409(a)(1), unless the Secretary notifies an agency, in writing, that other loans must be assigned to the Secretary, an agency must assign any loan that meets all of the following criteria as of April 15 of each year:

- i. The unpaid principal balance is at least \$100.
- ii. For each of the two fiscal years following the fiscal year in which these regulations are effective, the loan, and any other loans held by the agency for that borrower, have been held by the agency for at least four years; for any subsequent fiscal year such loan must have been held by the agency for at least five years.
- iii. A payment has not been received on the loan in the last year.
- iv. A judgment has not been entered on the loan against the borrower.

In discussing these conditions with ISAC officials, they state that while offering no dispute relative to the interpretation of the regulation in question, the Department of Education has consistently indicated their satisfaction with ISAC's process of subrogating loans. Further, understandable time, effort and personnel limitations have prevented the immediate subrogation of all loans which might be eligible for such treatment.

Failure to assign loans to the USDE results in ISAC's noncompliance with federal regulations. (Finding Code 05-72, 04-54)

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

#### **Recommendation:**

We recommend ISAC assign all defaulted loans to the USDE that meet the criteria contained in 34 CFR 682.409 or obtain a written waiver which specified the number and criteria for assignment of loans to the USDE.

#### **ISAC Response:**

ISAC concurs and is presently seeking to assign all defaulted loans to the USDE meeting the criteria stated in the relevant federal citation.

On the matter of a written waiver, ISAC provided a letter to the USDE on May 31, 2005 identifying an assignment schedule which would result in the assignment of nearly 17,000 loans over a two year period (beginning in October 1, 2003 and continuing through September 30, 2005). While the letter to the USDE has never been addressed by Department officials, the schedule outlined in that letter is serving as the basis for current assignment activity.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**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 (\$221,197,000)

**Award Numbers:** None

**Questioned Costs:** Cannot be determined

**Finding 05-73** *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 a written rule requiring imaging personnel to verify the claim packets are imaged correctly.

During our review of the supporting documentation for 50 claims submitted for re-insurance, we found the following:

- Ten of the files included collection histories (supporting documentation) for which date information was not legible or 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 not legible or partially 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.
- Ten of the files included date stamps on the claims forms that were not clearly legible.

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.

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 ensure that claims packet information is accurately and completely imaged.



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In discussing these conditions with ISAC officials, they stated a combination of factors contributed to the condition including issues with the print range of a specific servicer's documents being incompatible with the scanning equipment and the ability of the imaging software to register the date stamp on a document.

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 05-73, 04-55, 03-46)

#### **Recommendation:**

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

#### **ISAC Response:**

ISAC concurs and notes that the agency has written procedures requiring the completeness and accuracy of imaged claim files and, in addition to the quality assurance steps itemized below, will be following quality assurance post-claim sampling as part of the Common Manual approach and approved by the USDE.

- As of February 15, 2005, Data Management staff perform quality control and review the claim files after they are scanned and indexed. This was implemented to address the issue of missing imaged information due to the incompatible print range of the documents. The original source documents are retained if information is missing on the imaged copy of the claim file. To date, ISAC is retaining approximately 3,000 original files due to incompatible print range of the source documents.
- A second level of review was implemented on May 5, 2005, which requires Data Management staff to quality control and review date stamps on claim forms to ensure legibility. The original source documents are retained if the date stamp is illegible. Since this QA review was implemented, 1,934 original files have been retained due to illegible date stamps. To further alleviate this issue, new date stamps were purchased by ISAC in March 2006 after thorough and successful testing to ensure date stamp legibility.

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For the Year Ended June 30, 2005

**State Agency:** Illinois Community College Board (ICCB)  
**Federal Agency:** US Department of Education (USDE)  
**Program Name:** Vocational Education – Basic Grants to States  
**Award Numbers:** V048A020013/V048A030013/V048A040013  
**CFDA # and Program Expenditures:** 84.048 (\$44,623,000)  
**Questioned Costs:** None

**Finding 05-74** *Inadequate Documentation of On-Site Monitoring of Subrecipients*

ICCB did not adequately document on-site fiscal, administrative and programmatic 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 \$17,531,000 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.

During our review of the on-site monitoring procedures performed by ICCB for subrecipients of the Vocational Education (post-secondary education) program, we noted the following:

- Procedures for on-site fiscal, administrative and programmatic reviews for potentially direct and material compliance requirements including approval and monitoring of grant budgets, accounting for revenues and expenditures in the general ledger, reporting of expenditures to ICCB, allowability of expenditures, safeguarding of equipment, accounting and documentation for salary and fringe benefit costs, and monitoring of cash management requirements were not clearly documented.
- On-site fiscal, administrative and programmatic review files did not include proper documentation of supervisory review.
- Procedures relative to subrecipient internal controls were not documented for any Vocational Education (post-secondary education) program subrecipients.

ICCB subrecipient expenditures for the year ended June 30, 2005 totaled \$17,129,000.

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 fiscal and programmatic review procedures were adequate and addressed all the applicable federal requirements.

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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 05-74, 04-57, 03-51)

#### **Recommendation:**

We recommend ICCB review its on-site monitoring procedures for subrecipients of the Vocational Education (post-secondary education) program and implement changes necessary to ensure procedures performed adequately address all compliance requirements that are direct and material to subrecipients, as well as fiscal and administrative processes and controls. Additionally, the fiscal, administrative, and programmatic on-site monitoring files should include appropriate documentation and conclusions as well as documented supervisory review.

#### **ICCB Response:**

The ICCB agrees with the finding and corrective action has been taken. The ICCB has included a checklist as part of the grantee fiscal review document. This will ensure that particular audit functions were completed on site. Supervisory review is part of the audit activities and the new checklist includes supervisory review and signature.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

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

**Program Name:** Airport Improvement Program

**CFDA # and Program Expenditures:** 20.106 (\$128,656,000)

**Award Numbers:** Various

**Questioned Costs:** None

**Finding 05-75** *Failure to Obtain Suspension and Debarment Certifications from Subrecipients*

IDOT did not obtain required certifications that subrecipients were not suspended or debarred from participation in Federal assistance programs for the Airport Improvement Program.

During our review of 11 subrecipients of the Airport Improvement Program, we noted IDOT did not include a suspension and debarment certification in its subrecipient agreements. As a result, IDOT did not receive certifications that the subrecipients of the Airport Improvement Program were not suspended or debarred from participation in Federal assistance programs. Additionally, IDOT did not perform a verification check with the "Excluded Parties List System" (EPLS) maintained by the General Services Administration for its subrecipients. During the year ended June 30, 2005, IDOT passed through approximately \$59,118,000 to 29 subrecipients of the Airport Improvement Program.

According to 49 CFR 18.35, grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension." The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required certifications for covered contracts and subawards are received, documented, and not made with a debarred or suspended party.

In discussing these conditions with IDOT officials, they state that although suspension and debarment certifications are in place for IDOT pre-qualified contractors and consultants, procedures need to be in place for subrecipients.

Failure to obtain the required certifications or perform verification procedures with the EPLS could result in the awarding of Federal funds to subrecipients that are suspended or debarred from participation in Federal assistance programs. (Finding Code No. 05-75)

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**Recommendation:**

We recommend IDOT establish procedures to ensure grantees receiving individual awards for \$25,000 or more certify that their organization is not suspended or debarred or otherwise excluded from participation in Federal assistance program.

**IDOT Response:**

The Department agrees with the finding.

The Division of Aeronautics will add the appropriate language to its Agency and Participation Agreement requiring all recipients of federal money to certify that they have not been suspended or debarred or otherwise excluded from participation in federal assistance.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**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 (\$128,656,000)

**Award Numbers:** Various

**Questioned Costs:** None

**Finding 05-76** *Inadequate On-Site Monitoring of Subrecipients*

IDOT is not performing on-site reviews of subrecipients receiving federal awards for the Airport Improvement program.

IDOT passed through approximately \$59,118,000 to 29 subrecipients of the Airport Improvement program during the year ended June 30, 2005. The majority of the subrecipient grants pertain to construction projects for airport improvement or noise abatement projects. As a pass through entity, IDOT monitors subrecipients of the Airport Improvement program primarily by reviewing grant applications, receiving periodic expenditure reports, reviewing invoices for noise abatement projects, and receiving OMB Circular A-133 Audit Reports. However, IDOT does not perform on-site reviews of its subrecipients.

According to OMB Circular A-133 \_\_.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 Compliance Supplement, dated May 2005, a pass-through entity is responsible for monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulation, and provisions of contracts or grant agreements and that performance goals are achieved.

In discussing this condition with IDOT official, they state the Division of Aeronautics (the Division) requires the subrecipients to use checklists provided by the Federal Aviation Administration (FAA). These completed and signed checklists certify that the subrecipient has complied with all federal requirements. These signed checklists are on file with the Division before federal funds are disbursed to the subrecipient.

Failure to adequately perform subrecipient monitoring procedures could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 05-76)

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

#### **Recommendation:**

We recommend IDOT develop formal policies and procedures to perform periodic on-site reviews to ensure subrecipients are administering the federal program in accordance with the applicable laws and regulations.

#### **IDOT Response:**

The Department disagrees with this finding.

The FAA accepts the Division of Aeronautics' method and procedure of collecting subrecipient certifications before federal funds are disbursed.

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

The OMB Circular A-133 Compliance Supplement, dated May 2005, states that monitoring activities normally occur throughout the year and may take various forms, such as reporting, site visits, and regular contact. We believe that periodic on-site reviews are necessary to adequately monitor subrecipients of the Airport Improvement program. Further, IDOT could not provide documentation the FAA has accepted their methods for monitoring subrecipients or concluded they are adequate.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

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

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

**CFDA # and Program Expenditures:** 20.106 (\$128,656,000)  
20.205 (\$848,191,000)

**Award Numbers:** Various

**Questioned Costs:** None

**Finding 05-77** *Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports*

IDOT does not have an adequate process to review subrecipient OMB Circular A-133 reports or issue management decisions on a timely basis.

IDOT passed through \$59,118,000 and \$117,182,000 to subrecipients of the Airport Improvement and Highway Planning and Construction programs, respectively, during the year ended June 30, 2005. During our testwork, we selected 33 subrecipient monitoring files (eight for the Airport Improvement program and 25 for the Highway Planning and Construction program) and noted the following:

- 21 subrecipient OMB Circular A-133 reports were not reviewed as of the date of our testwork. The time between receipt of these reports and the date of our testwork was in excess of 180 days. Additionally, of these reports, one contained findings for which IDOT has not issued a management decision within the required 180 days of receipt or determined whether the subrecipients took timely and appropriate corrective action.
- Six subrecipient OMB Circular A-133 reports had not been received as of the date of our testwork. IDOT had sent out an initial notification but has not subsequently followed up or initiated any sanctions against the subrecipients.

Per OMB Circular A-133 Compliance Supplement, dated May 2005, 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. Additionally, pass-through entities are required to issue a management decision on audit findings within 180 days after receipt of the subrecipient's audit report and ensure the subrecipient takes timely and appropriate corrective action on all audit findings.

In discussing these conditions with IDOT officials, they state that they needed to increase their efforts to review and obtain all reports that were due.



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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

Failure to review subrecipient OMB Circular A-133 audit reports and follow up on findings to ensure subrecipients take appropriate and timely corrective action 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 05-77, 04-62, 03-54, 02-48)

#### **Recommendation:**

We recommend IDOT implement procedures to ensure the OMB Circular A-133 audit reports are reviewed within sixty days of receipt; management decisions are issued within 180 days of receipt; and subrecipients take appropriate and timely corrective action for all findings.

#### **IDOT Response:**

The Department agrees with the finding.

The Department's Audit Section now sends out notices bi-monthly to subrecipients requesting that they submit their OMB Circular A-133 audit reports or certify to IDOT that they did not receive enough in Federal financial assistance to be required to complete and submit an OMB Circular A-133 audit report. The Audit Section has also implemented procedures and a new database system to monitor and track the submission of single audits.

OMB Circular A-133 requires the pass-through entity (the Department) to make management decisions on those findings that relate to Federal awards that it has made to the subrecipient and not management decisions on all findings that do not relate to the Department's programs. The Audit Section's review of the single audit already includes a review of subrecipient audit citations to determine whether they would affect the IDOT program. If they do affect the IDOT program, additional steps are taken to cite ineligible costs.

The auditors reported that 21 reports were not reviewed as of the date of their fieldwork. Since that time, we have issued reviews on 11 of these reports. Of the five reports not received, we have since received one of the reports and one subrecipient was not required to submit a report. We continue follow-up on the reports not received.

Because of the Department's considerable oversight of its transportation programs and projects by trained project managers and resident engineers, the probability of subrecipient noncompliance and malfeasance on IDOT funded projects is greatly reduced.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

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

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

**CFDA # and Program Expenditures:** 20.106 (\$128,656,000)  
20.205 (\$848,191,000)

**Award Numbers:** Various

**Questioned Costs:** None

**Finding 05-78** Failure to Notify Subrecipients of Federal Funding

IDOT did not provide required program information relative to federal funds passed through to the subrecipients of the Airport Improvement and the Highway Planning and Construction programs for the year ended June 30, 2005.

During our testwork of 11 subrecipients who received \$43,576,000 of the Airport Improvement program funds and 24 subrecipients who received \$49,352,212 in Highway Planning and Construction program funds, we noted IDOT did 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, IDOT did not communicate the need for an audit in accordance with OMB Circular A-133.

