

STATE OF ILLINOIS

Single Audit Report

For the Year Ended June 30, 2006

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, 2006 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, 2006 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:

Qualifications (Scope Limitation):

Special Education – Grants for Infants and Families with Disabilities

Qualifications (Noncompliance):

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

Summary of Audit Findings

	<u>This audit</u>	<u>Prior audit</u>
Number of audit findings:		
This audit	95	101
Repeated audit findings	55	44
Prior findings implemented or not repeated	46	27



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, 2006. This Schedule is the responsibility of the State of Illinois' management. Our responsibility is to express an opinion on this Schedule based on our audit.

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

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

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



In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards of the State of Illinois, as described above, for the year ended June 30, 2006, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2007 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 4, 2007

THE STATE OF ILLINOIS
Schedule of Expenditures of Federal Awards
June 30, 2006

Federal Agency/Program or Cluster	Federal CFDA No.	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
U.S. Department of Agriculture			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 1,367	\$ -
Conservation Reserve Program	10.069	270	-
Market News	10.153	4	-
Market Protection and Promotion	10.163	33	-
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475	3,675	-
Meat, Poultry, and Egg Products Inspection	10.477	8	-
Cooperative Extension Service	10.500	(4)	-
Food Donation	10.550	29,567	29,567
Food Stamp Cluster:			
Food Stamps	10.551	* \$ 1,481,099	-
State Administrative Matching Grants for Food Stamp Program	10.561	* 89,553	11,176
Total Food Stamp Cluster			1,570,652
Child Nutrition Cluster:			
School Breakfast Program	10.553	* 52,272	51,374
National School Lunch Program	10.555	* 282,844	282,844
Special Milk Program for Children	10.556	* 3,146	3,146
Summer Food Service Program for Children	10.559	* 9,700	9,458
Total Child Nutrition Cluster			347,962
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	* 183,714	166,570
Child and Adult Care Food Program	10.558	* 100,742	99,866
State Administrative Expenses for Child Nutrition	10.560	5,576	345
Commodity Supplemental Food Program	10.565	2,509	2,502
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	10.568	2,627	2,233
Emergency Food Assistance Program (Food Commodities)	10.569	10,100	10,100
Total Emergency Food Assistance Cluster			12,727
WIC Farmers' Market Nutrition Program (FMNP)	10.572	280	280
Team Nutrition Grants	10.574	109	109
Senior Farmers Market Nutrition Program	10.576	501	501
Cooperative Forestry Assistance	10.664	1,185	310
Schools and Roads Cluster:			
Schools and Roads Grants to States	10.665	301	301
Total Schools and Roads Cluster			301
Wildlife Habitat Incentive Program	10.914	3	-
Total U.S. Department of Agriculture			2,261,181
U.S. Department of Commerce			
Interjurisdictional Fisheries Act of 1986	11.407	8	-
Coastal Zone Management Administration Awards	11.419	68	-
Total U.S. Department of Commerce			76
U.S. Department of Defense			
Procurement Technical Assistance For Business Firms	12.002	544	337
Payments to States in Lieu of Real Estate Taxes	12.112	647	647
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	593	-
Military Construction, National Guard	12.400	13,269	-
National Guard Military Operations and Maintenance (O&M) Projects	12.401	10,793	-
National Guard Civilian Youth Opportunities	12.404	4,440	-
Total U.S. Department of Defense			30,286
U.S. Department of Housing and Urban Development			
Community Development Block Grants/State's Program	14.228	36,867	35,273
Emergency Shelter Grants Program	14.231	2,603	2,490
Housing Opportunities for Persons with AIDS	14.241	713	710
Fair Housing Assistance Program State and Local	14.401	748	-
Section 8 Housing Choice Vouchers	14.871	618	520
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	1,005	934
Total U.S. Department of Housing and Urban Development			42,554

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Federal Agency/Program or Cluster	Federal CFDA No.	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
U.S. Department of Interior			
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250	\$ 2,404	\$ -
Abandoned Mine Land Reclamation (AMLR) Program	15.252	7,652	-
Fish & Wildlife Cluster:			
Sport Fish Restoration	15.605	\$ 4,467	639
Wildlife Restoration	15.611	3,728	431
Total Fish & Wildlife Cluster		8,195	
Fish and Wildlife Management Assistance	15.608	93	-
Cooperative Endangered Species Conservation Fund	15.615	99	19
Sportfishing and Boating Safety Act	15.622	600	599
Wildlife Conservation and Restoration	15.625	7	-
Partners for Fish and Wildlife	15.631	8	-
Landowner Incentive	15.633	119	-
State Wildlife Grants	15.634	806	69
Historic Preservation Fund Grants-In-Aid	15.904	979	81
National Historic Landmark	15.912	7	-
Outdoor Recreation Acquisition, Development and Planning	15.916	3,548	3,511
Lincoln Library, Museum and Interpretive Center	15.XXB	15	-
Lincoln Museum	15.XXD	149	-
Total U.S. Department of Interior		24,681	
U.S. Department of Justice			
Federal Asset Forfeiture	16.000	2,091	7
Education and Enforcement of the Antidiscrimination Provision of the Immigration and Nationality Act	16.110	(7)	-
Sex Offender Management Discretionary Grant	16.203	34	22
Juvenile Accountability Incentive Block Grants	16.523	3,276	2,575
Juvenile Justice and Delinquency Prevention Allocation to States	16.540	2,860	2,526
Missing Children's Assistance	16.543	242	-
Title V Delinquency Prevention Program	16.548	1,057	1,054
Part E State Challenge Activities	16.549	25	25
National Criminal History Improvement Program (NCHIP)	16.554	1,769	-
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	550	-
Crime Victim Assistance	16.575	17,344	16,177
Crime Victim Compensation	16.576	9,969	-
Byrne Formula Grant Program	16.579	22,012	14,090
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	522	200
Crime Victim Assistance/Discretionary Grants	16.582	48	-
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	4,338	-
Violence Against Women Formula Grants	16.588	4,743	4,233
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589	248	198
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	333	-
Local Law Enforcement Block Grants Program	16.592	51	25
Residential Substance Abuse Treatment for State Prisoners	16.593	1,852	-
Corrections Research and Evaluation and Policy Formulation	16.602	37	-
State Criminal Alien Assistance Program	16.606	493	-
Community Prosecution and Project Safe Neighborhoods	16.609	864	700
Public Safety Partnership and Community Policing Grants	16.710	4,750	-
Police Corps	16.712	94	94
Enforcing Underage Drinking Laws Program	16.727	498	395
Forensic DNA Capacity Enhancement Program	16.741	1,246	-
Forensic Casework DNA Backlog Reduction Program	16.743	585	-
Equitable Sharing of Federal Forfeitures	16.XXX	273	-
Total U.S. Department of Justice		82,197	

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Schedule of Expenditures of Federal Awards
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Federal Agency/Program or Cluster	Federal CFDA No.	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
U.S. Department of Labor			
Labor Force Statistics	17.002	\$ 2,822	\$ -
Compensation and Working Conditions	17.005	128	-
Employment Services Cluster:			
Employment Service	17.207 *	\$ 34,275	215
Disabled Veterans' Outreach Program (DVOP)	17.801 *	3,054	-
Local Veterans' Employment Representative Program	17.804 *	3,456	-
Total Employment Services Cluster		40,785	
Unemployment Insurance	17.225 *	1,845,449	-
Senior Community Service Employment Program	17.235	3,354	3,175
Trade Adjustment Assistance Workers	17.245 *	32,701	12,453
Workforce Investment Act Cluster:			
WIA Adult Program	17.258 *	37,095	34,124
WIA Youth Activities	17.259 *	41,215	37,901
WIA Dislocated Workers	17.260 *	74,602	68,025
Total Workforce Investment Act Cluster		152,912	
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	598	379
Youth Opportunity Grants	17.263	(29)	-
Work Incentives Grant	17.266	690	690
WIA Incentive Grants Section 503 Grants to States	17.267	2,661	2,566
Temporary Labor Certifications for Foreign Workers	17.273	71	-
Consultation Agreements	17.504	1,601	-
Mine Health and Safety Grants	17.600	179	-
Total U.S. Department of Labor		2,083,922	
U.S. Department of Transportation			
Airport Improvement Program	20.106 *	91,286	47,622
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205 *	1,019,336	72,060
Total Highway Planning and Construction Cluster		1,019,336	
Highway Training and Education	20.215	510	-
Motor Carrier Safety	20.217	44	-
National Motor Carrier Safety	20.218	5,673	-
Recreational Trails Program	20.219	453	-
Federal Transit Cluster:			
Federal Transit Capital Investment Grants	20.500	2,392	1,487
Federal Transit Formula Grants	20.507	(63)	-
Total Federal Transit Cluster		2,329	
Federal Transit Metropolitan Planning Grants	20.505	2,527	-
Formula Grants for Other Than Urbanized Areas	20.509	7,555	6,073
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	5,000	-
Transit Planning and Research	20.514	35	35
State Planning and Research	20.515	252	110
Highway Safety Cluster:			
State and Community Highway Safety	20.600	7,609	3,583
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	3,064	1,613
Occupant Protection	20.602	2,321	331
Federal Highway Safety Data Improvements Incentive Grants	20.603	77	-
Safety Incentive Grants for Use of Seatbelts	20.604	3,205	1,087
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	685	471
Total Highway Safety Cluster		16,961	
Pipeline Safety	20.700	539	-
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	382	263
Life Saver Conference	20.XXX	17	-
Total U.S. Department of Transportation		1,152,899	