Subrecipient expenditures under the federal programs for the year ended June 30, 2005 were as follows:

<b>Program</b>	<b>Total Fiscal Year 2005 Subrecipient Expenditures</b>	<b>Total Fiscal Year 2005 Program Expenditures</b>	<b>%</b>
Airport Improvement Program	\$59,118,000	\$128,656,000	46.0%
Highway Planning and Construction Program	\$117,182,000	\$848,191,000	13.8%

According to OMB Circular A-133 §\_\_.400(d), a pass-through entity is required to identify federal awards made by informing each subrecipient of the CFDA title and number, award name and number, and award year. The pass through entity is also required to advise subrecipients of requirements imposed on them by federal laws and regulations.

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In discussing these conditions with IDOT officials, they state that the required information had not been included in its contracting and award notification process due to an oversight but that they will ensure that award documents include the required information.

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 05-78, 04-63)

#### **Recommendation:**

We recommend IDOT review its current process for preparing subrecipient funding notifications to ensure all required information is properly communicated to its subrecipients.

#### **IDOT Response:**

The Department agrees with the finding and recommendation.

A memorandum will be issued informing all project and program personnel to ensure that the required information concerning the specific program name, CFDA number and other required information are properly communicated and provided to the subrecipients.

In March 2005, The Division of Traffic Safety revised their grant agreements to include the required information.

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**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 (\$848,191,000)

**Award Numbers:** Various

**Questioned Costs:** None

**Finding 05-79** *Failure to Follow the Funding Technique Designated in the Treasury State Agreement*

IDOT did not follow the funding technique designated in the Treasury-State Agreement for the draw down of federal funds 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. The TSA specifies that IDOT draw funds for the Highway Planning and Construction program using the composite clearance method, an interest neutral funding technique. This method requires IDOT to draw funds such that they are deposited on the dollar-weighted average number of days required for funds to be paid for a series of disbursements. However, IDOT did not use this funding method to draw funds for the Highway Planning and Construction program during the year ended June 30, 2005. Specifically, IDOT drew funds on a weekly basis for expenses incurred during the previous seven days during the fiscal year ended June 30, 2005, regardless of when the payments cleared.

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 TSA.

In discussing these conditions with IDOT officials, they state they follow the cash draw down procedures required by the Federal Highway Administration (FHWA). The TSA had included antiquated language which didn't reflect the FHWA procedures the Department is required to follow. The antiquated language in the TSA has since been revised.

Failure to draw funds in accordance with the TSA could result in an interest liability to the Federal government. (Finding Code 05-79, 04-60)

#### **Recommendation:**

We recommend IDOT implement procedures to ensure cash draws are made in accordance with the TSA. If IDOT believes there is a more appropriate funding technique, they should request a modification be made to the Treasury State Agreement which clearly specifies the funding technique to be followed.

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#### **IDOT Response:**

We agree with the finding and recommendation. There is absolutely no problem with our current cash management procedure to draw down Federal funds for the Highway Planning and Construction program. If there were, the Federal Highway Administration (FHWA) would refuse to honor our weekly draw downs.

The FHWA's required procedure for the Department to follow to draw down Federal funds is for the State to submit the Federal billings every Tuesday with the State receiving the Federal funds on Thursday. The TSA is an agreement on how Federal funds will be received and credited by the State. It is not a set of procedures to draw down the funds.

The Department's TSA had included antiquated language which had not been changed for at least a decade. The TSA did need to be revised to reflect the Department's procedure for drawing down FHWA funds. The Department revised this language prior to the end of fiscal year 2005 and the revisions have been included in the current TSA for fiscal year 2006.

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

Although IDOT's response initially states they agree with the finding and recommendation, they further state that "there is no problem with their current cash management procedures to draw Federal funds". We disagree with this statement as their procedures during fiscal year 2005 did not follow the funding technique specified in the TSA. The United States Department of the Treasury, not the FHWA, is responsible for establishing regulations for the draw down of federal funds.

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

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

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

**CFDA # and Program Expenditures:** 20.106 (\$128,656,000)  
20.205 (\$848,191,000)

**Award Numbers:** Various

**Questioned Costs:** None

**Finding 05-80** *Failure to Follow the Illinois Administrative Code*

IDOT did not follow the Illinois Administrative Code for pre-qualifying contractors under the Airport Improvement and Highway Planning and Construction programs.

IDOT is responsible for pre-qualifying construction contractors by making a preliminary determination of "Construction Contractor Responsibility". Construction Contractor responsibility is an overall assessment by IDOT to determine if the contractor has the capability in all respects to perform fully the requirements of an awarded contract and the integrity and reliability that will assure good faith performance. In order to become pre-qualified, an applicant must:

- Submit a completed application including such items as the federal employer identification number, the Illinois Department of Human Rights identification number and registration expiration date, and a completed Statement of Experience and Financial Condition;
- Submit financial statements with either a "Certificate of Accountant" or an independent auditors' opinion letter; and
- Disclose any conflicts of interest in related parties.

Upon receipt of the application, IDOT will evaluate the information submitted, determine the responsibility of the applicant, and calculate a pre-qualification rating. The pre-qualification rating is a combination of two mathematically determined subratings; a financial rating and a work rating. The financial rating is intended to provide a measurement of the applicant's ability to sustain adequate cash flow for the duration of an awarded contract, and thereby indicate the maximum amount of uncompleted work the applicant may have under contract at any one time. The work rating is a capacity measurement intended to provide an indication of the dollar value for a particular category of construction that an applicant can perform in one construction season, and includes such factors as performance, experience, equipment, and the capacity to perform.

Upon determination of pre-qualification, a Certificate of Eligibility is issued and is effective for 16 months from the date of the balance sheet which was submitted as part of the application. The Certificate of Eligibility can be extended for a maximum of 90 days for good cause, such as an extension for filing taxes or a change in the company's fiscal year end.

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During our audit we selected seven pre-qualified contractors who were awarded contracts totaling \$20,401,000 under the Airport Improvement program and 27 pre-qualified contractors who were awarded contracts totaling \$561,896,000 under the Highway Planning and Construction program and noted the following:

- The Certificate of Eligibility for thirteen contractors had been granted extensions beyond the maximum 90 days. The days past the maximum extension ranged from 26 to 393 days.
- The pre-qualification files for all contractors were missing the contractor performance evaluation.
- The pre-qualification files for all contractors were missing the financial disclosure of interests held in other firms by the contractor's board or officers.

According to 49 CFR 18.36(a), a State must follow the same policies and procedures it uses for procurements for non-federal funds. The Illinois Administrative Code, Title 44, Section 650.40 (c) (3), requires that each contractor be registered with the Illinois Department of Human Rights (IDHR) and that the registration number and expiration date be documented on the IDOT prequalification form. The Illinois Administrative Code, Title 44, Section 650.120 (c), states that extensions for the Certificate of Eligibility will be given in thirty day increments with the maximum extensions being ninety days. The Illinois Administrative Code, Title 44, Section 650.240 (a), requires IDOT to perform and submit contractor performance evaluation results for contractors that performed work for them during the previous year. Additionally, the Illinois Administrative Code, Title 44, Section 650.170 (d) (2), states "If an individual, a member of a partnership, or an officer or director of a corporation has an interest financially in more than one company, the accountant shall submit a letter explaining such interest, the extent of the investment, and the individual's relationship with such companies."

In discussing these conditions with IDOT officials, they state that they prequalify contractors in accordance with the Rules for Prequalification of Contractors (44 IL. Adm. Code Sec. 650).

Failure to follow the Illinois Administrative Code may result in violations of federal procurement regulations and the loss of federal funding. (Finding Code 05-80)

#### **Recommendation:**

We recommend IDOT implement procedures to ensure that all pre-qualifications are performed in accordance with the applicable rules and regulations.

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#### **IDOT Response**

1. The Certificate of Eligibility for thirteen contractors had been granted extensions beyond the maximum 90 days. The days past the maximum extension ranged from 26 to 393 days.

IDOT Response: We agree with the finding.

These extensions were the Section's attempt to make sure that all contractors had the ability to request authorization to bid and maintain a competitive bidding process. Before implementing this practice the Office of Chief Counsel reviewed our recommendation and to the extent of the rules this practice was allowed. The Section receives approximately 450 applications between mid March and the end of April and at the time the prequalification section only had two analysts to process all these renewals before the June letting. Now that the Section is fully staffed, we are making every effort to handle all these renewals without having to send Department granted extensions. In addition, if we only grant 90 day extensions as per the rules, we would be spending several days handling these extensions, we would only be able to process a few applications and a majority of contractor prequalification ratings would expire after the 90 days even though we received their renewal application. This would affect the bidders list and eliminate the competitive bidding process.

2. The pre-qualification files for all contractors were missing the contractor performance evaluation.

IDOT Response: We disagree with the finding.

The 44 Il. Adm. Code Section 650.240 does not require the Contractor Performance Evaluations be maintained in the contractor's prequalification folder, it only states that these evaluations need to be done if prequalification decisions by the department are used to award contracts.

Contractor performance evaluations are handled exclusively by the individual districts. The prequalification section does not receive the actual evaluations. These evaluations are entered into an Average Weighted Performance (AWP) database. A print out from AWP is utilized when calculating prequalification work ratings and maintained in the contractor's folder. If a contractor did not have an evaluation filled out for a particular construction season the AWP print out will show error and the previous year performance factors are utilized. The Rules for Prequalification explicitly state how the section handles contractor performance evaluations. If no evaluations were performed, the previous year's performance rating is utilized and documented when the analyst calculates new ratings by indicating the year of the performance evaluation. If no evaluation is performed for 5 years, then the performance factor is returned to null (6/6) as stated in the Rules for Prequalification.

3. The pre-qualification files for all contractors were missing the financial disclosure of interests held in other firms by the contractor's board or officers.

IDOT Response: We disagree with the finding.

The current Application for Prequalification currently has a section (Questions 6a, 6b & 6c) where we require the applicant to disclose interest in or ownership in related or affiliated firms. This information is utilized when granting Authorization to Bid. Any two firms with the same ownership or related management will not be allowed to bid on the same item. The entities will have to determine which entity will bid. 44 IL. ADM. Code Section 650.170.d.2 states that if an individual, a member of a partnership, or an officer or director of a corporation is interested financially in more than one company the accountant shall submit a letter that explains such interest. As a prequalified firm it is their responsibility to be in compliance with the Rules for Prequalification. If no letter is



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submitted, the prequalification section takes this to mean that an individual, member of a partnership, or an officer or director of a corporation has no financial interest in other companies.

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

During our audit, we were not able to sight the contractor performance evaluations and whether they were properly considered in the evaluation process.

Additionally, we do not believe the current Application for Prequalification satisfies the financial disclosure of interest requirements. Specifically, question 6a states "Indicate whether the applicant is a parent or subsidiary corporation and the name and address of each such related company"; question 6b states "Indicate whether the applicant has affiliates and the name and addresses of each such related company"; and question 6c states "Indicate whether any of the related companies listed are engaged in similar or related business as that of the applicant." As previously stated, the Illinois Administrative Code, Title 44, Section 650.170 (d) (2), requires "If an individual, a member of a partnership, or an officer or director of a corporation has an interest financially in more than one company, the accountant shall submit a letter explaining such interest, the extent of the investment, and the individual's relationship with such companies." We do not believe the questions in the application satisfy this requirement as they do not address officer or director financial interests.

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

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

**Program Name:** Airport Improvement Program

**CFDA # and Program Expenditures:** 20.106 (\$128,656,000)

**Award Numbers:** Various

**Questioned Costs:** None

**Finding 05-81** *Failure to Follow Control Procedures for Real Property Acquisition and Relocation Assistance Payments*

IDOT did not follow its control procedures to ensure all federal requirements had been met for property acquisitions and relocation assistance payments under the Uniform Relocation Assistance and Real Property Acquisition Regulations (URA) for the Airport Improvement Program.

The URA provides for uniform and equitable treatment of persons displaced by Federally-assisted programs from their homes, businesses, or farms. Federal requirements also govern the determination of payments for replacement housing assistance, rental assistance, and down payment assistance for individuals displaced by federally funded projects. During our test work of real property acquisitions and relocation assistance, we noted IDOT had developed a standardized checklist to ensure all information required by the URA is collected prior to the costs being reimbursed. However, this checklist was not completed during the year ended June 30, 2005. Specifically, we selected eight real property acquisition payments and one rental assistance payment for test work, totaling \$8,792,000 out of \$10,822,000 expenditures for property acquisitions and relocation assistance during the year ended June 30, 2005 noting the checklist was not completed.

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, regulation and program compliance requirements. Effective internal controls should include preparation and review of a standardized checklist to ensure all federal requirements have been met under the URA.

In discussing these conditions with IDOT officials, they state that upon review of the Uniform Relocation Assistance and Real Property Acquisition Act (URA), nowhere does it state that the agency is required to use a checklist to be in compliance but rather that standardized control procedures are to be in place. IDOT officials further stated that discussions with the FAA Chicago Airports District Office confirm this. In addition, according to IDOT, the above paragraphs confirm that the Division of Aeronautics has standardized procedures in place.

Failure to follow control procedures and complete the standardized checklist could result in noncompliance with the URA and federal funds being expended for unallowable purposes. (Finding Code 05-81)

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**Recommendation:**

We recommend that IDOT implement procedures to ensure the standardized checklist is completed for all real property acquisition and relocation assistance payments.

**IDOT Response**

The Department disagrees with this finding. The Division of Aeronautics will, however, follow the recommendation ensuring that for future land acquisition, the checklist which is already developed and used will also be included in the file.

**Auditors' Comment:**

We believe reasonable control procedures should include the preparation and review of the standardized checklist to ensure that all appropriate procedures have been performed and documentation maintained in the file to ensure compliance with the URA.

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

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

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

**CFDA # and Program Expenditures:** 20.106 (\$128,656,000)  
20.205 (\$848,191,000)

**Award Numbers:** Various

**Questioned Costs:** None

**Finding 05-82** *Inadequate Controls over Information Systems*

IDOT does not have adequate access, change management, and computer operations controls over the key systems that support the IDOT Integrated Transportation Project Management system.

The information technology systems that support the IDOT Integrated Transportation Project Management system include the following:

- The Electronic Contract Management System (ECM)
- The Electronic Letting Management System (ELM)
- The Illinois Construction Records System (ICORS)
- The Bureau of Contract Management System (BCM)
- The Fiscal Operations and Administration System (FOA)
- The Federal Payment Control System (FPC)

The ECM and ELM systems are used during the initial letting stages of the construction contract. The ECM houses the estimates made for the projects and the ELM system stores the bids from the contractors. The ICORS system is used by the resident engineers to record the progress of each job for billing purposes, which is interfaced with the BCM system. The data from the BCM system is interfaced with the FOA system to generate the payment to the contractor, and is also interfaced with the FPC system to generate the federal billing.

Requests for new system access, modification of current system access, or termination of access are initiated by the bureau chief designated as the Security Software administrator via the "User Request Form." This form is forwarded to the system owner who must review and approve the form, which is then sent to the Bureau of Information Processing for action. The change management and program development requests are initiated using an "Action Request" form, and require approval from the manager of the requesting user. Application enhancements or maintenance require testing prior to migration into the production environment. Frequency of backup for the systems is documented in the Disaster Recovery Plan.

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During our test work over the access, program change and development, and computer operations controls of the systems, we noted the following:

- The policy in place for granting, modifying, and terminating access rights is not followed. Specifically, we selected ten new employees, fifty employees that had transferred positions, and sixty employees that were terminated and noted that none had completed the “User Request Form” to document the granting, modifying, or removing of access to the systems.
- Terminated accounts are never deleted from the system. Upon notification of the termination the password is changed, the ID is called “available”, and the account is owned by the administrator to be recycled for another user.
- A periodic review between terminated employees and active user accounts is not performed.
- A periodic review of the propriety of access to the systems is not formalized or documented.
- Password strength is not sufficiently addressed in the Information Technology Security Policy.
- None of the 16 changes to the BCM and FOA systems we selected for testing had documentation of testing prior to migration into production.
- The disaster recovery plan in place has not been tested since 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 ensuring the information systems associated with the administration of the federal programs are adequately secured and have proper change management controls in place.

In discussing these conditions with IDOT officials, they state there were various causes relating to the issues noted that are discussed in the Department’s response to the finding.

Failure to adequately secure the information systems that are used to administer the federal programs could result in noncompliance with laws, regulations and the grant agreement. (Finding Code 05-82)

#### **Recommendation:**

We recommend IDOT implement procedures to ensure all information systems are adequately secured.

#### **IDOT Response:**

1. Issue: The policy in place for granting, modifying and terminating access rights is not followed.

IDOT Response: The Department agrees with the finding.

Currently, many times an e-mail communication is used to initiate security changes. All e-mail communications are retained by the RACF Administrator for an audit trail. We do acknowledge the inconsistencies in the methods of requesting access rights additions/changes/deletions. Because of this, we are analyzing the NT User Request Form and the BIP Action Request to determine the most consistent, user-friendly approach to request user access rights. The goal of the implemented form will include the following objectives:

- Develop one form to request access rights to the Network and Applications
- Complete collection of information necessary to manage rights

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- Require approval by the appropriate system owner (recently updated/maintained in an in-house database)
- Update related instructions and policy on the IDOT Intranet
- Enforce this procedure (by the RACF Administrator)

2. Issue: Terminated accounts are never deleted from the system. Upon notification of the termination the password is changed, the ID is called “available”, and the account is owned by the administrator to be recycled for another user.

IDOT Response: The Department partially agrees with the finding.

We concur that the accounts are never deleted from the system but we believe that we have adequate controls in place to eliminate the potential for a security breach.

The practice of recycling old account numbers was put in place to prevent exhausting the limited number of account names. Due to the naming convention of accounts, only two positions remain to designate a specific account within a certain office. Without recycling accounts, we would exhaust the possible account names and would have to alter the standard for naming of accounts.

To ensure proper management of accounts, the RACF Administrator works with the support staff of the applications that the individual had access to. The support staff inactivates the user from any internal security if such security exists within the application.

When an account is recycled and assigned to another person, a new temporary password is given and the account owner will need to change to their password. We believe the new password assignment associated to the recycled account eliminates the potential security breach as noted in the audit.

3. Issue: A periodic review between terminated employees and active user accounts is not performed.

IDOT Response: The Department agrees with the finding.

Normally, the system owner of each application should notify the RACF Administrator of separated/transferred employees on an individual basis (as outlined in Departmental Order 8-2). However, we acknowledge the fact that this notification does not always occur. Therefore, a procedure will be established to notify (via email) BIP staff of separations as they occur. Employees that have been separated will have all security access removed by the RACF Administrator.

4. Issue: A periodic review of the propriety of access to the systems is not formalized or documented.

IDOT Response: The Department agrees with the finding.

The RACF Administrator has periodically verified and cleaned accounts for terminated employees. However, we acknowledge the audit seeks to make it a more formal process. New procedures have been established as a result of this finding. The procedures involve sending an e-mail to each system owner on a bi-annual (every 6 months) basis. The RACF coordinator will request verification of the access level for each person within the corresponding applications. Updates will be applied based on the responses from the system owner and the email will be retained for audit purposes.

5. Issue: Password strength is not sufficiently addressed in the Information Technology Security Policy.

IDOT Response: The Department agrees with the finding.

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IDOT is responsible for the password policy pertaining to applications and/or systems. We share this function with Central Management Services (CMS) and to the extent we can comply we will.

IDOT is in the process of reviewing Departmental Order 8-2 and will ensure that adequate guidance is provided for formulating an effective and secure password.

6. Issue: None of the 16 changes to the BCM and FOA systems we selected for testing had documentation of testing prior to migration into production.

IDOT Response: The Department agrees with the finding.

While we completely concur with this finding, we want to make clear that testing did occur in all of the samples, even though documentation was insufficient to substantiate this practice. Testing is considered the final step for a developer prior to the implementation of changes. We are currently developing an automated process that will include indicators to designate both BIP testing completion and User testing completion and sign off.

7. Issue: The disaster recovery plan in place has not been tested since 2003.

IDOT Response: The Department agrees with the finding.

Due to the consolidation of Information Technology resources with CMS, the responsibility for Disaster Recovery is now shared with CMS. The Service Level Agreement between IDOT and CMS (supplier/service provider) outlines the fact that CMS will accommodate IDOT and other agencies for Disaster Recovery requirements.

It is the responsibility of IDOT to formulate and test Business Continuity plans. IDOT is rigorously developing Business Continuity plans to get all offices/bureaus prepared in the event of a disaster. The full Business Continuity plan will be complete in approximately six weeks (June 30, 2006) and this effort will include exercises to ensure each plan is adequate. It should be noted that there is a strong reliance in our supplier/service provider, CMS.

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

IDOT partially disagrees with the finding in issue two above relating to the termination of user accounts. We believe that accounts for terminated users should be deleted to avoid the potential improper use. With regard to the issue of recycling terminated accounts, IDOT indicates that it would have to alter the standard for naming accounts in order to discontinue the practice. We continue to believe that reassigning old account numbers to new individuals undermines security over computerized information and should be discontinued even if a new standard for naming accounts must be derived.

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

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

**Program Name:** Temporary Assistance for Needy Families  
Low-Income Home Energy Assistance

**CFDA # and Program Expenditures:** 93.558 (\$585,595,000)  
93.568 (\$107,156,000)

**Award Numbers:** G-0401ILTANF/G-0501ILTANF/CANG996115 (93.558)  
**(CFDA Number)** G-05B1ILLIEA/G-05B2ILLIEA (93.568)

**Questioned Costs:** Cannot be determined

**Finding 05-83** Unallowable Expenditures Used to Meet Requirements of the TANF and LIHEAP Programs

State funded Low-Income Home Energy Assistance program (LIHEAP) expenditures were improperly used both to meet the maintenance of effort (MOE) requirement of the Temporary Assistance for Needy Families (TANF) program and to obtain leveraging incentive awards under the LIHEAP program.

The Illinois Department of Human Services (IDHS) is the state agency responsible for administering the TANF program. As a condition of receiving federal TANF funds, the State is required to maintain a level of “qualified” state funded expenditures for programs or services benefiting eligible families (TANF MOE requirement). In an effort to maximize the State’s reimbursement under the TANF program, IDHS coordinates with a number of state agencies (including DCEO) which have agreed to allow IDHS to use expenditures from their state-funded human service programs to meet the TANF MOE requirement.

Additionally, on an annual basis, DCEO applies for leveraging incentive awards for grantees that use non-federal resources to help low-income persons meet their home heating and cooling needs under the LIHEAP program. As a condition of receiving the leveraging incentive awards, DCEO is required to submit an annual report describing the non-federal resources used to provide these benefits.

During our audit, we noted the state LIHEAP expenditures reported by DCEO on the annual LIHEAP Leveraging reports submitted for awards received in federal fiscal years 1998 through 2003 were also used by IDHS to meet the TANF MOE requirement in each of those years. TANF and LIHEAP regulations prohibit the use of the same expenditures under multiple federal programs.



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The state LIHEAP amounts reported under each program and the leveraging incentive award amounts are as follows:

<b>Federal Fiscal Year</b>	<b>LIHEAP Expenditures Used for TANF MOE</b>	<b>Expenditures Reported for Leveraging Incentive</b>	<b>Leveraging Incentive Award</b>
1998	\$5,698,625	\$20,250,340	\$402,941
1999	\$18,520,467	\$69,265,237	n/a - none
2000	\$17,891,312	\$72,830,000	\$1,783,338
2001	\$23,868,309	\$74,371,237	\$1,969,389
2002	\$32,417,721	\$72,506,362	\$1,154,478
2003	\$30,545,238	\$61,437,111	\$1,025,953

According to 45 CFR 263.6(c), expenditures that a State makes as a condition of receiving federal funds under another program (except for certain childcare expenditures) cannot be used to meet the TANF maintenance of effort requirement. In addition, according to 45 CFR 96.87(f)(15), funds or other resources that have been or will be used as matching or cost sharing for any federal program are not countable under the LIHEAP leveraging incentive program. Finally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure the same expenditures are not used to meet the requirements of multiple federal programs, except where specifically allowed by law.

In discussing these conditions with DCEO officials, they state this was an oversight due to the multi-agency coordination efforts for TANF MOE. DCEO administered LIHEAP through the end of state fiscal year 2004 until it transferred to IDPA.

Failure to ensure the same expenditures are not used to meet the requirements of multiple federal programs results in unallowable costs. (Finding Code 05-83)

**Recommendation:**

We recommend DCEO review the process and procedures in place to identify expenditures to be used to meet requirements of its federal programs and implement changes necessary to ensure the same expenditures are not used under multiple programs.

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**DCEO Response:**

The Department agrees with the finding and will determine and implement an efficient way for the agency to identify and track state expenditures to ensure they are not used under multiple federal programs for matching or leveraging requirements. The Accounting Office, as initial corrective action, has developed and implemented a spreadsheet to manually track state funds used for federal matching purposes.

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

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

**Program Name:** Workforce Investment Act Cluster

**CFDA # and Program Expenditures:** 17.258/17.259/17.260 (\$145,696,000)

**Award Numbers:** AA-13796-04-50

**Questioned Costs:** \$722,000

**Finding 05-84** *Failure to Competitively Bid Professional Services*

DCEO did not competitively bid professional services purchased as required by the Illinois Procurement Code for the Workforce Investment Act (WIA) Cluster.

During our audit, we noted DCEO did not competitively bid professional services purchased for the administration of the WIA Cluster. Specifically, DCEO entered into agreements with a professional service firm to act as a fiscal agent of the State for one of the local workforce investment agencies. In this capacity, the professional services firm was responsible for performing the following functions related to a local workforce agency:

- Accounting for revenues, expenditures, program income, and applicable credits associated with the WIA funds
- Establishing and maintaining a chart of accounts, as from time to time agreed upon by DCEO
- Maintaining a separate accounting of various grant funds
- Making payments from original invoices and payroll records
- Requesting cash from DCEO to coincide with timely payment of service providers
- Reporting on an accrual basis via the Grantee Reporting System
- Reporting total obligations by funding stream on a quarterly basis
- Implementing any such type of invoicing system necessary to comply with the agreement.
- Reimbursing DCEO for disallowed costs of the subrecipients only to the extent that such disallowed costs are recovered from the lower tier subrecipients.

Total fees paid to this professional services firm were approximately \$722,000 during the year ended June 30, 2005. Additionally, we noted DCEO improperly used a standard subrecipient contract for this arrangement as opposed to a professional services contract and did not file the contract with the Illinois Comptroller as required by the Illinois Procurement Code. As a result of using the standard subrecipient contract, there were contractual requirements that are applicable only to subrecipients and not to a professional services firm including the requirement to have an audit performed in accordance with OMB Circular A-133 and the requirement to submit a local area plan.

In accordance with 29 CFR 97.36(a), a State must follow the same policies and procedures it uses for procurements for its non-Federal funds. Section 35-30(f) of the Illinois Procurement Code (30 ILCS 500/35-

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30) requires contracts for professional and artistic services of \$20,000 or more to be awarded by competitive proposals. Section 1-15.42 of the Illinois Procurement Code states a grant “does not include an award, the primary purpose of which is to procure an end product for the direct benefit or use of the State agency making the grant, whether in the form of goods, services, or construction. A contract that results from such an award is not a grant and is subject to this Code.” Further, the services furnished to DCEO pursuant to the contract are professional and artistic and should have been procured pursuant to the requirements applicable to that type of contract.