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Federal Agency/Program or Cluster	Federal CFDA No.	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
<u>Equal Employment Opportunity Commission</u>			
Employment Discrimination State and Local Fair Employment Practices Agency Contract	30.002	\$ 1,585	\$ -
Total Equal Employment Opportunity Commission		1,585	
<u>General Services Administrations</u>			
Election Reform Payments	39.011	17,843	17,733
Total General Services Administration		17,843	
<u>Library of Congress</u>			
Books for the Blind and Physically Handicapped	42.001	1	-
Total Library of Congress		1	
<u>National Endowment for the Arts</u>			
Promotion of the Arts Partnership Agreements	45.025	731	731
Promotion of the Humanities Research	45.161	74	-
Promotion of the Humanities Public Programs	45.164	3	-
State Library Program	45.310	6,419	4,863
National Leadership Grants	45.312	125	81
Total National Endowment for the Arts		7,352	
<u>U.S. Small Business Administration</u>			
Small Business Development Center	59.037	3,066	1,723
Total U.S. Small Business Administration		3,066	
<u>U.S. Department of Veteran's Affairs</u>			
Veterans State Domiciliary Care	64.014	410	-
Veterans State Nursing Home Care	64.015	19,149	-
All-Volunteer Force Educational Assistance	64.124	885	-
Total U.S. Department of Veteran's Affairs		20,444	
<u>U.S. Environmental Protection Agency</u>			
State Indoor Radon Grants	66.032	160	122
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	662	-
Water Pollution Control State and Interstate Program Support	66.419	381	-
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements Section 104 (b)(3) of the Clean Water Act	66.436	2	-
Water Quality Management Planning	66.454	587	-
Capitalization Grants for Clean Water State Revolving Funds	66.458	6,078	-
Nonpoint Source Implementation Grants	66.460	7,069	-
Water Quality Cooperative Agreements	66.463	809	-
Wastewater Operator Training Grant Program (Technical Assistance)	66.467	284	-
Capitalization Grants for Drinking Water State Revolving Funds	66.468	26,040	-
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	143	-
Beach Monitoring and Notification Program Implementation Grants	66.472	342	154
Water Protection Grants to the States	66.474	285	-
Environmental Protection-Consolidated Research	66.500	521	-
Performance Partnership Grants	66.605	16,841	-
Surveys, Studies, Investigations and Special Purpose Grants	66.606	1,236	-
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	840	-
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	23	-
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	253	-
Pollution Prevention Grants Program	66.708	73	-
Multi-Media Capacity Building Grants for States and Tribes	66.709	93	-
Superfund State, Political Subdivision, and Indian Tribe Site Specific Cooperative Agreements	66.802	5,272	-
State and Tribal Underground Storage Tanks Program	66.804	187	-
Leaking Underground Storage Tank Trust Fund Program	66.805	1,085	-

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Schedule of Expenditures of Federal Awards
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Federal Agency/Program or Cluster	Federal CFDA No.	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
Solid Waste Management Assistance Grants	66.808	\$ 10	\$ -
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	275	-
Brownfield Pilots Cooperative Agreements	66.811	1,004	-
State and Tribal Response Program Grants	66.817	1,198	-
Total U.S. Environmental Protection Agency		71,753	
U.S. Department of Energy			
State Energy Program	81.041	2,065	303
Weatherization Assistance for Low-Income Persons	81.042	13,404	13,176
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	30	6
State Energy Program Special Projects	81.119	635	635
Total U.S. Department of Energy		16,134	
U.S. Department of Education			
Adult Education State Grant Program	84.002	24,165	20,946
Title I Grants to Local Educational Agencies	84.010 *	540,016	535,265
Migrant Education State Grant Program	84.011	1,704	1,700
Title I Program for Neglected and Delinquent Children	84.013	1,915	-
Special Education Cluster:			
Special Education Grants to States	84.027 * \$	455,689	445,445
Special Education Preschool Grants	84.173 *	18,491	17,518
Total Special Education Cluster		474,180	
Federal Family Education Loans - Guaranty Program	84.032 *	278,810	-
Vocational Education Basic Grants to States	84.048 *	44,344	43,298
Leveraging Educational Assistance Partnership	84.069	2,071	-
Fund for the Improvement of Postsecondary Education	84.116	7	-
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126 *	82,347	23,266
Rehabilitation Services Service Projects	84.128	33	33
Migrant Education Coordination Program	84.144	75	75
Rehabilitation Services Client Assistance Program	84.161	467	-
Independent Living State Grants	84.169	726	721
Rehabilitation Services Independent Living Services for Older Individuals Who Are Blind	84.177	1,342	1,154
Special Education Grants for Infants and Families with Disabilities	84.181 *	26,207	8,083
Safe and Drug-Free Schools and Communities National Programs	84.184	(5)	-
Byrd Honors Scholarships	84.185	1,533	-
Safe and Drug-Free Schools and Communities State Grants	84.186	16,687	16,066
Supported Employment Services for Individuals with Severe Disabilities	84.187	1,318	1,318
Education for Homeless Children and Youth	84.196	2,554	2,445
Even Start State Educational Agencies	84.213	8,768	8,476
Fund for the Improvement of Education	84.215	1,399	691
Assistive Technology	84.224	1,036	1,036
Tech-Prep Education	84.243	4,719	3,880
Rehabilitation Training State Vocational Rehabilitation Unit In-Service Training	84.265	145	-
Goals 2000-State and Local Education Systemic Improvement Grants	84.276	(55)	-
Charter Schools	84.282	172	169
Twenty-First Century Community Learning Centers	84.287 *	38,329	37,913
State Grants for Innovative Programs	84.298	9,139	8,949
Education Technology State Grants	84.318	13,717	13,565
Special Education - State Personnel Development	84.323	1,161	1,047
Research in Special Education	84.324	107	107
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	817	666
Advanced Placement Program	84.330	1,165	959
Grants to States for Incarcerated Youth Offenders	84.331	703	-
Comprehensive School Reform Demonstration	84.332	9,167	9,076
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	499	496

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Federal Agency/Program or Cluster	Federal CFDA No.	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
Teacher Quality Enhancement Grants	84.336	\$ (101)	\$ -
Reading Excellence	84.338	(118)	-
Class Size Reduction	84.340	(36)	-
Preparing Tomorrow's Teachers to Use Technology	84.342	(86)	-
Vocational Education Occupational and Employment Information State Grants	84.346	187	-
Title I Accountability Grants	84.348	(16)	-
Transition to Teaching	84.350	308	274
School Renovation Grants	84.352	302	-
Reading First State Grants	84.357 *	18,751	18,670
Rural Education	84.358	513	508
English Language Acquisition Grants	84.365	25,196	24,378
Mathematics and Science Partnerships	84.366	5,058	4,796
Improving Teacher Quality State Grants	84.367 *	120,713	119,288
Grants for State Assessments and Related Activities	84.369	18,452	-
Hurricane Education Recovery	84.938	2,412	2,403
Illinois School for the Deaf Grant to Study Transition of Students	84.XXX	133	-
Total U.S. Department of Education		1,783,152	
<u>National Archives and Records Administration</u>			
National Historical Publications and Records Grants	89.003	81	-
Total National Archives and Records Administration		81	
<u>Election Assistance Commission</u>			
Help America Vote Act Requirements Payments	90.401 *	43,944	43,944
Total Election Assistance Commission		43,944	
<u>U.S. Department of Human Services</u>			
Public Health and Social Services Emergency Fund	93.003	5,785	2,944
State and Territorial and Technical Assistance Capacity	93.006	118	28
Development Minority HIV/AIDS Demonstration Program			
Special Programs for the Aging Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	207	197
Special Programs for the Aging Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Individuals	93.042	574	544
Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services	93.043	876	835
Aging Cluster:			
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	93.044 * \$	17,468	16,560
Special Programs for the Aging Title III, Part C Nutrition Services	93.045 *	21,695	20,507
Nutrition Services Incentive Program	93.053 *	6,500	6,500
Total Aging Cluster		45,663	
Special Programs for the Aging Title IV and Title II Discretionary Projects	93.048	457	280
Alzheimer's Disease Demonstration Grants to States	93.051	(7)	-
National Family Caregiver Support	93.052	6,360	6,059
Food and Drug Administration Research	93.103	1	-
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	2,902	2,867
Maternal and Child Health Federal Consolidated Programs	93.110	162	138
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	1,541	212
Primary Care Services Resource Coordination and Development	93.130	223	147
Injury Prevention and Control Research and State and Community Based Programs	93.136	1,470	1,517
Projects for Assistance in Transition from Homelessness (PATH)	93.150	2,364	2,343
Health Program for Toxic Substances and Disease Registry	93.161	474	-
Grants To States for Loan Repayment Program	93.165	238	238
Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	951	164

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Federal Agency/Program or Cluster	Federal CFDA No.	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
Family Planning Services	93.217	\$ 8,053	\$ 7,169
Consolidated Knowledge Development and Application (KD&A) Program	93.230	1,676	1,466
Loan Repayment Program for General Research	93.232	1	-
Abstinence Education Program	93.235	1,757	1,621
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	4	-
State Rural Hospital Flexibility Program	93.241	600	600
Mental Health Research Grants	93.242	93	93
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	4,123	3,200
Innovative Food Safety Projects	93.245	47	-
Universal Newborn Hearing Screening	93.251	93	-
State Planning Grants Health Care Access for the Uninsured	93.256	202	-
Rural Access to Emergency Devices Grant	93.259	163	163
Immunization Grants	93.268 *	39,597	697
Substance Abuse and Mental Health Services-Access to Recovery Centers for Disease Control and Prevention Investigations and Technical Assistance	93.275	10,483	9,599
Small Rural Hospital Improvement Grant Program	93.283 *	35,187	17,556
Abandoned Infants	93.301	514	514
Promoting Safe and Stable Families	93.551	(87)	-
Temporary Assistance for Needy Families	93.556	14,401	10,118
Child Support Enforcement	93.558 *	556,455	228,157
Refugee and Entrant Assistance State Administered Programs	93.563 *	114,700	20,028
Low-Income Home Energy Assistance	93.566	5,359	2,487
Community Services Block Grant	93.568 *	189,157	186,307
Community Services Block Grant Formula and Discretionary Awards Community Food and Nutrition Programs	93.569	29,814	28,570
Child Care Development Funds Cluster:			
Child Care and Development Block Grant	93.571	180	180
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.575 *	\$ 78,688	74,821
Total Child Care Development Funds Cluster	93.596 *	<u>134,503</u>	121,699
Refugee and Entrant Assistance Discretionary Grants	93.576	888	808
Refugee and Entrant Assistance Targeted Assistance Grants	93.584	1,102	1,102
State Court Improvement Program	93.586	277	267
Community-Based Child Abuse Prevention Grants	93.590	234	234
Grants to States for Access and Visitation Programs	93.597	304	300
Chafee Education and Training Vouchers Program (ETV)	93.599	4,579	367
Head Start	93.600	3,031	2,486
Child Support Enforcement Demonstrations and Special Projects	93.601	105	-
Voting Access for Individuals with Disabilities Grants to States	93.617	159	158
Basic Center Grant	93.623	120	120
Developmental Disabilities Basic Support and Advocacy Grants	93.630	2,250	1,216
Children's Justice Grants to States	93.643	467	467
Child Welfare Services State Grants	93.645	11,439	11,236
Social Services Research and Demonstration	93.647	15	-
Adoption Opportunities	93.652	(784)	-
Foster Care Title IV-E	93.658 *	230,236	74,082
Adoption Assistance	93.659 *	88,344	7,270
Social Services Block Grant	93.667 *	115,496	43,326
Child Abuse and Neglect State Grants	93.669	435	435
Family Violence Prevention and Services/Grants for Battered Women's Shelters Grants to States and Indian Tribes	93.671	2,810	2,686
Chafee Foster Care Independence Program	93.674	4,651	4,651
State Children's Insurance Program	93.767 *	502,539	-
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	88	-