Section 20-80 of the Illinois Procurement Code states “no voucher shall be submitted to the Comptroller for a warrant to be drawn for the payment of money from the State treasury or from other funds held by the State Treasurer on account of any contract for services involving professional or artistic skills involving an expenditure of more than \$5,000 for the same type of service at the same location during any fiscal year unless the contract is reduced to writing before the services are performed and filed with the Comptroller.”

The A-102 Common Rule Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Effective internal controls should include procedures to ensure appropriate terms and conditions are included in professional service contracts.

In discussing these conditions with DCEO officials, they state the transaction in question was appropriate under all applicable State and Federal mandates.

Failure to follow the Illinois Procurement Code violates federal procurement regulations and could result in unallowable costs charged to federal program. (Finding Code 05-84)

#### **Recommendation:**

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

#### **DCEO Response:**

The Department disagrees with this finding. The transaction in question was appropriate under all applicable State and Federal mandates. The relationship between DCEO and the fiscal agent was one of a “sub-recipient” (i.e. grantee) and not a “vendor” as defined by both the Illinois Procurement Code (the “Code” as found in 30 ILCS 500 *et. seq.*) and all applicable federal statutes and rules that govern the WIA program. Accordingly, the Code does not apply to the transaction and DCEO’s choice of instrument was appropriate.

The Illinois Procurement Code Sec. 1-15.42 defines a grant as:

"Grant" means the furnishing by the State of assistance, whether financial or otherwise, to any person to support a program authorized by law. It does not include an award the primary purpose of which is to procure an end product for the direct benefit or use of the State agency making the grant, whether in the form of goods, services, or construction. A contract that results from such an award is not a grant and is subject to this Code.

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Conversely, a "contract" is defined as any type of State agreement for the procurement of supplies or services to be consumed by the State per 30 ILCS 500/1-15.30. The determination of whether the instrument at issue should have been a grant or contract is the crux of this matter.

The definition of grant in the Code does not explain the term for "direct benefit or use" of the agency. In the absence of such direction, DCEO turned to 29 CFR Part 99.210, which states that DCEO can use its "professional judgment" to determine if the relationship was a vendor relationship (i.e. professional and artistic), or a subrecipient (i.e. grantee) relationship based on the substance of the relationship.

29 CFR 99.210 describes distinctions between a vendor and a sub-recipient. A subrecipient is a legal entity which receives a sub-award of Federal funds and is accountable to the recipient for those funds. CFR 99.210 states that if an organization performs the following functions it is a sub-recipient and not a vendor:

- Has responsibility for adherence to applicable Federal program compliance requirements (for example, the regulations);
- Has its performance measured against the objectives of the Federal Program;
- Has responsibility for programmatic decision making;
- Uses the Federal funds to carry out a program of the organization as opposed to providing goods or services; and
- Determines eligibility for the Federally funded program.

Furthermore, it states that not all of the five factors need to be present in order to make a subrecipient determination and that judgment should be exercised per 99.210(d) ("It is not expected that all of the characteristics will be present and judgment should be used in determining whether an entity is a subrecipient or vendor."). In this case four out of the five factors are present making DCEO's judgment in determining the fiscal agent to be a subrecipient correct.

The scope of work of the grant and the activities to be conducted were of a subrecipient nature. In Part III of the grant agreement it states:

Grantee shall disburse WIA Title 1-B funds ("Funds") in accordance with the Workforce Investment Act of 1998, the WIA Final Regulations, published August 11, 2000 and the One-Stop Financial Management Guide. The Grantee shall reimburse lower sub-recipients according to the applicable cost principles found in OMB Circular A-21, Cost Principles for Educational Institutions; A-87, Cost Principles for State, Local and Indian Tribal Governments; and A-122, Cost Principles for Non-Profit Organizations.

Under this agreement the fiscal agent must comply with all Federal WIA program regulations. This is a subrecipient function as vendors have no obligation or requirement to comply with federal regulations.

Second, the fiscal agent has its performance measured against the objectives of the federal program and must adhere to the cost limitations as contained in WIA. It must assign the cost to the proper category and ensure the costs incurred are allowable as defined by the applicable cost principles. The fiscal agent also has the responsibility for programmatic decision making; it must follow the administrative requirements as prescribed by 29 CFR Part 95. Further, it must ensure that the participants are enrolled into WIA programs and that the costs incurred on their behalf are authorized by WIA and local policies are approved by the Board. Again, these are subrecipient as opposed to vendor functions.

Finally, the fiscal agent uses the federal funds to carry out a WIA program as opposed to merely providing a service for a program. The fiscal agent does not simply provide services that are pre-

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priced, off-the-shelf, readily available, and regularly purchased in substantial amounts by the general public. In this situation the work was very much customized (i.e. sub-recipient work). The fiscal agent effectively stood in for a local workforce area by taking over its functions as evidenced in Part III of the grant agreement where it states:

As part of its role as Fiscal Agent, the Grantee shall:

- Establish a separate depository for WIA funds.
- Account for all revenue, expenditures, program income, and applicable credits associated with the WIA funds for program year 2004 during its tenure as fiscal agent.
- Establish and maintain a chart of accounts, as from time to time agreed upon by the Department.
- Maintain a separate accounting of various grant funds. Grantee is not required to maintain separate depositories for the various funds.
- Pay from original invoices, payroll records.
- Request cash from the Department to coincide with timely payment of service providers.
- Report on an accrual basis via the Department's Grantee Reporting System.
- Report total obligations by funding stream on a quarterly basis.
- Implement any such type of invoicing system, or procedures deemed necessary by the Grantee in order to comply with this agreement.

None of the functions described are services provided to DCEO. The functions served a WIA specific program for a specific local workforce investment area.

In conclusion, the Code authorizes DCEO to provide a grant to any legally authorized program where the State does not receive a direct benefit. WIA is a legally authorized program and as described above, DCEO received no direct benefit from the fiscal agent's services. Further, Federal guidelines instructed DCEO to enter into a "subrecipient" relationship in this case. Accordingly, a grant was the appropriate instrument for this transaction.

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

We agree with DCEO that the center of the issue in this finding is based on whether this relationship is considered to be a grant under the Illinois Procurement Code. However, we do not agree with their assessment and believe the substance to be a professional accounting service contract for which there are no substantive compliance requirements or responsibility for programmatic decision making by the contractor, as indicated below:

The Governor of Illinois assumed the acting position of the Chief Elected Official for the Workforce Investment Area 8 (WIA 8) program activity. In this role, he agreed to be responsible for:

- Serving as the local grant recipient for all funds received under this Act;
- Selection and appointment of members to the Workforce Board;
- Selection and monitoring of a Fiscal Agent; and
- Conducting audits as necessary to ensure compliance with the Act.

The contract entered on behalf of the Governor in fulfilling the selection and monitoring of a fiscal agent is documented in a contract between the Department of Commerce and Economic Opportunity and the fiscal agent (which is the subject of this finding). The contract specifically states that the fiscal agent "[Grantee] shall not have any responsibility for the oversight, management or results of any program for which funds are paid." Also, the fiscal agent's responsibility for disallowed funds is limited to those funds that are recovered from lower tier subrecipients.

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As part of its role as Fiscal Agent, the grantee is to:

- Establish a separate depository for WIA funds.
- Account for all revenue, expenditures, program income, and applicable credits associated with the WIA funds...
- Establish and maintain a chart of accounts, as from time to time agreed upon by the Department.
- Maintain a separate accounting of various grant funds. Grantee is not required to maintain separate depositories for the various grant funds.
- Pay from original invoices, payroll records.
- Request cash from the Department to coincide with timely payment of service providers.
- Report on an accrual basis via the Department's Grantee Reporting System (GRS).
- Report total obligations by funding stream on a quarterly basis.
- Implement any such type of invoicing system, or procedures deemed necessary by the Grantee in order to comply with this agreement.
- Grantee shall supply personnel to the Department to assist in correction of accounting records of the predecessor Fiscal Agent for Program years 2000, 2001, 2002, and 2003. Grantee's staff used for correction of accounting records shall work under the management and direction of Department staff.
- Grantee shall provide for licensing and support, as needed, for the licensure, maintenance and upgrades to existing software currently being used by predecessor Fiscal Agent.

Further, in a discussion with an agency official, it was stated that if the Governor would not have had to take over the Chief Elected Official role, any contract for a Fiscal Agent by the WIA 8 Board would have had to be done via the bidding process. However, because of DCEO's decision to treat the fiscal agent as a "grantee," it avoided the competitive procurement and notice requirements of the Procurement Code.

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

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

**Program Name:** Trade Adjustment Assistance – Workers

**CFDA # and Program Expenditures:** 17.245 (\$41,396,000)

**Award Numbers:** TA126890355/ TA134920455/ UI135450455/ UI144320555

**Questioned Costs:** \$499,420

**Finding 05-85** *Payment of Benefits to Ineligible Beneficiaries and Missing Documentation in Client Eligibility Files*

IDES paid Trade Adjustment Assistance (TAA) benefits to ineligible beneficiaries, and was unable to locate case file documentation supporting client eligibility determinations.

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. The Trade Adjustment Assistance Reform Act of 2002 (TAA Reform Act) repealed the NAFTA-TAA program and created a reformed TAA program, which was implemented beginning November 4, 2002. The objective of the reformed TAA program is to assist individuals who become unemployed or underemployed as a direct or indirect result of increased imports or a shift in production to certain foreign countries to return to suitable employment. Workers certified under TAA or NAFTA-TAA petitions filed prior to November 4, 2002, will continue to be served under the program regulations as they were in effect before November 4, 2002.

The reformed TAA program requires the State to serve as agents of the USDOL for administering the worker adjustment assistance benefit provisions of the Act. Through the State's One Stop Career Centers and other local offices, the State must arrange for training and provide weekly trade readjustment allowances (TRA) for eligible program participants. In addition, eligible individuals may receive a job search allowance, a relocation allowance, and a transportation and/or subsistence allowance for the purpose of attending approved training outside the normal commuting distance of their regular place of residence.

During our test work 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, and noted the following exceptions:

- In thirty cases, the waiver for training was either incomplete, did not document why the waiver was issued, or did not document that a review of the conditions upon which the waiver was granted had taken place every 28 days. Benefits paid to these individuals during the year ended June 30, 2005 were \$265,407.
- In twenty cases, the worker's enrollment date did not occur within sixteen weeks of his/her most recent total qualifying separation date, or within eight weeks of the issuance of the petition certification, whichever is later (the 8/16 week deadline). Thus, the worker was not qualified to receive TRA benefits. Benefits paid to these individuals during the year ended June 30, 2005 were \$40,988.



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- In five cases the TAA-055 application form was not dated by the applicant. Benefits paid to these individuals during the year ended June 30, 2005 were \$51,909.
- In one case, IDES was unable to provide the TAA-055 application. Benefits paid to this individual during the year ended June 30, 2005 were \$12,032.
- In one case, the TAA-055 application was not completed and was not signed by either the claimant or the regional office. Benefits paid to this individual during the year ended June 30, 2005 were \$2,176.
- In two cases, the TAA-055 application was blank but was signed by the applicant. Benefits paid to these individuals during the year ended June 30, 2005 were \$17,772.
- In twenty-two cases, IDES did not properly approve and/or date the training agreements. We were unable to determine whether: (1) the worker was enrolled in an approved training program; (2) the worker's training start date occurred before the program was approved; and (3) the worker received TRA benefit payments before the training program was approved. Benefits paid to these individuals during the year ended June 30, 2005 were \$82,967.
- In ten cases, IDES did not properly approve and/or date the vocational and training plan. We were unable to determine whether: (1) the worker was enrolled in a training program before the worker's skills and employment history has been assessed and approved; (2) the training program was necessary; or (3) the worker should have been waived from participating in a training program. Benefits paid to these individuals during the year ended June 30, 2005 were \$26,169.

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 be adequately documented.

Section 114(b) and 115(c) of the Trade Adjustment Reform Act of 2002 (Pub. L. No. 107-210) requires that 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 this requirement is waived. In accordance with 20 CFR Section 617.11, to be eligible for weekly TRA payments, a worker must be enrolled in or have completed an approved job training program, unless a waiver from the training requirement has been issued after a determination is made that training is not feasible or appropriate. In accordance with 20 CFR Section 617.19 (3)(c), State agencies must have a procedure for reviewing regularly (i.e., every 30 days or less) all waivers issued under this section to individuals, to ascertain that the conditions upon which the waivers were granted continue to exist. IDES has adopted a policy to review the waivers every 28 days.

In discussing these conditions with the agency officials, they stated the program was in a state of transition due to federal law changes and the transfer of the TAA program to the Department of Commerce and Economic Opportunity (DCEO). The Local Workforce Investment Areas (LWIAs), as grant recipients charged with administering the TAA program, were the source of some of the discrepancies noted. In addition, the Federal government has not yet promulgated rules to implement the Trade Act of 2002.

Failure to follow eligibility requirements and maintain source documentation for eligibility determinations results in unallowable costs and ineligible benefit payments. Additionally, failure to properly approve documents supporting the eligibility determinations could result in federal funds being awarded to ineligible beneficiaries. (Finding Code 05-85, 04-66)

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#### **Recommendation:**

We recommend IDES 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. Further, IDES should implement procedures to ensure vocational and training plans, training agreements, and applicable waiver forms exist and are properly completed, reviewed, and approved.

#### **IDES Response:**

We partially disagree. IDES and DCEO have worked in good faith with the U.S. Department of Labor (USDOL) to assess TRA benefits paid out since October 1, 2003 and to ensure future TRA benefit payments are handled in accordance with USDOL's directions. Changes to State procedures have been made, and will continue to be made as may be necessary, based on the feedback and guidance from USDOL. The State and USDOL are collaborating on a comprehensive resolution to the issue and hope to implement it soon. However, IDES cannot by itself ensure that training plans, agreements and waivers are properly prepared, completed and reviewed, prospectively, given that those items are now the responsibility of Illinois Department of Commerce and Economic Opportunity (DCEO).

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

In discussing this finding with IDES officials, they appear to partially disagree with the finding due to the Federal government not yet promulgating rules to implement the Trade Act of 2002 and the difficulty in interpreting regulations. We recommend IDES work with the USDOL to clarify the program compliance requirements to enable the agency to administer the program in accordance with USDOL expectations and program compliance requirements.

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

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

**Program Name:** Employment Services Cluster

**CFDA # and Program Expenditures:** 17.207/17.801/17.804 (\$41,720,000)

**Award Numbers:** ES130520355/ES139940455/TE9545063DV/TE9545063LV/TE9555063DV/  
TE9555063LV

**Questioned Costs:** None

**Finding 05-86** *Inadequate Supporting Documentation for Performance Reports*

Sufficient documentation was not available to support information reported in the ETA 9002 and the VETS 200 performance reports.

The ETA 9002 and the VETS 200 performance reports are used to report services, activities, and outcomes of service for all job seekers and veterans. These reports are required to be submitted quarterly, and are used to assess a 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). IDES uses a report writer, the DART reporting system, to accumulate the data from the ISM and WIS systems into the format required for the reports. This data is then submitted electronically through the USDOL's Employment and Training Administration's web-based reporting system. We are required by the OMB Circular A-133 compliance supplement to test key line items in these reports; however, information supporting the accumulation of data in these key line items by the DART reporting system was not available for testing.

According to the OMB Circular A-133 Compliance Supplement, dated May 2005, IDES is required to prepare and submit to the USDOL the ETA 9002 and the Veterans' Employment and Training Services VETS 200 performance reports on a quarterly basis. The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure detailed information supporting data in performance report is reviewed and maintained for a period of at least three years.

In discussing this with IDES personnel, they stated that detailed, voluminous quarterly data extracts were created and archived as recommended in the prior year's audit but are not easily compiled or accumulated to allow for the testing of key line items.

Failure to provide sufficient supporting documentation for the performance reports required for the Employment Services Program inhibits the ability to perform an audit of the program in accordance with OMB Circular A-133 in that it inhibits the auditors' ability to select a sample of data reported to validate the accuracy. (Finding Code 05-86, 04-67)

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**Recommendation:**

We recommend IDES implement procedures to ensure documentation to support key line items can be provided from the DART system for the ETA 9002 and the VETS 200 performance reports.

**IDES Response:**

For these reports, we utilize the same Data Access and Reporting Tool (DART) software that is utilized by 23 other states, as provided by America's Job Link Alliance (AJLA). The Director of AJLA has confirmed that DART output "has been fully validated and in compliance with all U.S. Department of Labor mandates." Nonetheless, we concur that USDOL audit requirements dictate testing of the reports and thus we remain committed to working with the auditors to create a methodology for testing key line items.

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**State Agency:** Illinois Department of Employment Security (IDES)  
**Federal Agency:** US Department of Labor (USDOL)  
**Program Name:** Unemployment Insurance Program  
**CFDA # and Program Expenditures:** 17.225 (\$2,080,420,000)  
**Award Numbers:** UI118170255/UI126360355/UI135450455/UI144320555  
**Questioned Costs:** Cannot be determined  
**Finding 05-87** *Inadequate Procedures for Follow-up of Invalid Social Security Numbers*

IDES does not have adequate procedures to follow up on invalid social security numbers for claimants of the Unemployment Insurance (UI) program.

To be eligible to receive UI benefits, claimants must be in the labor force, unemployment must be caused by lack of suitable work, and the claimant must be legally authorized to work. In determining whether claimants are legally authorized to work, IDES sends a file containing all UI applications to the Social Security Administration (SSA) on a daily basis to verify whether the applicant has a valid social security number. Within one to seven days, the file is returned to IDES identifying errors, such as invalid social security numbers, name mismatches, and date of birth mismatches. IDES' policy is to only investigate invalid social security numbers (i.e. name and date of birth mismatches are not investigated). IDES manually distributes (faxes) the listing of invalid social security numbers to each local office where the claims were originated. Applications with invalid social security numbers are identified (flagged) in the Benefit Information System by the local office to ensure payments are either stopped or not made until the issue is resolved. Each local office is responsible for following up on resolving the potential invalid social security numbers.

During our testwork over the eligibility of UI benefit payments, we selected a sample of 60 claimants from a listing of invalid social security numbers and noted ten were not properly investigated by IDES. Total benefits paid to the ten claimants were \$58,966 during the year ended June 30, 2005. During the year ended June 30, 2005, a total of 1,364 out of 454,035 social security numbers were reported as potentially invalid by the Social Security Administration for which benefits paid were approximately \$1,097,000.

In accordance with 20 CFR 603.3(a),(b),and (c), IDES shall require, as a condition of eligibility for unemployment benefits, that each claimant for benefits furnish to the agency his/her social security number (or numbers if he/she has more than one such number), and IDES shall utilize such numbers in the administration of the unemployment compensation program so as to associate the agency's records pertaining to each claimant with the claimant's social security number(s). If IDES determines that a claimant has refused or failed to provide a Social Security Number, then that individual shall be ineligible to participate in the unemployment compensation program. Any claimant held ineligible for not supplying a social security number may become eligible upon providing IDES with such number retroactive to the extent permitted under State law.

In accordance with 820 ILCS 405/614, an alien shall be ineligible for UI benefits unless the alien was an individual who was lawfully admitted for permanent residence at the time such services were performed or

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otherwise was permanently residing in the United States under color of law at the time such services were performed (including an alien who was lawfully present in the United States as a result of the application of the provisions of Section 212(d) (5) of the Immigration and Nationality Act).

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure adequate follow up of invalid social security numbers.

In discussing these conditions with IDES officials, they state the lack of follow up resulted from the manual nature of the process including the distribution of the invalid social security number reports and the reliance on each local office to adequately follow up and resolve potentially invalid social security numbers.

Failure to adequately follow up on invalid social security numbers could result in the payment of UI benefits to ineligible claimants, which are unallowable costs. (Finding Code 05-87)

#### **Recommendation:**

We recommend IDES consider automating the interface with the social security administration and implement additional procedures to ensure invalid social security numbers are appropriately followed up to prevent payment of benefit to ineligible claimants. IDES should also consider implementing procedures to follow up on social security number name and date of birth mismatches.

#### **IDES Response:**

We agree. The Department intends to automate the interface with the Social Security Administration after conversion to the new Benefit Information System. The current legacy system will not support an on-line interface. However, in the interim, the invalid social security number process will be automated internally so that a system generated stop will be placed on initial claims identified as having invalid social security numbers. The stop will remain in effect until the claimant reports to the local office and the issue is resolved. We will also work to establish procedures for the handling of name and date of birth mismatches identified via the match with the Social Security Administration, ensuring there is appropriate follow-up that comports with federal law, regulations and guidance in this evolving area.

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

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

**Program Name:** Unemployment Insurance Program

**CFDA # and Program Expenditures:** 17.225 (\$2,080,420,000)

**Award Numbers:** UI118170255/UI126360355/UI135450455/UI144320555

**Questioned Costs:** None

**Finding 05-88** *Inadequate Documentation of Review and Follow-up on Claim Exception Reports*

IDES does not adequately document the review and follow up of claim exception reports.

The IDES Central Office generates several system (exception) reports to facilitate proper benefit payment that are utilized at the local office level and monitored by local office and/or regional office management. Per federal program emphasis, several of the common reports reviewed locally are designed to report claims with unresolved issues that are preventing payment, as a tool to ensure payments to eligible individuals are made timely. These reports include the following:

- SSN Verification From SSA - At the end of each work day, the Social Security Numbers (SSNs) for all new claims are extracted for submission to the Social Security Administration (SSA) for verification. All SSNs that are returned to IDES as invalid are written to a report that is sorted by local office.
- Sensitive Changes Report - The Sensitive Changes Report includes name, address and SSN changes, claim and claimant information deletions and TeleServe PIN resets. Management reviews the report to ensure that proper supporting documentation is available, where applicable, and to monitor for any unusual activity that may require further follow-up. The report also includes the terminal ID where the changes were made to facilitate tracking.
- Immigration Record Check For Unemployment – This is a daily listing of claimants who are not U.S. citizens and was created to allow for follow-up to ensure non-citizens were registered with the federal Verification Information System (VIS).
- Combined Application Error Report – All daily claim applications appear on this report. Regional offices have the ability to request the report for any of their local offices as needed. Each transaction is reviewed to confirm that it was accepted; any rejected transactions require follow-up.
- File Maintenance Error Report and Rejected Transaction Report – All daily rejected transactions, other than applications and certifications, appear on one of these two reports. The File Maintenance Error Report lists only rejections and warning messages from system generated transactions and local office adjudication data entries. Regional offices have the ability to request both reports for any of their local offices as needed. Each transaction is reviewed to determine if corrective action is needed. If corrective action is taken, documentation of the action is required by annotating the report with the type and dates of the action. The corrected error reports are periodically reviewed by the local office supervisor.
- Media Transfer Report – All claimants must file for benefits at the local office responsible for the area in which the claimant lives. Often times a claimant will go to a different local office, thus the claim will be taken and transferred to the correct local office. All claims transferred in and out of each local office are

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listed on this report, and each office is responsible for verifying that all files that should be transferred in have been received.

- Daily Rejected Report – All eligibility determination rejections, as well as who made the determination and why the rejection was made. The report is reviewed for reasonableness.
- All Transactions Report – All activity that happened the previous day, including claims entered, payments processed, etc. This report is reviewed for reasonableness.
- Claims Application Error Report – All claims that were potentially paid in error based upon certain edits within the system. All claims on this report require follow-up.
- Internet Claim Deletions Report – All internet claims that were deleted from the system. The report includes information such as when the claim was set up, by whom, the eligibility determination made, and when the claim was deleted. Other than this report, there is no other documented history retained of internet claims after their deletion from the system.
- First Certification Report – All claimants certifying for the first time. All first certifications must be reviewed for eligibility.
- Certification Summary Report – All claimants certifying through the TeleServe system are included on this report. This report is reviewed for reasonableness.
- Pending Adjudication Report – All claims that are in the adjudication process and the number of days the claim has been in the process. This report is used to track the resolution of the protested claims to ensure they are resolved within 21 days.

During our testwork, we noted that IDES only retains claim edit reports (except for the sensitive changes report) for a period of three months after the end of each quarter. Accordingly, we were not able to determine whether there was an appropriate supervisory review to ensure that potential claim exceptions were properly resolved for claim exception reports during the year ended June 30, 2005. Based on a limited review of claim exception reports subsequent to year end (June 30, 2005), we found that resolution of exceptions was not clearly documented on the reports. Additionally, there were several instances in which supervisory reviews were not documented.

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure adequate follow up and documentation of claim exception reports.

In discussing these conditions with IDES officials, they stated they believe the reports are being worked, but the specific methods to document the resolution of report items has not been formalized in policies and procedures for all reports. Daily supervisory review has not been required on all reports, but periodic monitoring is required on key reports.

Failure to adequately follow up and document resolution of claim exception reports could result in the payment of UI benefits to ineligible claimants, which are unallowable costs. (Finding Code 05-88)



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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**Recommendation:**

We recommend IDES clearly document the resolution of each exception report (including supervisory review) and retain the reports as considered necessary to comply with federal audit requirements. IDES should also consider automating the claim exception edit reports into the Benefits Information System in future years to facilitate a more efficient and effective process for claims exception resolution documentation.

**IDES Response**

We concur. IDES will expand procedures to clearly document exception report handling and approvals and will consider more extensive automation of the process as part of the ongoing Benefit Information System redesign.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

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

**Program Name:** Unemployment Insurance Program

**CFDA # and Program Expenditures:** 17.225 (\$2,080,420,000)

**Award Numbers:** UI118170255/UI126360355/UI135450455/UI144320555

**Questioned Costs:** None

**Finding 05-89** *Inadequate Documentation of Eligibility Reviews Performed by the Benefits Accuracy Measurement Unit*

IDES did not maintain adequate documentation to support conclusions of eligibility reviews performed by the Benefits Accuracy Measurement (BAM) unit for the Unemployment Insurance (UI) program.

IDES is required to operate a BAM Program to assess the accuracy of UI benefit payments and denied claims. Specifically, IDES' BAM unit selects a weekly sample of payments and denied claims and performs procedures to determine whether claims were properly paid or denied. These procedures include reviewing the records and contacting the claimant, employers, and third parties to verify all of the information pertinent to the paid or denied claim that was sampled. For claims that were potentially overpaid, underpaid, or erroneously denied, the BAM unit investigator determines the amount of payment error or cause of and the responsibility for any payment error, the point in the UI claims process at which the error was detected, and actions taken by IDES and employer prior to the payment that is in error. During the year ended June 30, 2005, IDES' BAM unit reviewed a sample of 928 claims out of a total of 753,655 claims.