THE STATE OF ILLINOIS
Schedule of Expenditures of Federal Awards
June 30, 2006

Federal Agency/Program or Cluster	Federal CFDA No.	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
Medicaid Cluster:			
State Medicaid Fraud Control Units	93.775 * \$	5,571	\$ -
State Survey and Certification of Health Care Providers and Suppliers	93.777 *	19,997	1,708
Medical Assistance Program	93.778 *	<u>5,198,378</u>	95,631
Total Medicaid Cluster		\$ 5,223,946	
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations			
State Pharmaceutical Assistance Programs	93.779	1,470	205
Reimbursement of State Costs for Provision of Part D Drugs	93.786	3,019	2,363
Grants to States for Operation of Offices of Rural Health	93.794	12,600	-
HIV Care Formula Grants	93.913	222	113
Healthy Start Initiative	93.917 *	36,660	7,293
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.926	2,294	2,160
HIV Prevention Activities Health Department Based	93.938	168	-
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.940	3,955	1,759
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.943	(22)	-
Assistance Programs for Chronic Disease Prevention and Control	93.944	872	183
Trauma Care Systems Planning and Development	93.945	961	767
Block Grants for Community Mental Health Services	93.952	2	-
Block Grants for Prevention and Treatment of Substance Abuse	93.958	16,905	16,073
Preventive Health Services Sexually Transmitted Diseases Control Grants	93.959 *	69,615	66,720
Mental Health Disaster Assistance and Emergency Mental Health	93.977	2,937	574
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.982	251	1
Preventive Health and Health Services Block Grant	93.988	887	507
Maternal and Child Health Services Block Grant to the States	93.991	2,323	656
Adolescent Family Life Demonstration Projects	93.994	21,987	17,584
	93.995	208	206
Total U.S. Department of Health and Human Services		<u>7,666,167</u>	
<u>Corporation for National and Community Service</u>			
State Commissions	94.003	400	15
Learn and Serve America School and Community Based Programs	94.004	1,268	1,254
AmeriCorps	94.006	3,773	3,773
Planning and Program Development Grants	94.007	38	38
Training and Technical Assistance	94.009	123	123
Volunteers in Service to America	94.013	20	-
Total Corporation for National and Community Service		<u>5,622</u>	
<u>U.S. Social Security Administration</u>			
Disability Insurance/SSI Cluster:			
Social Security Disability Insurance	96.001 *	<u>61,815</u>	-
Total Disability Insurance/SSI Cluster		61,815	-
Social Security Research and Demonstration	96.007	(95)	-
Social Security Benefits Planning, Assistance, and Outreach Program	96.008	508	-
Total Social Security Administration		<u>62,228</u>	
<u>U.S. Department of Homeland Security</u>			
Urban Areas Security Initiative	97.008	17,536	15,607
Boating Safety Financial Assistance	97.012	1,063	-
Hazardous Materials Assistance Program	97.021	2	-
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	176	-
Flood Mitigation Assistance	97.029	11	11
Crisis Counseling	97.032	136	-
Disaster Unemployment Assistance	97.034	22	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	7,188	6,844

THE STATE OF ILLINOIS
Schedule of Expenditures of Federal Awards
June 30, 2006

Federal Agency/Program or Cluster	Federal CFDA No.	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
Hazard Mitigation Grant	97.039	\$ 940	\$ 903
Chemical Stockpile Emergency Preparedness Program	97.040	873	406
National Dam Safety Program	97.041	102	-
Emergency Management Performance Grants	97.042	5,818	3,252
Assistance to Firefighters Grant	97.044	103	-
Cooperating Technical Partners	97.045	1,984	-
Pre-Disaster Mitigation	97.047	211	190
State and Local All Hazards Emergency Operations Planning	97.051	738	626
Emergency Operation Centers	97.052	1,389	-
Citizen Corps	97.053	1,075	795
Homeland Security Cluster:			
State Domestic Preparedness Equipment Support Program	97.004	* \$ 65,560	44,280
Homeland Security Grant Program	97.067	* 122	-
Total Homeland Security Cluster		65,682	
Map Modernization Management Support	97.070	95	-
State Homeland Security Program (SHSP)	97.073	9,734	9,518
Law Enforcement Terrorism Prevention Program (LETPP)	97.074	6,210	6,205
Rail and Transit Security Grant Program	97.075	22	22
Buffer Zone Protection Plan (BZPP)	97.078	588	588
Total U.S. Department of Homeland Security		121,698	
Total expenditures of federal awards		\$ 15,498,866	\$ 3,748,966

STATE OF ILLINOIS

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2006

(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, 2006. 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, 2006. 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

Additionally, the federal transactions related to loans held and serviced by the Illinois Designated Account Purchase Program (IDAPP), a division of the Illinois Student Assistance Commission, under the Federal Family Education Loan program are not reflected in the schedule of expenditures of federal awards for the year ended June 30, 2006. IDAPP has elected to have a separate lender compliance audit performed on an annual basis in accordance with the US Department of Education's *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program Guide*.

(b) Basis of Presentation

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

(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

STATE OF ILLINOIS

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2006

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.

(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 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, 2006

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, 2006

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 Department of Education

Title I Grants to Local Educational Agencies (CFDA No. 84.010)

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

Special Education Cluster: Special Education — Grants to States (CFDA No. 84.027) / Special Education — Preschool Grants (CFDA No. 84.173)

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

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

Federal Family Education Loans – Guaranty Program (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.

STATE OF ILLINOIS

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2006

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 program 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.

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.

(Continued)

STATE OF ILLINOIS

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2006

US Election Assistance Commission

Help America Vote Act Requirements Payments CFDA No. 90.401

The objective of this program is to authorize requirement payments to assist states in meeting the Uniform and Nondiscriminatory Election Technology and Administration Requirements in Title III of the Act and for other activities to improve the administration of Federal elections. This includes meeting the voting systems standards, provisional voting and voting information requirements, computerized statewide voter registration list requirements and requirements for voters who register by mail.

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.

Immunization Grants CFDA No. 93.268

This program assists states and communities in establishing and maintaining preventive health service programs to immunize individuals against vaccine-preventable diseases.

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, 2006

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, 2006

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 Domestic Preparedness Equipment Support Program (CFDA No. 97.004) / Homeland Security Grant Program (CFDA No. 97.067)

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. 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.

STATE OF ILLINOIS

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2006

(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 US Department of Agriculture (USDA).
- Food Stamps (CFDA No. 10.551) — Federal expenditures for this program represent the value of food stamp coupons issued to eligible recipients and cash assistance made available to eligible recipients in lieu of food stamp coupons.
- Commodity Supplemental Food Program (CFDA No. 10.565) — Federal expenditures for this program represent the value of donated commodities received from the USDA. The commodities were valued based on USDA price lists.
- Emergency Food Assistance Program (CFDA No. 10.569) — Federal expenditures for this program represent the value of donated commodities received from the USDA. The Commodities were valued based on USDA price lists.
- Immunization Grants (CFDA No. 93.268) — Federal expenditures for this program can either be in cash grants or represent the value of donated vaccine, personnel and other items “in lieu of cash” received from the US Department of Health and Human Services.

(4) Federally Funded Loan Programs

Loan balances of federally funded loan programs at June 30, 2006 included the following:

CFDA No.	Program	Outstanding Loans as of 6/30/06
84.032	Federal Family Education Loan Program	\$3,353,737,000



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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, 2006, and have issued our report thereon dated June 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting of the Schedule 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 06-01, 06-03 and 06-57.



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 06-03 and 06-57 to be material weaknesses.

Compliance and Other Matters

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

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

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

KPMG LLP

June 4, 2007



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

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

Honorable William G. Holland
Auditor General
State of Illinois:

Compliance

We have audited the compliance of the State of Illinois (the State) with the types of compliance requirements described in the *US 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, 2007. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

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

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State's compliance with those requirements.



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.

State Administering Agency	Federal Program	Compliance Requirement(s)	Finding Number
IL Department of Human Services	Special Education – Grants for Infants and Families with Disabilities	Maintenance of Effort	06-08

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.