During our testwork over the BAM program, we selected 120 claims reviewed during the year and noted the following:

- One file for a claimant deemed to have been properly paid did not include a copy of the key week certification.
- One file for a claimant deemed to have been improperly denied UI benefits did not include a copy of the claimant's identification

According to 20 CFR 602.11, IDES is required to operate a Benefits Accuracy Measurement program to assess the accuracy of UI benefit payments and denied claims. Chapter VII of the Benefits Accuracy Measurement State Operations Handbook includes written procedures that must be followed during the BAM program investigations. Specifically, section two requires that each case file must contain, at a minimum, a copy of all agency documents from the claimant's original file in addition to any documents pertaining to the BAM investigation that were utilized. These documents include but are not limited to the claimant questionnaire, the key week certification form, a copy of the claimant's identification, the authorization to release information form, the signed statement on fact finding issues, the work search verification – employer form, and the verification of dependents form.

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In discussing these conditions with IDES officials they stated the screen print of the telephone certification was misplaced after the investigation and review by the supervisor. In the other instance, the investigator looked at the claimant's identification during the in-person interview, but failed to make a copy per a notation in file.

Failure to adequately document the eligibility reviews performed by the BAM unit could result in inaccurate information regarding the efficiency of the UI program being reported to the USDOL. (Finding Code No. 05-89)

#### **Recommendation**

We recommend IDES implement procedures to ensure all required documentation is retained in the BAM unit case files.

#### **IDES Response**

We agree. IDES met federal requirements in two reviews of the Benefits Accuracy Measurement Program conducted by Region V of the U.S. DOL Employment and Training Administration covering SFY 2005. The Benefit Accuracy Measurement Unit has written procedures in place consistent with federal requirements. To address the audit recommendation, we will retrain staff on proper case file documentation. As a follow-up, the supervisor will conduct spot checks of case files to ensure procedures are being followed.

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### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

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

**Program Name:** Unemployment Insurance Program

**CFDA # and Program Expenditures:** 17.225 (\$2,080,420,000)

**Award Numbers:** UI118170255/UI126360355/UI135450455/UI144320555

**Questioned Costs:** None

**Finding 05-90** *Inadequate Procedures for Multiple Unemployment Benefit Checks Delivered to the Same Address*

IDES does not have adequate procedures for follow up on multiple unemployment benefit checks delivered to the same address.

To detect potentially fraudulent Unemployment Insurance (UI) claims, IDES monitors unemployment benefit checks paid under more than five social security numbers that are delivered to the same address via a multiple claims same address edit report. This report is generated on a monthly basis and is sent to the Benefit Payment Control unit for resolution. Total claims identified under the multiple claims same address edit reports were 46,848 during the year ended June 30, 2005.

A supervisor reviews the claimants identified in the report and determines what follow-up procedures, if any, are to be performed. However, there are no clear criteria documented for determining which claims should be investigated. Additionally, there is no documentation of the procedures performed on these claims by the Benefit Payment control unit.

In discussing these conditions with IDES officials, they stated the supervisor reviews the reports and determines which items require follow-up. However, they did not believe it was necessary to prescribe the details of the selection criteria and how this is documented in the Department's Policies and Procedures.

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 clearly documented criteria for selecting claims for investigation and documentation of procedures performed.

Failure to establish clear criteria for following up on multiple claims paid to the same address and document procedures performed could inhibit IDES' ability to detect fraudulent UI claims on a timely basis. (Finding Code No. 05-90)

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For the Year Ended June 30, 2005

**Recommendation**

We recommend IDES establish clear criteria for determining which claims should be investigated. IDES should also document procedures performed.

**IDES Response**

We agree. The Department's Policies and Procedures will be revised to include criteria for determining which addresses are investigated, documentation of supervisory review, documentation of follow-up procedures performed and retention of the reports and follow-up documentation.

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**State Agency:** Illinois Department of Employment Security (IDES)  
**Federal Agency:** US Department of Labor (USDOL)  
**Program Name:** Unemployment Insurance Program  
**CFDA # and Program Expenditures:** 17.225 (\$2,080,420,000)  
**Award Numbers:** UI118170255/ UI126360355/ UI135450455/ UI144320555  
**Questioned Costs:** None  
**Finding 05-91** *Inconsistent Application of Policies and Procedures*

IDES policies and procedures are not updated on a timely basis nor are they consistently followed by local offices.

The Unemployment Insurance (UI) program administered by IDES provides benefits to eligible individuals that are unemployed and able and available to work. The structure of the Federal-State UI Program partnership is based upon Federal law; however it is implemented through State law, specifically the Illinois Unemployment Insurance Act (the Act). IDES has developed a comprehensive policies and procedures manual (the manual) available on their intranet to all employees to allow for the consistent and proper administration of the UI program. Updates or clarification to the manual are issued through directives by the process owners. However, IDES did not always follow the process in place to ensure the manual is updated for these directives. As a result, we noted policies and procedures were not consistently followed at local offices, including the following:

- Certain individuals were utilizing outdated printed copies of the manual rather than referring to the intranet for the most recent version.
- Procedures for clearing and documenting items from claim exception reports were not consistent between offices.
- Copies of claimant identification (e.g. driver's license and social security card) were maintained at certain locations, but not others.
- One local office allowed a "drop off" policy which did not require a face to face interview.

Additionally, we noted that although a formal policy has not yet been established to do so, applications were accepted over the internet without the claimant providing identification or being interviewed.

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 the timely updating and communication of policies and procedures to all employees to ensure the consistent and proper administration of the UI program.

In discussing these conditions with IDES officials, they state that some individuals preferred to use hard copies of the discontinued printed manual. The specific methods to document review of the exception reports are not formalized in policies and procedures for all reports. Procedures do not require that claimant

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identification be maintained, only that it be reviewed during the intake process. The “drop off” policy was implemented by the local office without Central Office approval.

Failure to update and communicate policies and procedures on a timely basis could result in the inconsistent administration of the UI program and the payment of UI benefits to ineligible claimants, which are unallowable costs. (Finding Code No. 05-91)

#### **Recommendation:**

We recommend IDES:

- Follow the established formal review process for all directives prior to communicating them to the local offices and prior to updating the manual on the intranet.
- Maintain copies of claim application, identification, and work history in claimant eligibility files or the Benefits Information System as appropriate.
- Implement a supervisory review of claimant eligibility files on a sample basis to ensure all necessary documentation is present and policies and procedures have been appropriately followed. All supervisory reviews should be documented in the claimant eligibility file or the Benefits Information System as appropriate.

#### **IDES Response:**

We agree. The identified directive that was issued via a memo will be formally incorporated into the procedures manual. The Department is reworking the intake process as part of the Benefit Information System redesign which will allow for consideration of how identification and other documentation are best retained. However, we have not yet determined if it will be desirable to standardize identification documents since the identification authentication process will most likely be different for in-person claims than it will be for claims filed over the Internet. We will implement random supervisory checks of claimant files and this will be appropriately documented.

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For the Year Ended June 30, 2005

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Trade Adjustment Assistance – Workers (TAA)

CFDA # and Program Expenditures: 17.245 (\$41,396,000)

Award Numbers: TA126890355/TA134920455

Questioned Costs: None

Finding 05-92 Inadequate Cash Management Procedures

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

IDES is required to follow Subpart B of the U.S. Treasury Regulations for the TAA program, which requires that funds be drawn in a way that minimizes the time between the receipt and disbursement of Federal funds. IDES draws funds for the TAA program based upon the cash balance of the federal funds. During our test work over forty cash draws, we noted that one draw was incorrectly calculated resulting in the following overdraw:

Date of Draw	Required Federal Funds	Federal Funds Drawn	Overdraw
10/20/2004	\$435,769	\$1,711,886	\$1,276,117

According to U.S. Treasury Money and Finance Regulations, Subpart B (31CFR 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. 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 this was a clerical error by the staff person who made the error using an adding machine.

Failure to draw funds in accordance with the U.S. Treasury Regulations could result in an interest liability to the Federal government. (Finding Code 05-92)



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**Recommendation:**

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

**IDES Response:**

We agree. IDES has changed its cash draw procedures. An electronic spreadsheet has been designed to document and calculate the cash draw amounts. The supervisor also reviews and approves the spreadsheet prior to staff processing the cash draw transactions.

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

**Federal Agency:** U.S. Department of Labor (USDOL)

**Program Name:** Unemployment Insurance Program

**CFDA # and Program Expenditures:** 17.225 (\$2,080,420,000)

**Award Numbers:** UI118170255/UI126360355/UI135450455/UI144320555

**Questioned Costs:** None

**Finding 05-93** *Inadequate Documentation of Controls over Information Systems*

IDES does not have adequate documentation of access, change management, and computer operations controls over the information systems that support the Unemployment Insurance (UI) Program.

The information technology systems that support the UI Program include the following:

- The Benefit Information System (BIS)
- The Wage Information System (WIS)
- The Benefit Funding System (BFS)
- The Benefit Charging System (BCS)

The BIS is the centrally-maintained legacy system that embodies the requirements of the UI Act rules, policies and procedures applicable to the UI benefit payments. It interfaces with the WIS, which is the system that includes all of the employer wage data and remittance information for the payroll taxes. The BFS includes the employer setup information and the rate calculation process and the BCS is the system that charges the employment tax rates to the employer accounts.

Access to the information systems that support the UI Program is done through the mainframe system utilizing a security software system. The security software utilizes specific, individually-assigned identifiers which control/limit access to the systems that support the UI Program.

Requests for new system access or termination of access must be approved by the cost center manager through the use of the TSS-001 Form. The user IDs are automatically deleted once employment has terminated as each pay period a job is run which checks employee status against the personnel data base. When this job identifies employees who have terminated, the user ID for the individual is removed. Any modification of access must also be approved by the cost center manager through the use of the TSS-006 Form. It is the cost center manager's responsibility to determine the proper on-line access for each employee.

During our testwork over the access, program change and development, and computer operations controls of the mainframe system, we noted the following:

- The policy in place for granting, modifying, and terminating access rights is not followed. Specifically, we selected fifteen new employees and 25 employees that had either transferred positions or were

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terminated. Of the fifteen new employees, we noted that evidence of authorization via the TSS-001 form was not available for two employees. Of the 25 employees that had either transferred positions or were terminated, we noted user IDs were not terminated in a timely manner for two individuals. Specifically, we noted user IDs were deleted 45 and 30 days after the individual termination dates.

- User account privileges and profiles are reviewed on a semi-annual basis to confirm the appropriateness of user access rights; however these reviews are not documented.
- Policies and procedures relating to the documentation of testing of program changes have not been created.
- The Information Security Policies and Procedures have not been updated since 1999.
- Formal problem management documentation has not been incorporated into the policies and procedures manual.

The A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring the information systems associated with the administration of the federal programs are adequately secured and have proper change management controls in place.

In discussing these conditions with IDES officials, they stated that procedures are in place and are generally followed but documentation is not always sufficient for testing purposes.

Failure to adequately secure the information systems that are used to administer the federal programs could result in noncompliance with laws, regulations and the grant agreement. (Finding Code 05-93)

#### **Recommendation:**

We recommend IDES implement procedures to ensure policies and procedures are adequately documented, updated, and followed. We also recommend that IDES document its semi-annual review of the appropriateness of user access rights and its resolution of all reported problems.

#### **IDES Response:**

We agree. Although no system security breaches have been identified, we agree to expand existing procedures to ensure sufficient documentation related to these IS controls is created, reviewed and maintained. We will also revise existing procedures so that the semi-annual review of user access rights requires a response from all cost center managers even when no user access changes are needed and to incorporate the existing problem management documentation.

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**State Agency:** Illinois Environmental Protection Agency (IEPA)  
**Federal Agency:** US Environmental Protection Agency (USEPA)  
**Program Name:** Capitalization Grants for Clean Water State Revolving Funds  
 Capitalization Grants for Drinking Water State Revolving Fund

**CFDA # and Program Expenditures:** 66.458 (\$36,554,000)  
 66.468 (\$24,082,000)

**Award Numbers:** CS170001-04/CS170001-05 (66.458)  
 (CFDA Number) FS975737-02/FS975737-03/FS975737-04 (66.468)

**Questioned Costs:** None

**Finding 05-94** Inaccurate Cash Transaction and Federal Status Reports

IEPA did not properly report expenditures in the semi-annual Cash Transaction Reports and the annual Federal Status Reports for the Capitalization Grants for Clean Water State Revolving Funds (Clean Water) and the Capitalization Grants for Drinking Water State Revolving Funds (Drinking Water) programs.

Amounts included in the SF-272 Federal Cash Transactions Report for the six months ended June 30, 2005 did not agree to the supporting schedules or system data used to generate the report for the Drinking Water program. The difference identified was as follows:

Grant	Six Months Ended	Expenditures		Difference
		Actual	Reported	
Drinking Water program	June 30, 2005	\$ 583,554	\$ 690,517	\$ (106,963)

Amounts included in the SF-269 Financial Status Report for the year ended February 28, 2005 did not agree to the supporting schedules or system data used to generate the reports for the Clean Water and Drinking Water programs. The differences identified were as follows:

Grant	Year ended	Expenditures		Difference
		Actual	Reported	
Drinking Water program	February 28, 2005	\$19,101,828	\$19,873,692	\$ (771,864)
Clean Water program	February 28, 2005	42,408,882	46,035,710	(3,626,828)

Per OMB Circular A-133 Compliance Supplement, dated May 2005, and the Operating Agreement between the IEPA and the United States Environment Protection Agency (US EPA), the following reports must be submitted to the US EPA:

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1. *Federal Cash Transactions Report (SF-272 (OMB No. 0348-0003) or SF-272-A (OMB No. 0348-0003))*. Recipients use the SF-272 when payment is by advances or reimbursements. This report must be submitted semi-annually, within 30 days after the end of the reporting period.
2. *Financial Status Report (SF-269 and SF269A)*. This report must be submitted annually within 90 days after the end of the approved budget period for each grant.