State Administering Agency	Federal Program	Compliance Requirement(s)	Finding Number
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	06-03
IL Department of Human Services	State Children’s Insurance Program	Allowable Costs/Cost Principles and Eligibility	06-03
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	06-03
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	06-04
IL Department of Human Services	Social Services Block Grant	Allowable Costs/Cost Principles and Earmarking	06-05
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Special Tests and Provisions	06-06
IL Department of Human Services	Rehabilitation Services – Vocational Rehabilitation Grants to States	Allowable Costs/Cost Principles and Eligibility	06-07
IL Department of Healthcare and Family Services	Low-Income Home Energy Assistance Program	Subrecipient Monitoring	06-21
IL Department of Healthcare and Family Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Special Tests and Provisions	06-22
IL Department of Children and Family Services	Foster Care – Title IV-E	Allowable Costs/Cost Principles and Eligibility	06-29



State Administering Agency	Federal Program	Compliance Requirement(s)	Finding Number
IL Department of Children and Family Services	Foster Care – Title IV-E	Allowable Costs/Cost Principles and Eligibility	06-30
IL Department of Children and Family Services	Foster Care – Title IV-E	Allowable Costs/Cost Principles and Eligibility	06-31
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	06-32
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	06-33
IL Department of Children and Family Services	Temporary Assistance for Needy Families	Subrecipient Monitoring	06-34
IL Department of Children and Family Services	Foster Care – Title IV-E	Subrecipient Monitoring	06-34
IL Department of Children and Family Services	Adoption Assistance	Subrecipient Monitoring	06-34
IL Department of Children and Family Services	Social Services Block Grant	Subrecipient Monitoring	06-34
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	06-38
IL Department of Public Health	HIV Care Formula Grants	Allowable Costs/Cost Principles and Eligibility	06-43
IL Department of Public Health	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Subrecipient Monitoring	06-44
IL Department of Public Health	HIV Care Formula Grants	Subrecipient Monitoring	06-44
IL Department of Public Health	Immunization Grants	Subrecipient Monitoring	06-45
IL Department of Public Health	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Subrecipient Monitoring	06-46
IL Department of Public Health	HIV Care Formula Grants	Subrecipient Monitoring	06-46
IL Department of Public Health	Immunization Grants	Subrecipient Monitoring	06-46
IL State Board of Education	Title One Grants to Local Educational Agencies	Allowable Costs/Cost Principles and Special Tests and Provisions	06-51



State Administering Agency	Federal Program	Compliance Requirement(s)	Finding Number
IL Student Assistance Commission	Federal Family Education Loans	Specials Tests and Provisions	06-57
IL Department of Employment Security	Trade Adjustment Assistance – Workers	Allowable Costs/Cost Principles and Eligibility	06-60
IL Department of Transportation	Airport Improvement Program	Suspension and Debarment	06-70
IL Department of Transportation	Airport Improvement Program	Subrecipient Monitoring	06-71
IL Department of Transportation	Airport Improvement Program	Subrecipient Monitoring	06-72
IL Department of Transportation	Highway Planning and Construction	Subrecipient Monitoring	06-72
IL Department of Transportation	Homeland Security Cluster	Subrecipient Monitoring	06-72
IL Department of Transportation	Homeland Security Cluster	Subrecipient Monitoring	06-73
IL Emergency Management Agency	Homeland Security Cluster	Subrecipient Monitoring	06-82
IL Emergency Management Agency	Homeland Security Cluster	Subrecipient Monitoring	06-83
IL State Board of Elections	Help America Vote Act Requirements Payments	Subrecipient Monitoring	06-89
IL State Board of Elections	Help America Vote Act Requirements Payments	Subrecipient Monitoring	06-90
IL State Board of Elections	Help America Vote Act Requirements Payments	Cash Management and Subrecipient Monitoring	06-91
IL State Board of Elections	Help America Vote Act Requirements Payments	Suspension and Debarment	06-92

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 preceding paragraph, 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, 2006. 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 29 through 246.



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 06-02 through 06-95.

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 06-02, 06-03, 06-04, 06-05, 06-06, 06-07, 06-08, 06-09, 06-11, 06-12, 06-20, 06-21, 06-22, 06-23, 06-29, 06-30, 06-31, 06-32, 06-33, 06-34, 06-38, 06-43, 06-44, 06-45, 06-46, 06-51, 06-52, 06-57, 06-60, 06-69, 06-70, 06-71, 06-72, 06-73, 06-82, 06-83, 06-84, 06-89, 06-90, 06-91, and 06-92 to be material weaknesses.

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

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

KPMG LLP

June 4, 2007

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

(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:

Qualifications (Scope Limitation):

Special Education – Grants for Infants and Families with Disabilities

Qualifications (Noncompliance):

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

The opinions for all other major programs are unqualified.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

(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 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 Cluster

US Department of Education

- Title I Grants to Local Educational Agencies
- Special Education Cluster
- Federal Family Education Loans – Guaranty Program
- 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

US Elections Assistance Commission

- Help America Vote Act Requirements Payments

US Department of Health and Human Services

- Aging Cluster
- Immunization Grants
- 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

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

- 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 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, 2006 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, 2006

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

State Agency: Illinois Office of the Comptroller (IOC)

Federal Agency: All Federal Agencies

Finding 06-01 *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 in comparison to information collected for use in the State of Illinois Comprehensive Annual Financial Report. 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 preparation of the SEFA. As part of their preparation 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.

In recent years, improvements have been 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. Additionally, the process is further impeded by the numerous correcting adjustments that are required to be recorded to accurately report the financial information received from state agencies. The final electronic database was not completed and submitted by the IOC to the OAG until December 7, 2006 resulting in the compilation of the SEFA being completed in April 2007 (approximately ten 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.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

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 06-01, 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 provide advice and support to the Governor's Office of Management and Budget (GOMB) to assist them in establishing and implementing 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, 2006

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:

Finding No.	State Agency	Finding Title	Finding Type
06-03	IL Department of Human Services	Failure to Perform Eligibility Redeterminations within Prescribed Timeframes	Material weakness
06-57	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, 2006

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

The findings listed below are located on pages 42 through 257.

Finding No.	State Agency	Finding Title	Finding Type
06-02	IL Department of Human Services	Inadequate Process for Monitoring Interagency Program Expenditures	Material weakness
06-03	IL Department of Human Services	Failure to Perform Eligibility Redeterminations within Prescribed Timeframes	Material noncompliance and material weakness
06-04	IL Department of Human Services	Inadequate Process for Preventing Individuals Convicted of Drug Felonies from Receiving TANF Benefits	Material noncompliance and material weakness
06-05	IL Department of Human Services	Unallowable Costs Charged to the Title XX Program	Material noncompliance and material weakness
06-06	IL Department of Human Services	Failure to Follow and Document TANF Sanction Procedures	Material noncompliance and material weakness
06-07	IL Department of Human Services	Unallowable Expenditures Charged to the Vocational Rehabilitation Program	Material noncompliance and material weakness
06-08	IL Department of Human Services	Early Intervention Maintenance of Effort Requirement	Scope limitation and material weakness
06-09	IL Department of Human Services	Inadequate Monitoring of WIC Service Organization	Material weakness
06-10	IL Department of Human Services	Failure to Adequately Coordinate Program Benefits	Noncompliance and reportable condition
06-11	IL Department of Human Services	Failure to Determine Eligibility in Accordance with Program Regulations	Noncompliance and material weakness
06-12	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
06-13	IL Department of Human Services	Untimely Review of OMB Circular A-133 Audit Reports	Reportable condition
06-14	IL Department of Human Services	Inaccurate Interest Liability Calculations	Noncompliance and reportable condition
06-15	IL Department of Human Services	Inaccurate ACF-204 TANF Annual Report	Noncompliance and reportable condition

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

Finding No.	State Agency	Finding Title	Finding Type
06-16	IL Department of Human Services	Missing Documentation in Client Eligibility Files	Reportable condition
06-17	IL Department of Human Services	Failure to Obtain Documentation of Assignment of Child and Medical Support Rights	Noncompliance and reportable condition
06-18	IL Department of Human Services	Inadequate Controls Over Access to Information Systems	Reportable condition
06-19	IL Department of Human Services	Improper Cost Allocation Methodology	Noncompliance and reportable condition
06-20	IL Department of Revenue	Inadequate Process for Determining the Allowability of Earned Income Credits	Noncompliance and material weakness
06-21	IL Department of Healthcare and Family Services	Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Material noncompliance and material weakness
06-22	IL Department of Healthcare and Family Services	Failure to Enforce Sanctions over TANF Recipients	Material noncompliance and material weakness
06-23	IL Department of Healthcare and Family Services	Failure to Properly Perform Non-Custodial Parent Location Procedures	Noncompliance and material weakness
06-24	IL Department of Healthcare and Family Services	Failure to Properly Manage and Document Interstate Cases Within KIDS	Noncompliance and reportable condition
06-25	IL Department of Healthcare and Family Services	Failure to Establish Support Orders Within Required Timeframe	Noncompliance and reportable condition
06-26	IL Department of Healthcare and Family Services	Inadequate Monitoring of Subrecipients	Noncompliance and reportable condition
06-27	IL Department of Healthcare and Family Services	Failure to Follow Up On Monitoring Findings	Noncompliance and reportable condition
06-28	IL Department of Healthcare and Family Services	Failure to Include a Program in the Treasury State Agreement	Noncompliance and reportable condition
06-29	IL Department of Children and Family Services	Missing Documentation in Eligibility Files	Material noncompliance and material weakness

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

Finding No.	State Agency	Finding Title	Finding Type
06-30	IL Department of Children and Family Services	Failure To Ensure That Required Judicial Determinations Were Made	Material noncompliance and material weakness
06-31	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
06-32	IL Department of Children and Family Services	Missing Documentation in Eligibility Files	Material noncompliance and material weakness
06-33	IL Department of Children and Family Services	Failure to Properly Document or Execute Adoption Assistance Agreements	Material noncompliance and material weakness
06-34	IL Department of Children and Family Services	Inadequate and Untimely Fiscal Monitoring of Subrecipients	Material noncompliance and material weakness
06-35	IL Department of Children and Family Services	Failure to Ensure Administrative Case Reviews Are Performed Within Required Timeframes	Noncompliance and reportable condition
06-36	IL Department of Children and Family Services	Failure to Ensure That Adoption Assistance Recertifications Are Performed On A Timely Basis	Reportable condition
06-37	IL Department of Children and Family Services	Failure to Ensure Timely Preparation of Initial Case Plans	Noncompliance and reportable condition
06-38	IL Department on Aging	Inadequate On-Site Monitoring of Subrecipients	Material noncompliance and material weakness
06-39	IL Department on Aging	Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports	Noncompliance and reportable condition
06-40	IL Department on Aging	Inaccurate Reporting of the Financial Status Report	Noncompliance and reportable condition
06-41	IL Department on Aging	Inadequate Cash Management Procedures for Subrecipients	Noncompliance and reportable condition
06-42	IL Department on Aging	Inadequate Supporting Documentation for Costs Used to Meet Match Requirement	Noncompliance and reportable condition