In discussing these conditions with IEPA officials, they state the errors in the Federal Cash Transaction Report occurred due to a mistake in cutoff and human error. Expenditures included in the report included expenditures from the following quarter. It also appears that there was not an effective review process in place to identify these reporting errors.

Inaccurate reporting prevents USEPA from properly monitoring and evaluating the performance of the programs and could result in an improper future allocation of funding by the US EPA. (Finding Code 05-94)

#### **Recommendation:**

We recommend IEPA prepare the reports using the cash basis expenditure balance at the end of the reporting period. Also, we recommend the employee preparing the report print out the applicable supporting schedules used to prepare the report and copy the relevant pages of the Cash Management System, Payroll System, or other relevant systems that support the numbers used in the supporting schedules. In addition, IEPA should require an independent review of the report and supporting schedules by an individual knowledgeable of the program and reporting requirements prior to submission of the report.

#### **IEPA Response:**

Accepted. The IEPA accepts the finding on the Cash Transaction and federal Status reports. In error, the prepared forms filed with the USEPA incorrectly included expenditure amounts for the time period between the reported end date and the date of the actual preparation of the forms. The IEPA has implemented procedures that require the forms to be reviewed by an individual knowledgeable of the program and the reporting requirements before submittal to USEPA. The IEPA will continue to follow this procedure and ensure that all future filings correctly reflect the actual expenditures of the program for the period being reported. The IEPA has filed corrected reports with the USEPA.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

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

**Federal Agency:** US Environmental Protection Agency (USEPA)

**Program Name:** Capitalization Grants for Clean Water State Revolving Funds  
Capitalization Grants for Drinking Water State Revolving Fund

**CFDA # and Program Expenditures:** 66.458 (\$36,554,000)  
66.468 (\$24,082,000)

**Award Numbers:** CS170001-04/CS170001-05 (66.458)  
(CFDA Number) FS975737-02/FS975737-03/FS975737-04 (66.468)

**Questioned Costs:** None

**Finding 05-95** Failure to Notify Subrecipients of Federal Funding

IEPA did not provide notification to subrecipients of federal expenditures nor did it properly maintain a database of subrecipients required to submit OMB Circular A-133 audit reports for the Capitalization Grants for Clean Water State Revolving Funds (Clean Water) and the Capitalization Grants for Drinking Water State Revolving Funds (Drinking Water) programs.

During fiscal year 2004, IEPA implemented new procedures to notify subrecipients of federal award information. Specifically, IEPA initially notifies subrecipients of the federal CFDA number and award name through a grant award letter or through other correspondence. At year end, a funding notification is also submitted to each subrecipient which includes information on the potential requirement for a single audit in accordance with OMB Circular A-133 and the amount of federal funding provided during the year. During our testwork of 30 subrecipients for each program, we noted IEPA did not submit a funding notification at year end for one subrecipient of the Clean Water program and three subrecipients of the Drinking Water program. Additionally, these four subrecipients were not included in the database used to track subrecipient to determine whether OMB Circular A-133 reports were received.

Subrecipient expenditures under the federal programs for the year ended June 30, 2005 were as follows:

Program	Total Fiscal Year 2005 Subrecipient Expenditures	Total Fiscal Year 2005 Program Expenditures	%
Clean Water program	\$36,105,000	\$36,554,000	98.8%
Drinking Water program	\$23,086,000	\$24,082,000	95.9%

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According to OMB Circular A-133 §\_\_400(d), a pass-through entity is required to identify federal awards made by informing each subrecipient of the CFDA title and number, award name and number, and award year. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure funding notifications are submitted to each subrecipient and subrecipients are properly included in the data base used to monitor the receipt of OMB Circular A-133 reports.

In discussing these conditions with IEPA officials, they state that based on previous audit findings, the Agency had implemented new procedures in notifying subrecipients of federal award information, and believed those procedures were adequate in capturing the target population. Specifically, a weakness in the newly established calculation procedures allowed the inadvertent bypass of certain subrecipients.

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 05-95, 04-70, 03-63, 02-56)

#### **Recommendation:**

We recommend IEPA continue its current process implemented during the 2004 fiscal year for preparing subrecipient funding notifications and implement additional procedures to ensure the required information is communicated to all subrecipients. We further recommend that appropriate follow up procedures be performed to ensure all subrecipients are included in the data base used to monitor the receipt of OMB Circular A-133 audit reports.

#### **IEPA Response:**

Accepted. The IEPA accepts the recommendation, and we are continuing to notify subrecipients using the process implemented during fiscal year 2004. In addition, we have implemented new calculation procedures that we believe will correct the system weakness that allowed the bypass of certain subrecipients based on the previous calculation method for federal disbursements. Follow up procedures for all subrecipients are being performed as directed in the audit.

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**State Agency:** Illinois Emergency Management Agency (IEMA)

**Federal Agency:** US Department of Justice (USDOJ)  
US Department of Homeland Security (USDHS)

**Program Name:** Homeland Security Cluster

**CFDA # and Program Expenditures:** 16.007/97.004/97.067 (\$63,494,000)

**Award Numbers:** 2002-TE-CX-0023/2002-TE-CX-0147/2003-TE-TX-0165/  
2003-MU-T3-0029/2004-GE-T4-0027

**Questioned Costs:** None

**Finding 05-96** *Inadequate On-Site Monitoring Procedures*

IEMA did not perform adequate on-site monitoring procedures for subrecipients of the Homeland Security Cluster (Homeland Security) program.

The Illinois Terrorism Task Force (ITTF) within IEMA passes through Homeland Security program funding to various local governments within the State to develop, maintain, and improve the responsiveness of Illinois local governments to terrorist acts. A significant portion of the grants made to these subrecipients is intended to fund the purchase of special equipment to be used in the event of terrorist attacks. In addition, two subrecipients of the Homeland Security program are responsible for coordinating grants to law enforcement agencies and fire departments throughout the State in an effort to enhance the ability of these local law enforcement and fire departments to coordinate their response efforts.

During our review of the on-site monitoring procedures performed by ITTF for subrecipients of the Homeland Security program, we noted the following:

- Procedures to monitor equipment inventory held by local governments consisted only of observations of individual equipment items with a unit cost of \$5,000 or more. As a result, the majority of the equipment purchases made by subrecipients were not subject to these procedures as relatively few individual equipment purchases exceeded \$5,000.
- ITTF has not developed procedures to monitor activities performed by subrecipients passing through funds to other organizations.
- ITTF has not developed procedures to monitor fiscal and administrative processes and controls.

Total federal awards passed through to subrecipients of the Homeland Security program were \$60,452,000 during the year ended June 30, 2005.



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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 IEMA officials, they stated the cause was due to varying interpretations of Federal Guidance.

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 05-96)

#### **Recommendation:**

We recommend IEMA review its on-site monitoring procedures for subrecipients of its Homeland Security program and implement changes necessary to ensure procedures performed adequately address all compliance requirements that are direct and material to subrecipients, as well as fiscal and administrative processes and controls.

#### **IEMA Response:**

Disagree. First, the property control procedures were established in accordance with the requirements set forth in the Office of Justice Programs Financial Guide, Part III, Chapter 6. That guidance requires that recipients maintain property records and that physical inventory of property be conducted at least once every two years. By definition, "property" is taken to be "equipment" and "equipment" is defined in the Chapter 6 as "tangible non-expendable personal property having a useful life of more than one year and an acquisition cost of \$5000 or more per unit". Our inventory procedures include annual submissions of inventory records by every subrecipient to the State Administering Agency (SAA) and for annual site inspections of all items of \$5000 unit cost on that inventory. We believe we are already providing twice the oversight required under Federal guidance.

At no time does an entity of state government take title to any of the equipment. Title 44 of IL Administrative Rules applies to State owned property (as per CMS) only. It is recognized that the State Finance Act 30 ILCS 105 defines equipment as non-consumables with a unit price of greater than \$100.00; however a great deal of the items purchased with these funds are in effect consumables (in that they have one use and one use only).

Insofar as procedures to monitor activities performed by subrecipients passing through funds to other organizations, ILEAS is the only such organization to do so and we have provided a grant agreement template to ILEAS for this very purpose. The ILEAS grant stipulates accounting, reporting, and property control requirements, and equipment maintenance requirements on all recipients. The ILEAS submits its Single Audit to the SAA and their sub-recipients bear a similar obligation, in grant language, to ILEAS.

The ITTF performs routine grant management functions to include the review of grant applications, negotiation of budgets, issuance of sub-awards, approval of procurements and reimbursement processing. The monitoring of fiscal and administrative processes is an audit function that ITTF need not prescribe.

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Rather, these administrative and fiscal processes are satisfied by subrecipient compliance with Single Audit requirements under OMB A-133, as applicable.

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

The OMB compliance supplement dated May 2005 states "Subrecipients of States who are local governments or Indian tribes shall use State laws and procedures for equipment acquired under a subgrant from the State." As the majority of Homeland Security subrecipients are local governments, we believe they are required to follow the State's property regulations and, as such, IEMA is required to monitor their compliance with those regulations. As a result, we believe IEMA should implement additional procedures in this area.

Additionally, although we agree that guidance and templates have been provided to subrecipients who provide funding to other subrecipients, our finding pertains to the fact that IEMA does not perform procedures to ensure these subrecipients have implemented appropriate monitoring procedures for those organizations to whom they pass through funding.

IEMA has indicated that the performance of on-site procedures fiscal and administrative would be a duplication of the effort performed by external auditors of its subrecipients; however, due to the nature of the major program selection criteria required by the single audit, the Homeland Security Cluster may or may not be audited as part of the subrecipient's single audit. As a result, specific policies and procedures pertaining to Homeland Security may not be subject to the external auditors' procedures.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**State Agency:** Illinois Emergency Management Agency (IEMA)

**Federal Agency:** US Department of Justice (USDOJ)  
US Department of Homeland Security (USDHS)

**Program Name:** Homeland Security Cluster

**CFDA # and Program Expenditures:** 16.007/97.004/97.067 (\$63,494,000)

**Award Numbers:** 2002-TE-CX-0023/2002-TE-CX-0147/2003-TE-TX-0165  
2003-MU-T3-0029/2004-GE-T4-0027

**Questioned Costs:** None

**Finding 05-97** *Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports*

IEMA does not have an adequate process for ensuring subrecipients of the Homeland Security Cluster (Homeland Security) program have complied with OMB Circular A-133 audit requirements.

IEMA requires subrecipients expending more than \$500,000 in federal awards during their fiscal year to submit OMB Circular A-133 audit reports. Staff within the Illinois Terrorism Task Force program division (ITTF) are responsible for reviewing the reports and determining whether: (1) the audit reports meet the audit requirements of OMB Circular A-133; (2) federal funds reported in the schedule of expenditures of federal awards reconcile to IEMA records; and (3) type A programs (as defined by OMB Circular A-133) are being audited at least every three years. Additionally, ITTF staff are responsible for evaluating the type of audit opinion issued (i.e. unqualified, qualified, adverse) and issuing management decisions on findings reported within required timeframes.

During our audit of the Homeland Security program, we noted ITTF had not performed desk reviews of single audit reports for any of its Homeland Security program subrecipients during the year ended June 30, 2005. As a result, IEMA was not able to determine whether subrecipient audits were properly performed in accordance with OMB Circular A-133. In addition, IEMA did not issue management decisions on findings contained in these subrecipient audit reports. Total federal awards passed through to subrecipients of the Homeland Security program were \$60,452,000 during the year ended June 30, 2005.

According to OMB Circular A-133 § .400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 compliance supplement, dated May 2005, a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

In discussing these conditions with IEMA officials, they state that the Compliance Officer was on Federal Active Duty.

Failure to obtain and adequately review subrecipient OMB Circular A-133 audit reports in a timely manner may result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 05-97)

#### **Recommendation:**

We recommend IEMA establish procedures to ensure all subrecipients receiving federal awards have audits performed in accordance with OMB Circular A-133. Additionally, desk reviews of A-133 audit reports should be formally documented using the A-133 desk review checklist in accordance with IEMA's established procedures.

#### **IEMA Response:**

Agree. The rigorous program we established to monitor subrecipients' compliance with A-133 has not been fully implemented. Our grant agreements include language requiring submission of Single Audits for subrecipients with expenditures exceeding the threshold of \$500,000 in any of their fiscal years. To our credit, we have established the procedures for ensuring that subrecipients have audits performed, to include: maintaining a database of subrecipient fiscal years, issuing periodic mailings with postal reply cards to 100% of the subrecipient population at regular intervals and immediately following the conclusion of their fiscal year, and scheduling the receipt of Single Audits for desk review.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**State Agency:** Illinois Emergency Management Agency (IEMA)

**Federal Agency:** US Department of Justice (USDOJ)  
US Department of Homeland Security (USDHS)

**Program Name:** Homeland Security Cluster

**CFDA # and Program Expenditures:** 16.007/97.004/97.067 (\$63,494,000)

**Award Numbers:** 2002-TE-CX-0023/2002-TE-CX-0147/2003-TE-TX-0165  
2003-MU-T3-0029/2004-GE-T4-0027

**Questioned Costs:** None

**Finding 05-98** *Insufficient Federal Award Information Provided to Subrecipients*

IEMA did not provide subrecipients of the Homeland Security Cluster (Homeland Security) program with required federal award information.

During our review of award communications for 30 Homeland Security program subrecipients, we noted award documents did not provide evidence IEMA had communicated the federal program's CFDA title and number to subrecipients. During the year ended June 30, 2005, IEMA passed through approximately \$60,452,000 to subrecipients of the Homeland Security program.

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 IEMA officials, they stated that prior to 2005, it was not IEMA's practice to include the CFDA number on grant agreements with subrecipients.