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

Finding No.	State Agency	Finding Title	Finding Type
06-43	IL Department of Public Health	Inadequate Process for Determining Client Eligibility	Material noncompliance and material weakness
06-44	IL Department of Public Health	Inadequate Monitoring of Subrecipients	Material noncompliance and material weakness
06-45	IL Department of Public Health	Inadequate Monitoring of Subrecipients of the Immunization Grants Program	Material noncompliance and material weakness
06-46	IL Department of Public Health	Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Material noncompliance and material weakness
06-47	IL Department of Public Health	Inadequate Control and Accountability for Vaccines	Noncompliance and reportable condition
06-48	IL Department of Public Health	Insufficient Federal Award Information Provided to Subrecipients	Noncompliance and reportable condition
06-49	IL Department of Public Health	Failure to Allocate Compensation Expenditures through the PACAP	Noncompliance and reportable condition
06-50	IL Department of Public Health	Inadequate Process for Monitoring Interagency Program Expenditures	Reportable condition
06-51	IL State Board of Education	Failure to Sanction Non-Comparable Local Education Agency (LEA)	Material noncompliance and material weakness
06-52	IL State Board of Education	Inadequate Process for Monitoring Interagency Program Expenditures	Material weakness
06-53	IL State Board of Education	Inadequate Documentation from Subrecipients for Carryover of Funds	Reportable condition
06-54	IL Community College Board	Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Noncompliance and reportable condition
06-55	IL Community College Board	Inadequate Documentation of On-Site Monitoring of Subrecipients	Noncompliance and reportable condition
06-56	IL Community College Board	Failure to Draw Funds Only for Immediate Cash Needs	Noncompliance and reportable condition
06-57	IL Student Assistance Commission	Processing and Submission of Re-insurance Claims	Material noncompliance and material weakness

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

Finding No.	State Agency	Finding Title	Finding Type
06-58	IL Student Assistance Commission	Untimely Deposits into the Federal Fund	Noncompliance and reportable condition
06-59	IL Student Assistance Commission	Inadequate Process for Assignment of Defaulted Loans	Noncompliance and reportable condition
06-60	IL Department of Employment Security	Inadequate Administration and Coordination of Program Responsibilities, Inadequate Case File Documentation and Payment of Benefits to Ineligible Beneficiaries	Material noncompliance and material weakness
06-61	IL Department of Employment Security	Incomplete Documentation in Client Eligibility Files	Noncompliance and reportable condition
06-62	IL Department of Employment Security	Inadequate Documentation of Review and Follow-up on Claim Exception Reports	Reportable condition
06-63	IL Department of Employment Security	Inadequate Procedures for Multiple Unemployment Benefit Checks Delivered to the Same Address	Reportable condition
06-64	IL Department of Employment Security	Inconsistent Application of Policies and Procedures	Reportable condition
06-65	IL Department of Employment Security	Inadequate Cash Draw Procedures	Noncompliance and reportable condition
06-66	IL Department of Employment Security	Inadequate Cash Management Procedures	Noncompliance and reportable condition
06-67	IL Department of Employment Security	Undocumented Review of Performance Reports	Reportable condition
06-68	IL Department of Employment Security	Inadequate Documentation of Controls over Information Systems	Reportable condition
06-69	IL Department of Commerce and Economic Opportunity	Failure to Competitively Bid Professional Services	Noncompliance and material weakness

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

Finding No.	State Agency	Finding Title	Finding Type
06-70	IL Department of Transportation	Failure to Obtain Suspension and Debarment Certifications from Subrecipients	Material noncompliance and material weakness
06-71	IL Department of Transportation	Inadequate On-Site Monitoring of Subrecipients	Material noncompliance and material weakness
06-72	IL Department of Transportation	Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports	Material noncompliance and material weakness
06-73	IL Department of Transportation	Inadequate On-Site Monitoring of Subrecipients	Material noncompliance and material weakness
06-74	IL Department of Transportation	Failure to Notify Subrecipients of Federal Funding	Noncompliance and reportable condition
06-75	IL Department of Transportation	Inaccurate Interest Liability Calculation	Reportable condition
06-76	IL Department of Transportation	Failure to Draw Funds Only for Immediate Cash Needs	Noncompliance and reportable condition
06-77	IL Department of Transportation	Failure to Follow Sampling and Testing Program for Construction Materials	Noncompliance and reportable condition
06-78	IL Department of Transportation	Reimbursement of Subrecipient Expenditures Incurred Prior to Funding Period	Noncompliance and reportable condition
06-79	IL Department of Transportation	Inaccurate Contract Execution Dates	Reportable condition
06-80	IL Department of Transportation	Failure to Follow Control Procedures for Real Property Acquisition and Relocation Assistance Payments	Reportable condition
06-81	IL Department of Transportation	Inadequate Controls over Information Systems	Reportable condition
06-82	IL Emergency Management Agency	Inadequate On-Site Monitoring Procedures	Material noncompliance and material weakness
06-83	IL Emergency Management Agency	Untimely Review of Subrecipient OMB Circular A-133 Audit Reports	Material noncompliance and material weakness
06-84	IL Emergency Management Agency	Inadequate Cash Management Procedures	Noncompliance and material weakness
06-85	IL Emergency Management Agency	Failure to Properly Allocate Indirect Costs	Noncompliance and reportable condition

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

Finding No.	State Agency	Finding Title	Finding Type
06-86	IL Emergency Management Agency	Insufficient Federal Award Information Provided to Subrecipients	Noncompliance and reportable condition
06-87	IL Emergency Management Agency	Undocumented Review of Financial Status Report	Reportable condition
06-88	IL State Police	Failure to Draw Funds Only for Immediate Cash Needs	Reportable condition
06-89	IL State Board of Elections	Inadequate Monitoring of Subrecipients	Material noncompliance and material weakness
06-90	IL State Board of Elections	Failure to Notify Subrecipients of Federal Funding	Material noncompliance and material weakness
06-91	IL State Board of Elections	Failure to Advance Only the Immediate Cash Needs to Subrecipients	Material noncompliance and material weakness
06-92	IL State Board of Elections	Failure to Obtain Suspension and Debarment Certificates from Subrecipients	Material noncompliance and material weakness
06-93	IL State Board of Elections	Failure to Meet HAVA Matching Requirement	Noncompliance and reportable condition
06-94	IL State Board of Elections	Inaccurate Allocation of Interest Earned on HAVA Program Funds	Noncompliance and reportable condition
06-95	IL Department of Central Management Services	Inadequate Process for Monitoring Internal Service Fund Balances	Noncompliance and reportable condition

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

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 Development Fund Cluster
Social Services Block Grant
Block Grants for Prevention and Treatment of Substance Abuse

CFDA # and Program Expenditures: 93.558 (\$556,455,000)
93.575/93.596 (\$213,191,000)
93.667 (\$115,496,000)
93.959 (\$69,615,000)

Award Numbers: G-0501ILTANF/G-0602ILTANF (93.558)
(CFDA number) G0501ILCCDF/G-0601ILCCDF (93.575/93.596)
G-0501ILSOSP/G-0601ILSOSR/G-0601ILSOS2 (93.667)
05B1ILSAPT/06B1ILSAPT (93.959)

Questioned Costs: None

Finding 06-02 *Inadequate Process for Monitoring Interagency Program Expenditures*

IDHS does not have an adequate process for monitoring interagency expenditures claimed under the Temporary Assistance for Needy Families (TANF), Child Care Development Fund Cluster (Child Care), Social Services Block Grant (Title XX), and Block Grants for Prevention and Treatment of Substance Abuse (SAPT) programs.

Federal and state expenditures under the TANF, Child Care, Title XX, and SAPT 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, 2006, IDHS used expenditures from other agencies to claim reimbursement for or satisfy maintenance of effort (MOE) requirements for the TANF, Child Care, Title XX, and SAPT programs as follows:

Program	Expending State Agency	Expenditures Claimed	Total Expenditures
Federal TANF	Children and Family Services	\$187,742,210	\$556,455,000
Federal TANF	Student Assistance Commission	\$49,384,247	\$556,455,000
Federal TANF	Revenue	\$15,519,987	\$556,455,000

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Program	Expending State Agency	Expenditures Claimed	Total Expenditures
Federal TANF	Community College Board	\$1,158,400	\$556,455,000
Federal TANF	Healthcare and Family Services	\$2,313,927	\$556,455,000
TANF MOE	Healthcare and Family Services	\$64,999,819	\$449,382,000
TANF MOE	State Board of Education	\$49,978,544	\$449,382,000
TANF MOE	Community College Board	\$5,647,563	\$449,382,000
TANF MOE	Commerce and Economic Opportunity	\$22,491	\$449,382,000
Child Care MOE	Children and Family Services	\$11,081,836	\$449,382,000
Title XX	Children and Family Services	\$18,831,237	\$115,496,000
SAPT MOE	Public Health	\$4,373,000	\$121,240,000

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 Healthcare and Family Services (DHFS) that includes the Low-Income Home Energy Assistance Program (LIHEAP) which was transferred to DHFS 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 the process of improving IDHS monitoring procedures over interagency expenditures was started in response to the prior audit recommendation.

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

Recommendation:

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

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federal programs and implement procedures as necessary to ensure up to date interagency agreements are on file for all agencies.

IDHS Response:

Disagree. This is a repeat finding because the auditors indicated that some of the corrective actions implemented were completed in fiscal year 2007. IDHS has implemented additional controls over other agency expenditures claimed on IDHS administered grant programs. We have obtained and reviewed internal control surveys on the claimed programs from the other agencies. For the quarter and year ending June 30, 2006 and subsequent quarters we have obtained a signed certification statement from responsible agency officials certifying they have not claimed on any other federal program, used as match, or to meet any other State spending requirements of a federal program. The interagency agreement with DHFS was updated for the LIHEAP program and signed by both IDHS and DHFS.

Auditors' Comment:

The corrective action implemented relative to this finding primarily consisted of requiring other state agencies to complete internal control questionnaires and certifications relative to the expenditures reported to IDHS; however, these procedures were performed subsequent to the end of the audit period (June 30, 2006). In addition, IDHS has not implemented procedures to verify the accuracy of the information reported in the internal control questionnaires and certifications provided by other state agencies. An updated interagency agreement with DHFS was not in place until January 2007.

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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 (\$556,455,000)
 93.767 (\$502,539,000)
 93.775/93.777/93.778 (\$5,223,946,000)

Award Numbers: G-0501ILTANF/G-0602ILTANF (93.558)
 (CFDA Number) 05-0505IL5021/05-0605L5021/05-0605IL6101/05-0605IL5R21 (93.767)
 05-0605IL5048/05-0505IL5048 (93.775/93.777)
 05-0605IL5028/05-0505IL5028 (93.778)

Questioned Costs: Cannot be determined

Finding 06-03 Failure to Perform Eligibility Redeterminations within Prescribed Timeframes

IDHS is not performing “eligibility redeterminations” for individuals receiving benefits under the Temporary Assistance for Needy Families (TANF), 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 redeterminations on an annual basis. These procedures typically involve a face to face meeting with the beneficiary to verify eligibility criteria including income level and assets. During our test work over eligibility, we noted the State was delinquent (overdue) in performing the eligibility redeterminations for individuals receiving benefits under the TANF, SCHIP, and Medicaid programs based on the following monthly statistics for state fiscal year 2006:

Program/Month	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
TANF			
July	3,323	41,487	8.01%
August	3,210	41,621	7.71%
September	3,121	42,204	7.40%
October	2,766	42,380	6.53%
November	2,758	41,958	6.57%

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Program/Month	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
TANF (cont'd)			
December	2,662	42,137	6.32%
January	2,445	41,549	5.88%
February	2,299	40,860	5.63%
March	1,958	40,649	4.82%
April	1,823	39,802	4.58%
May	1,650	39,425	4.19%
June	1,733	39,064	4.44%
SCHIP			
July	56,332	511,152	11.02%
August	56,140	513,703	10.93%
September	55,891	515,455	10.84%
October	52,889	517,649	10.22%
November	53,439	520,008	10.28%
December	53,926	524,041	10.29%
January	47,996	526,457	9.12%
February	44,734	527,398	8.48%
March	34,006	527,200	6.45%
April	25,120	524,191	4.79%
May	20,201	524,480	3.85%
June	18,516	525,468	3.52%
Medicaid			
July	31,080	369,568	8.41%
August	30,384	370,908	8.19%
September	30,658	372,269	8.24%
October	28,764	374,342	7.68%
November	28,957	375,758	7.71%
December	29,578	377,448	7.84%
January	28,091	378,501	7.42%
February	26,798	378,617	7.08%
March	23,591	378,356	6.24%
April	20,326	377,812	5.38%
May	17,591	378,303	4.65%
June	16,818	378,583	4.44%

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In addition, during our test work of 50 TANF, 50 SCHIP, and 125 Medicaid eligibility files selected for testwork, we noted redeterminations were not completed within required time frames for three TANF, eleven SCHIP, and fifteen Medicaid cases tested. Delays in performing redeterminations ranged from one to nine months after the required timeframe.

In accordance with 42 USC 602(a)(1)(B)(iii), 42 CFR 431.10, and the OMB Circular A-133 Compliance Supplement, dated March 2006, 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 redeterminations of eligibility for all recipients on an annual basis.

In discussing these conditions with IDHS officials, they stated the finding is based on a completion rate of 100%. IDHS has reviewed and facilitated change in the State Plan to reflect the Federal expectations regarding redeterminations. In fiscal year 2006, IDHS was over 90% current on case redeterminations.

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

Recommendation:

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

IDHS Response:

The Department accepts the recommendation. The IDHS Division of Human Capital Development agrees to review our process of performing eligibility redeterminations and will continue to make redetermination currency a priority. It should be noted that the TANF State Plan has been changed to indicate that every effort will be made to complete eligible redeterminations timely and accurately in accordance with federal guidelines. Federal guidelines do not contain a stipulation as to a percentage of timely redeterminations. The finding is based on a completion rate of 100%. To date in fiscal year 2007, IDHS exhibits a redetermination currency rate of over 96%.

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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 (\$556,455,000)
Award Numbers: G-0501ILTANF/G-0602ILTANF
Questioned Costs: \$4,752

Finding 06-04 *Inadequate Process for Preventing Individuals Convicted of Drug Felonies from Receiving TANF Benefits*

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

As a condition of receiving cash assistance under the TANF program, beneficiaries are required to meet certain eligibility criteria prescribed by federal regulations and the TANF State Plan. IDHS has designed its standard application for benefits to request information from applicants relative to each of the eligibility criteria.

During our testwork over 50 TANF beneficiary files, we noted one beneficiary who had been convicted of a Class 1 felony was paid TANF cash benefits totaling \$4,752 during the year ended June 30, 2006. Upon further investigation, we noted IDHS' process for determining whether TANF applicants have been convicted of a Class 1 or Class X felony primarily consists of inquiries made during the application process. IDHS does not have procedures in place to corroborate the applicant's statements through cross matches with the Illinois Department of Corrections or other mechanisms.

In accordance with 42 USC 602(a)(1)(B)(iii) and the OMB Circular A-133 Compliance Supplement, dated March 2006, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plans for the TANF program. Section II.G of the current State plan prohibits individuals convicted of a Class 1 or Class X felony for an act occurring after August 21, 1996, involving the possession, use, or distribution of a controlled substance under Illinois, or comparable federal law, are ineligible to receive TANF. Additionally, IDHS Policy No. 03-23-02 requires crossmatches to be completed to determine whether applicants have been convicted Class 1 or Class X drug felonies.

In discussing these conditions with IDHS officials, they stated this finding could be attributed to caseworker oversight. Although IDHS' written procedures contain instruction on handling a crossmatch, negotiations with the Illinois State Police never resulted in a file sharing agreement. The IDHS Division of Human Capital Development staff are exploring available options in order to create a crossmatch with the appropriate entities.

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

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Recommendation:

We recommend IDHS review its current process for performing eligibility determinations and consider changes necessary to ensure procedures to verify whether beneficiaries have been convicted of a Class 1 or Class X felony are implemented.

IDHS Response:

The Department accepts the recommendation. The IDHS, Family Community Resource Center where the client received benefits identified the overpayment and has already completed the overpayment referral to the IDHS Bureau of Collections. IDHS will seek to recover the overpayments through all means authorized by statute. The IDHS Division of Human Capital Development agrees to review our process of verifying the presence of a Class 1 or X felony. The Department will remind all staff of the TANF requirements related to convicted Class 1 or X felons.

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State Agency: Illinois Department of Human Services (IDHS)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Social Services Block Grant
CFDA # and Program Expenditures: 93.667 (\$115,496,000)
Award Numbers: G-0501ILSOSP/G-0601ILSOSR/G-0601ILSOS2
Questioned Costs: \$1,016,313

Finding 06-05 Unallowable Costs Charged to the Title XX Program

IDHS used unallowable expenditures to meet the earmarking requirement for the Social Services Block Grant (Title XX) program.

During the State fiscal year ended June 30, 2006, IDHS transferred approximately \$33.3 million from the TANF program to the Title XX program. Funds transferred from TANF are required to be used only for programs and services to children or their families whose income is less than 200% of the official poverty guidelines. The expenditures used by IDHS to meet the earmarking requirement are for services provided to children and families served by IDHS under its Early Intervention and Home Services programs. As the eligibility criteria for these programs are less stringent than the TANF requirements, IDHS specifically identified expenditures for individuals or families meeting the TANF requirements.

During our testwork over 65 Home Services program expenditures, we noted five expenditures tested (totaling \$831) were for services provided to beneficiaries who did not meet the earmarking poverty level criteria. Upon further investigation, IDHS determined the query developed to identify expenditures for beneficiaries meeting the poverty level criteria erroneously increased the family size of each beneficiary by one individual. As a result, ineligible beneficiaries were included in the query and expenditures totaling \$1,016,313 were improperly used to meet the earmarking requirement.

In accordance with 42 USC 604 (d)(3)(A), the State shall use all of the amount transferred in from TANF only for programs and services to children or their families whose income is less than 200 percent of the official poverty guideline as revise annually by USDHHS. 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 earmarking requirement.

In discussing these conditions with IDHS personnel, they state an error in calculating the family size of home services clients occurred for quarters ending December 31, 2005, March 31, 2006, and June 30, 2006.

Failure to properly identify beneficiaries at or below the required poverty level results in claiming unallowable costs which do not meet the specified earmarking requirements. (Finding Code 06-05)

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Recommendation:

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

IDHS Response:

Disagree. IDHS has implemented the recommendation. The report error was corrected and adjustments made prior to the auditors completing their testing. IDHS has revised the computer program to accurately reflect TANF requirements for the selection process. The final ACF-196 report was corrected and the correct amount was reported on the final Title XX SSBG annual report. No unallowable costs were claimed on either program.

Auditors' Comment:

We are unclear as to why IDHS disagrees with the finding. The errors reported in this finding were identified solely as a result of the performance of our audit procedures and the amounts used to support federal cash draws were required to be adjusted as a result of the error identified. The fact that corrective action was taken after notification of the errors by the auditors does not eliminate the initial noncompliance.