Failure to inform subrecipients of federal award information could result in subrecipients improperly reporting expenditures in 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 05-98)

**Recommendation:**

We recommend IEMA notify subrecipients in writing of the federal program's CFDA title and number.

**IEMA Response:**

Agree. Prior to 2005, it was not past practice to include the CFDA number on our grant agreements with subrecipients; thereafter, all grants have included this number.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**State Agency:** Illinois Emergency Management Agency (IEMA)

**Federal Agency:** US Department of Justice (USDOJ)  
US Department of Homeland Security (USDHS)

**Program Name:** Homeland Security Cluster

**CFDA # and Program Expenditures:** 16.007/97.004/97.067 (\$63,494,000)

**Award Numbers:** 2002-TE-CX-0023/2002-TE-CX-0147/2003-TE-TX-0165  
2003-MU-T3-0029/004-GE-T4-0027

**Questioned Costs:** None

**Finding 05-99** *Inadequate Segregation of Duties Over Cash Management*

IEMA does not have an adequate segregation of duties in place relative to the preparation and review of cash draws and related monthly reconciliations.

During our review of the cash management process, we noted the same individual is responsible for calculating, performing, and reconciling federal cash draws for the Homeland Security Cluster program. Independent supervisory reviews are not performed of the cash draw calculations or the related monthly reconciliations 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 establishing an adequate segregation of duties over the cash draw process and requiring supervisory reviews of cash draw calculations and monthly reconciliations.

In discussing these conditions with IEMA officials, they stated that staff size and training was the reason for assigning one staff with the primary responsibility of performing cash draws.

An inadequate segregation of duties may result in inaccurate cash draw calculations and noncompliance with cash management regulations. (Finding Code 05-99)

**Recommendation:**

We recommend IEMA implement procedures requiring a formal independent supervisory review of its cash draw calculations and related monthly reconciliations by an individual knowledgeable of cash management regulations.

**IEMA Response:**

Agree. The Agency will conduct a formal independent supervisory review of its cash draw calculations and related monthly reconciliation by an individual knowledgeable of cash management regulations.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**State Agency:** Illinois Emergency Management Agency (IEMA)

**Federal Agency:** US Department of Justice (USDOJ)  
US Department of Homeland Security (USDHS)

**Program Name:** Homeland Security Cluster

**CFDA # and Program Expenditures:** 16.007/97.004/97.067 (\$63,494,000)

**Award Numbers:** 2002-TE-CX-0023/2002-TE-CX-0147/2003-TE-TX-0165  
2003-MU-T3-0029/2004-GE-T4-0027

**Questioned Costs:** None

**Finding 05-100** Undocumented Review of Financial Status Report

IEMA has not implemented formal review and approval procedures for quarterly financial status reports filed for the Homeland Security Cluster (Homeland Security) program.

During our testwork over five (one for each open grant award year) quarterly financial status reports of the Homeland Security program, we noted no evidence that an independent supervisory review was performed; however, individuals involved in the reporting process stated that a review was performed and that verbal approval was received from the appropriate supervisor prior to submitting these reports to USDHS.

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 a formally documented supervisory review of all reports prepared and filed with federal agencies.

In discussing these conditions with IEMA officials, they stated that informal reviews were conducted but there was no official documentation to support reviews.

Failure to document supervisory reviews of required federal reports may result in unapproved and inaccurate reports being submitted to the federal awarding agency and may inhibit the ability of USDHS to effectively monitor and evaluate program performance. (Finding Code 05-100)

**Recommendation:**

We recommend IEMA personnel formally document the review and approval of quarterly financial status reports.

**IEMA Response:**

Agree. A formally documented review and approval will occur prior to filing quarterly financial status reports.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**State Agency:** Illinois State Police (State Police)

**Federal Agency:** US Department of Justice (USDOJ)  
US Department of Homeland Security (USDHS)

**Program Name:** Homeland Security Cluster

**CFDA # and Program Expenditures:** 16.007/97.004/97.067 (\$63,494,000)

**Award Numbers:** 2002-TE-CX-0023/2002-TE-CX-0147/2003-TE-TX-0165/  
2003-MU-T3-0029/2004-GE-T4-0027

**Questioned Costs:** None

**Finding 05-101** *Failure to Follow Property Management Regulations*

The State Police did not follow the property management regulations prescribed in the Illinois Administrative Code.

During fiscal year 2005, the State Police were not updating equipment records on a timely basis. Specifically, we noted equipment records were not updated for some purchases, disposals, and transfers until at least six months after the underlying transaction (transfer) occurred. As a result, the State Police were not able to provide a complete listing of equipment acquired with federal funds. Program expenditures (which were primarily comprised of equipment purchases) made by the State Police during the year ended June 30, 2005 totaled \$6,025,000.

Illinois Administrative Code Title 44(D)(1)5010.400 requires agencies to adjust property records within in 30 days of acquisition, change or deletion of equipment items. Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include adequate property inventory records which identify all equipment purchased with federal funds including the federal source (i.e. program) and the applicable funding percentage.

In discussing these conditions with State Police officials, they stated problems were encountered receiving the tag numbers from the warehouse to enter on the inventory system. (The warehouse receives most of the equipment from this grant, so they tag the items at their location and notify the property unit of the numbers assigned to each item.) A staffing limitation at the warehouse is the main cause and is due to command being an operational unit in the field on a continual basis. In addition, a staffing shortage within the property unit also contributed to not being able to update the inventory records on a timely basis.

Failure to maintain complete property records may result in federal programs not receiving the appropriate share of proceeds from the disposals of equipment purchased with federal funds. (Finding Code 05-101)



**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

**Recommendation:**

We recommend State Police review its process for updating its property records to ensure equipment purchased with federal funds is properly reflected and performed timely.

**State Police's Response:**

We agree. The State Police will review procedures for tagging and entering inventory records for the Homeland Security Cluster. However, the possible result of the federal program not receiving the appropriate share of proceeds from a disposal is very unlikely. All items will eventually become tagged due to a reconciliation of the accounting system for expenditures with the additions to the inventory system. In addition, items purchased with federal funds must be sent to the federal surplus warehouse for disposal.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2005

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

**Prior Year Finding 04-03**

IDPA did not accurately report its federal expenditures to the Illinois Office of the Comptroller in a timely manner. In the current audit period, IDPA completed its SCO forms within required deadlines.

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

**Prior Year Finding 04-17**

Adequate supporting documentation did not exist to substantiate that expenditures claimed by IDHS met the earmarking requirements for the Social Services Block Grant (Title XX) program. In the current audit period, IDHS implemented procedures to maintain underlying supporting documentation for its earmarking expenditures. During our review of the earmarking requirements, IDHS was able to provide supporting documentation for its earmarking expenditures.

**Prior Year Finding 04-19**

IDHS did not allocate the correct amount of fringe benefit expenditures to its federal programs through the Public Assistance Cost Allocation Plan (PACAP). In the current audit period, IDHS revised the payroll download reports used to accumulate costs for allocation in the cost pools.

**Prior Year Finding 04-20**

The third party servicer for the Electronic Benefits Transfer (EBT) program administered by IDHS did not have adequate controls over access to its information systems. In the current audit period, the EBT provider's SAS 70 report did not contain any exceptions or deficiencies.

**Prior Year Finding 04-21**

IDHS does not have an adequate process for monitoring expenditures made by a subrecipient under the Temporary Assistance for Needy Families (TANF) program. In the current audit period, IDHS discontinued passing through federal funding to this subrecipient and, as such, further monitoring was not performed.

**Prior Year Finding 04-23**

IDHS did 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. In the current audit period, IDHS modified its procedures for selecting cases for its peer reviews to require IDHS reviewers (not service providers) to select cases for review.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2005

#### **Prior Year Finding 04-26**

IDHS did not use allowable costs to meet its matching requirements of its Rehabilitation Services – Vocational Rehabilitation Grants to States (VR) program. In the current audit period, IDHS discontinued using efficiency payments (payments for estimated cost savings) to meet its VR matching requirement.

#### **Prior Year Finding 04-28**

IDHS did not properly segregate duties for compiling and reviewing the annual RSA-2 Program Cost report for its VR program. In the current audit period, we noted the RSA-2 report was subject to a supervisory review.

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

#### **Prior Year Finding 04-33**

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). In the current audit period, interstate cases appear to have been managed and documented in KIDS.

**State Agency:** Illinois Department on Aging (IDOA)

#### **Prior Year Finding 04-39**

IDOA did not accurately certify its maintenance of effort (MOE) expenditures under the Title III program to the US Department of Health and Human Services (USDHHS). IDOA changed the process and procedures in place to ensure actual expenditures incurred during the period are used for the amount certified as MOE expenditures. IDOA amended and resubmitted its certification to USDHHS based on the actual expenditures incurred during the respective periods. During our current year testwork, we noted IDOA used actual expenditures incurred during the period for certifying the amount of MOE expenditures.

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

#### **Prior Year Finding 04-41**

IDPH did 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 during the year ended June 30, 2004. In the current audit period, IDPH was able to provide supporting documentation for its Bioterrorism and HIV cash draws.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

#### Prior Year Findings Not Repeated

For the Year Ended June 30, 2005

#### **Prior Year Finding 04-44**

IDPH did not provide all subrecipients of its Center for Disease Control and Prevention – Investigations and Technical Assistance (Bioterrorism) and HIV Care Formula Grants (HIV) programs with required federal award information. In the current audit period, IDPH implemented procedures to communicate all required award information to its Bioterrorism and HIV subrecipients.

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

#### **Prior Year Finding 04-45**

ISBE did not administer certain activities of its Reading First program in accordance with the provisions outlined in the State Plan. We noted per discussions with ISBE personnel and review of the current year management representations regarding non-compliance that these matters were resolved.

#### **Prior Year Finding 04-46**

ISBE did not perform eligibility determinations for subrecipients receiving federal funds under the Reading First State Grants program during the year ended June 30, 2004. In the current period, ISBE performed eligibility determinations for these subrecipients.

#### **Prior Year Finding 04-48**

ISBE did not accurately prepare the fiscal year 2003 Accountability Report Consolidated Annual Performance, Accountability, and Financial Status Report. During our review of the fiscal year 2004 report filed during the current audit period, we noted the report was accurately prepared.

#### **Prior Year Finding 04-49**

ISBE did not submit the required student assessment data in the fiscal year 2003 Annual Performance Report. In the current period, the 2004 Annual Performance Report contained the required student assessment data.

#### **Prior Year Finding 04-50**

ISBE did not properly calculate its interest liability in accordance with the Treasury State Agreement (TSA). In the current period, ISBE properly calculated the interest liability using the methodology stated in the Treasury-State Agreement.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2005

**Prior Year Finding 04-51**

ISBE did not complete all of its monthly reconciliations between the ASAP and MIDAS systems. During the current period, we obtained documentation that the reconciliations were prepared and prepared in a timely manner.

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

**Prior Year Finding 04-56**

ISAC student loan account records did not agree/reconcile to collection agencies reports. In the current audit period, ISAC implemented comprehensive procedures to reconcile loan records to collection agency reports.

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

**Prior Year Finding 04-58**

ICCB provided funds to subrecipients of the Vocational Education Basic Grants to States in excess of their immediate cash needs. During our review of subrecipient payments in the current audit period, we noted ICCB implemented additional procedures in order to ensure that cash payments to subrecipients did not exceed thirty days cash needs.

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

**Prior Year Finding 04-59**

IDOT did not obtain weekly payroll certifications prior to payment to contractors for the Airport Improvement program. In the current period, IDOT establish procedures to ensure (1) weekly payroll certifications were received prior to payments being made to the contractors by requiring the resident engineers to collect the certified payrolls, and (2) payments are not approved until the certified payrolls have been received.

**Prior Year Finding 04-61**

IDOT did not properly calculate the interest liability for the Highway Planning and Construction and the Airport Improvement programs. In the current period, IDOT properly calculated the interest liabilities using the methodology stated in the Treasury State Agreement.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2005

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

**Prior Year Finding 04-64**

DCEO did not have an adequate process to follow up on delinquent OMB Circular A-133 reports from subrecipients and to ensure management decisions were issued within six months. Additionally, DCEO did not perform the required annual on-site program monitoring for all subrecipients, and did not adequately document the procedures performed. DCEO began sending letters to its subrecipients to follow up on the delinquent OMB Circular A-133 reports, and issued management decisions within the required timeframe. DCEO performed all of the required on-site programmatic monitoring and adequately documented the procedures that were performed.

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

**Prior Year Finding 04-65**

IDES determined that some payments were made for unemployment benefits to ineligible individuals under the Unemployment Insurance Program, and referred the matter to outside agencies for investigative review, which was pending as of the date that our report was issued. In the current period, the investigative review was finalized and we were able to apply other audit procedures to enable us to express an opinion on compliance for the Unemployment Insurance Program.

**Prior Year Finding 04-68**

IDES did not have adequate procedures to ensure cash draws were performed in accordance with the U.S. Treasury Regulations for the Employment Services Program. In the current period, IDES began drawing funds for the Employment Services Program based on the daily cash position report, which is in accordance with the U.S. Treasury Regulations.

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

**Prior Year Finding 04-69**

IEPA did not adequately review OMB Circular A-133 audit reports of its Capitalization Grants for Clean Water State Revolving Funds and Capitalization Grants for Drinking Water State Revolving Fund programs. During our current year testwork over desk reviews, we noted IEPA implemented comprehensive desk review procedures.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2005

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

**Prior Year Finding 04-71**

IDOC did not have a centralized federal accounting function to account for all federal funds received and expended by the Department. During the current audit period, IDOC implemented a centralized accounting system and reconciliation procedures within its grants unit; however, IDOC did not accurately report its grant and other financial information to the Illinois Office of the Comptroller in a timely manner as reported in finding 05-12.