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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 (\$556,455,000)
Award Numbers: G-0501ILTANF/G-0602ILTANF
Questioned Costs: \$4,975

Finding 06-06 *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 Health and Family Services (DHFS) to help identify and locate non-custodial parents. In the event a TANF beneficiary fails to assist DHFS 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 50 Child Support cases referred by DHFS for non-cooperation without good cause. We noted the following exceptions during our testwork:

- In three 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 \$2,307.
- In five 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 24 to 43 days. Benefits paid to these individuals during the period of noncompliance were \$2,668.
- In four cases, IDHS did not evaluate and sanction beneficiaries for non-cooperation within required timeframes. There was not evidence in these case files documenting the reasons for these delays. IDHS and DHFS were unable to determine whether the delays in sanctioning these cases were caused by untimely referrals by DHFS or untimely case evaluation by IDHS. Benefits paid to these individuals during the year ended June 30, 2006 were \$5,008.

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In accordance with 45 CFR 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 delays in the evaluation process can be attributed to the lack of electronic interface between the IV-A (IDHS) and IV-D (DHFS) agencies. Since the IDHS and DHFS computer systems do not interface, the Form 1611 (Notice of Failure to Cooperate) process is manual. The DHFS Division of Child Support Enforcement completes and sends Notice of Failure to Cooperate to IDHS, where it is sorted several times before dissemination to the caseworker responsible for beginning the reconciliation process. This process leads to inefficiencies in the delivery of the Notice of Failure to Cooperate.

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 06-06, 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:

The Department accepts this finding. IDHS will continue to evaluate and sanction beneficiaries for non-cooperation or document good cause existed for the non-cooperation with DHFS according to procedures. IDHS will also seek to recover any overpayments identified through all means authorized by statute.

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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 (\$82,347,000)
Award Numbers: H126A050018A/H126A060018
Questioned Costs: \$7,806

Finding 06-07 *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 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 three cases, invoices could not be located to support expenditures made on the behalf beneficiaries totaling \$3,470. As a result, adequate supporting documentation does not exist to support the allowability of these expenditures.
- In one case, payments were made for services that were not approved in the beneficiary's current IPE. Payments made during the year ended June 30, 2006 for unapproved services related to these beneficiaries totaled \$2,667.
- In two cases, invoice vouchers were not approved by the counselor prior to payment. Payments made during the year ended June 30, 2006 for services provided on these vouchers totaled \$1,669.

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. 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 be: (1) reasonable and necessary; (2)

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allocable; (3) consistently treated; (4) in conformance with laws, regulations, and agreements; (5) net of applicable credits; and (6) adequately documented.

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

In discussing these conditions with IDHS officials, they state each of the instances cited are the result of incomplete documentation regarding the appropriateness of the expenditure. The expenditures are allowable under the Vocational Rehabilitation program. Appropriate authorization, referral, and service documentation were included in the case file, but documentation was not fully completed in instances regarding vouchers.

Failure to properly determine and document the allowability of costs in accordance with program regulations may result in costs inconsistent with program objectives being claimed to federal programs. (Finding Code 06-07, 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.

IDHS Response:

The Department accepts the finding. The IDHS Division of Rehabilitation Services (DRS) has developed a Quality Assurance process to monitor allowability of payments. DRS will continue to stress to field staff the importance of fully documenting and filling out proper case notes.

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State Agency: Illinois Department of Human Services (IDHS)
Federal Agency: US Department of Education (USDE)
Program Name: Special Education – Grants for Infants and Families with Disabilities
CFDA # and Program Expenditures: 84.181 (\$26,207,000)
Award Numbers: H181A030001/H181A040003/H181A050007
Questioned Costs: Cannot be determined

Finding 06-08 *Early Intervention Maintenance of Effort Requirement*

IDHS was unable to provide adequate supporting documentation to substantiate the base level of State funded expenditures required for the Special Education – Grants for Infants and Families with Disabilities (Part C) program for the year ended June 30, 2006.

As a condition of receiving federal funding under the Part C program, USDE requires the total amount of State and local funds budgeted for early intervention services for children (and their families) eligible under Part C to be equal to the total amount of State and local funds actually expended for early intervention services for these children (and their families) in the most recent preceding fiscal year for which information is available. During our audit of the Part C program in the prior year, IDHS was unable to provide a complete population of expenditures used to meet its maintenance of effort requirement for state fiscal years 2003, 2004, and 2005. As a result, we are unable to verify the base level of State and locally funded expenditures required for the year ended June 30, 2006. Consequently, we were unable to determine if the State funded expenditures of \$2,578,528 for the year ended June 30, 2006 were sufficient to meet the maintenance of effort requirement.

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 the finding is a result of the conditions that resulted in the disclaimer of opinion on the EI program in the prior year audit.

Failure to adequately support expenditures used to meet the maintenance of effort requirement inhibits the ability to perform an audit of the program in accordance with OMB Circular A-133. (Finding Code 06-08)

Recommendation:

We recommend IDHS review its process for identifying expenditures used to meet its maintenance of effort requirements and implement changes necessary to ensure expenditures are identified and accounted for in accordance with the applicable program regulations.

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IDHS Response:

Disagree. IDHS has already implemented a process to identify and account for expenditures to meet the Early Intervention program maintenance of effort requirements. Consistent with our cost allocation plan, we used this process to account for Early Intervention maintenance of effort spending for fiscal year 2006.

Auditors' Comment:

As noted in the finding above, due to the disclaimer of opinion issued in connection with our audit of the EI program in 2005, we were unable to determine whether IDHS has met its maintenance of effort requirement as the amount of prior year state funded expenditures could not be audited.

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State Agency: Illinois Department of Human Services (IDHS)
Federal Agency: US Department of Agriculture (USDA)
Program Name: Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA # and Program Expenditures: 10.557 (\$183,714,000)
Award Numbers: 20051W100342/20051W100642/20061W100342/20061W100642
Questioned Costs: None

Finding 06-09 *Inadequate Monitoring of WIC Service Organization*

IDHS did not adequately monitor a service organization of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

IDHS issues food instruments to beneficiaries of the WIC program which are used to purchase supplemental food (typically infant formula) from vendors approved by the State. In order to receive reimbursement from the State, vendors deposit food instruments received from WIC beneficiaries into their bank accounts and the food instruments are then routed to IDHS' service organization for processing and payment. The service organization is responsible for validating each food instrument presented for payment by comparing the instrument to information provided by IDHS and for paying each vendor submitting food instruments. The service organization provides IDHS with a series of monthly reports which IDHS uses to complete food instrument reconciliations and vendor monitoring procedures required by federal regulations.

In order to ensure the service organization is processing food instruments properly, IDHS requires the service organization to have an annual independent examination of the design and operating effectiveness of the internal controls in place relative to food instrument processing and reporting. During our audit, we noted the auditors' report on controls placed in operation and tests of operating effectiveness for the service organization for the year ended June 30, 2006 did not adequately document the procedures performed and results obtained in sufficient detail to enable IDHS to determine whether the service organization's internal controls were properly designed and operating effectively. In addition, a formal review and evaluation of the service organization's audit report had not been performed or documented by IDHS personnel.

The A-102 Common rule requires non-Federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing and documenting procedures to monitor service organizations.

In discussing these conditions with IDHS officials, they stated the IDHS Division of Community Health and Prevention does conduct adequate monitoring of the WIC service provider. IDHS received an unqualified independent audit of the service provider as required in the WIC banking contract. Per the WIC banking contract, it is the discretion of service provider to select the auditor. The Department currently collects WIC benefit issuance information electronically (via the Cornerstone reporting system) on a daily basis. On a daily basis, the IDHS Division of Community Health and Prevention reconciles WIC benefit issuance data from the IDHS' Cornerstone data system to WIC benefit redemption data reported by the service provider.

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Failure to adequately monitor service organizations may result in such organizations not properly administering contracted duties in accordance with laws, regulations, and the service agreement. (Finding Code 06-09)

Recommendation:

We recommend IDHS review its procedures for monitoring its service organizations and implement any changes necessary to ensure monitoring activities are adequately designed and documented.

IDHS Response:

Disagree. The Department believes that adequate and appropriate controls were in place for the purpose of monitoring the Women, Infants and Children (WIC) service organization. The auditors based their findings only on an audit report issued by the independent auditors without reviewing their workpapers or reviewing other scope of work completed by the independent auditors. The auditors also refused to communicate with the independent auditors for clarification on the scope of their work. IDHS disagrees with the finding for the following reasons:

- 1 IDHS did require the Women, Infants and Children service organization to submit and did receive an independent audit report on controls placed in operation and tests of operating effectiveness for the service organization for the year ended June 30, 2006.
- 2 The IDHS Division of Community, Health and Prevention staff reconciles the Women, Infants and Children banking activity on a daily basis. The auditors have reviewed these procedures and processes and no exceptions were noted.
- 3 As stated in the finding, there are no questioned costs associated with this finding.

Auditors' Comment:

We disagree with IDHS that adequate and appropriate monitoring controls were in place for the purpose of monitoring its WIC service organization. As stated in the finding above, IDHS personnel did not perform or document a review of the service organization audit report. We believe this audit report is an important component of IDHS' overall process for monitoring its service organization.

Additionally, we did have conversations with the service organization's auditors relative to the scope of their procedures; however, the purpose of the service organization's report on internal control is to allow user organizations (and their independent auditors) to gain an understanding of the service organization's internal controls and the operating effectiveness of those controls. Such a report should be written in sufficient detail to allow users of the report to understand the scope of the procedures performed and the results obtained from those 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 (\$556,455,000)
Award Numbers: G-0501ILTANF/G-0602ILTANF
Questioned Costs: None

Finding 06-10 *Failure to Adequately Coordinate Program Benefits*

IDHS did not adequately coordinate benefits paid on the behalf of beneficiaries of the Temporary Assistance for Needy Families (TANF) and Child Care Development Fund Cluster programs.

The TANF program is comprised of a series of programs designed and operated by the State to address the welfare needs of Illinois residents. IDHS offers scholarships to low income students to assist them in obtaining a college degree and employment under a state program known as the TANF Low Income Degree Scholarship (TANF Scholarship) program. The scholarships are designed to provide eligible students with funds for costs associated with obtaining a post-secondary degree. Eligible scholarship costs extend beyond tuition and books to provide for other living expenses associated with attending a college or university, including, but not limited to housing, transportation, and child care. The Child Care Development Fund Cluster program is a federal program designed to increase the availability, affordability, and quality of child care services for low income families by providing child care subsidies.

During our review of documentation of the program guidance provided to subrecipients administering the TANF Scholarship program, we noted the guidance provided by IDHS was informal in nature and required subrecipients to exercise significant judgment relative to the types of scholarships allowed to be awarded. The informal nature of this guidance may allow for diverse practices in awarding such scholarships. For example, some students may receive scholarship funds to pay only for tuition and books; whereas, other students may receive additional scholarships for living expenses such as rent, mortgage payments, car payments, car insurance, utilities, and parking fines. In addition, we noted that it is possible for students to receive financial assistance for child care costs under the TANF Scholarship program while also receiving benefits under the Child Care Development Fund Cluster program.

During the year ended June 30, 2006, IDHS claimed approximately \$1.5 million in TANF Scholarship program expenditures under the TANF program.

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 be: (1) reasonable and necessary; (2) allocable; (3) consistently treated; (4) in conformance with laws, regulations, and agreements; (5) net of applicable credits; and (6) adequately documented.

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Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing definitive program guidance and coordinating the benefits awarded under federal assistance programs.

In discussing these conditions with IDHS officials, they stated program guidance procedures provided by IDHS to subrecipients administering the scholarship program granted them the flexibility to exercise judgment regarding the nature of scholarships awarded.

Failure to establish adequate program guidance and coordinate program benefits may result in inconsistent awarding of benefits and the duplication of benefits awarded. (Finding Code 06-10)

Recommendation:

We recommend IDHS develop definitive guidance for awarding scholarships under its TANF Scholarship program and implement procedures to ensure benefits under its federal programs are properly coordinated.

IDHS Response:

Disagree. The initial scholarship program guidelines for providers were drafted to allow the flexibility needed to serve a diverse population of recipients that have a diversity of needs in order to continue their education. We do not agree that scholarships were awarded in violation of the program, as all funds were awarded to assist recipients to remove barriers to continuing their education. IDHS has implemented more specific guidance to providers to ensure future consistency in scholarship criteria across all administrators of the program. IDHS has reviewed all relevant federal requirements and we have not found anything that prohibits the use of funding as required under the TANF Low Income program.

Auditors' Comment:

Federal regulations require benefits provided under the TANF program to be coordinated to prevent recipients from receiving duplicative services or benefits under multiple federal programs. In addition, IDHS is required to provide subrecipients with adequate guidance to ensure programs are administered in accordance with federal regulations.

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For the Year Ended June 30, 2006

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 (\$82,347,000)
Award Numbers: H126A050018A/H126A060018
Questioned Costs: None

Finding 06-11 *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 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 seven cases, IDHS did not determine eligibility within the required 60 day timeframe. No payments were made during year ended June 30, 2006 for services related to these beneficiaries prior to the completion of the eligibility determinations, except those necessary to confirm the beneficiary's disability.
- In eight cases, IDHS could not provide the certificate of eligibility signed by the counselor who completed the eligibility determination; however, unsigned electronic certificates were provided from the case management system.

In accordance with 34 CFR 361.41(b)(1), 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.

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 beneficiary eligibility determinations are performed and documented in accordance with program regulations.

In discussing these conditions with IDHS officials, they stated delays occurred which prevented the customer from being certified within the prescribed timeframes and IDHS did not document requests for extensions, or did not print and sign the certificate of eligibility forms to be placed in the paper case files.

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 06-11, 05-22, 04-25)

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Recommendation:

We recommend IDHS review its current process for performing eligibility determinations and consider changes necessary to ensure all eligibility determinations are made and documented in accordance with program regulations.

IDHS Response:

The Department accepts the finding. IDHS has implemented procedures to ensure eligibility determinations are reviewed. The procedures will also ensure that certificate of eligibility forms are printed, signed and filed in the paper case files. The IDHS Division of Rehabilitation (DRS) will continue to remind staff of the importance of documentation for extension of determination of eligibility, and for signing certificates of eligibility.

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For the Year Ended June 30, 2006

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
Special Education – Grants for Infants and Families with Disabilities
Temporary Assistance for Needy Families
Child Care Development Fund Cluster
Social Services Block Grant
Block Grants for Prevention and Treatment of Substance Abuse

CFDA # and Program Expenditures: 10.557 (\$183,714,000)
84.126 (\$82,347,000)
84.181 (\$26,207,000)
93.558 (\$556,455,000)
93.575/93.596 (\$213,191,000)
93.667 (\$115,496,000)
93.959 (\$69,615,000)

Award Numbers: 20051W100342/20051W100642/20061W100342/20061W100642 (10.557)
(CFDA number) H126A050018/H126A050018A (84.126)
H181A040003/H181A040004/H181A050007 (84.181)
G-0602ILTANF/G-0501ILTANF (93.558)
G0601ILCCDF/G-0501ILCCDF (93.575)
G-0401ILSOSR/G-0501ILSOSP (93.667)
05B1ILSAPT/06B1ILSAPT (93.959)

Questioned Costs: None

Finding 06-12 *Untimely Performance of On-Site Reviews and Communication of and Follow Up on On-Site Monitoring Findings*

IDHS did not follow its established policies and procedures for performing on-site monitoring reviews of subrecipients of the Special Supplemental Nutritional Program for Women, Infants, and Children (WIC), Rehabilitation Services – Vocational Rehabilitation Grants to States (Vocational Rehabilitation), Special Education Grants for Infants and Families with Disabilities (Early Intervention), Temporary Assistance for Needy Families (TANF), Child Care Development Fund Cluster, Social Services Block Grant (Title XX) and Block Grants for Prevention and Treatment of Substance Abuse (SAPT) programs.

IDHS has implemented procedures whereby the program 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

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observations for improvement noted. IDHS' policies require the subrecipient to respond to each finding by providing a written corrective action plan.

During our testwork over expenditures of 150 subrecipients (30 for each program) of the Vocational Rehabilitation, TANF, Child Care Development Fund Cluster, Title XX, and SAPT programs we noted nine subrecipients for which on-site program reviews have not been performed within the last three years as follows:

Program	Number of Subrecipients Without On-Site Reviews	Range of Years Since Last On-Site Review	Related Expenditures	Total Fiscal Year 2006 Subrecipient Expenditures	Total Fiscal Year 2006 Program Expenditures
Vocational Rehabilitation	1	None performed	\$514,900	\$23,266,000	\$82,347,000
TANF	2	None performed	\$8,091,520	\$228,157,000	\$556,455,000
Child Care	1	None performed	\$176,952	\$196,520,000	\$213,191,000
Title XX	3	None performed	\$833,717	\$43,326,000	\$115,496,000
SAPT	2	None performed	\$1,513,554	\$66,720,000	\$69,615,000

In addition, during our testwork over on-site monitoring files of 174 subrecipients (30 for each program, except Early Intervention for which 24 were tested) of the WIC, Early Intervention, TANF, Child Care Development Fund Cluster, Title XX, and SAPT programs, we noted the following exceptions:

Program	Number of Subrecipients Not Notified of Review Results within 60 days	Number of Days to Report Review Findings	Number of Subrecipients for which Corrective Action Plans Were Not Received within 60 days	Number of Days Corrective Action Plan was Late
WIC	6	78-110 days	1	6 days
Early Intervention	3	None	3	4-20 days
TANF	3	103-176 days	None	None
Child Care	11	67-89 days	None	None
Title XX	2	67-102 days	2	65-99 days
SAPT	None	None	1	52 days

According to OMB Circular A-133 § ____.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

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In discussing these conditions with IDHS officials, they stated IDHS was still in the process of implementing corrective actions during fiscal year 2006.

Failure to adequately monitor subrecipients may result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. Additionally, failure to notify subrecipients of findings and receive corrective action plans in a timely manner may result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 06-12, 05-25, 04-22, 03-24, 02-24)

Recommendation:

We recommend IDHS ensure programmatic on-site reviews are performed for subrecipients in accordance with established policies and procedures. In addition, we recommend IDHS review its process for reporting and following up on findings relative to subrecipient on-site reviews to ensure timely corrective action is taken.

IDHS Response:

The Department accepts the finding. During fiscal year 2007, a new system of conducting on-site monitoring has been implemented. Each IDHS division/program areas has developed a new monitoring system that uses a consolidated schedule to record all required monitoring and establish procedural due dates.

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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
Special Education – Grants for Infants and Families with Disabilities
Temporary Assistance for Needy Families
Child Care Development Fund Cluster
Social Services Block Grant
Block Grants for Prevention and Treatment of Substance Abuse

CFDA # and Program Expenditures: 10.557 (\$183,714,000)
84.126 (\$82,347,000)
84.181 (\$26,207,000)
93.558 (\$556,455,000)
93.575/93.596 (\$213,191,000)
93.667 (\$115,496,000)
93.959 (\$69,615,000)

Award Numbers: 20051W100342/20051W100642/20061W100342/20061W100642 (10.557)
(CFDA number) H126A050018/H126A050018A (84.126)
H181A040003/H181A040004/H181A050007 (84.181)
G-0602ILTANF/G-0501ILTANF (93.558)
G0601ILCCDF/G-0501ILCCDF (93.575)
G-0401ILSOSR/G-0501ILSOSP (93.667)
05B1ILSAPT/06B1ILSAPT (93.959)

Questioned Costs: None

Finding 06-13 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), Special Education – Grants for Infants and Families with Disabilities (Early Intervention), Temporary Assistance for Needy Families (TANF), Child Care Development Fund 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 204 subrecipient monitoring files to review from the above programs. During our review of the subrecipient monitoring files, we noted that for 46 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:

Desk Review Period	Number of Subrecipients
61-90 days after receipt	12
91-120 days after receipt	19
121-150 days after receipt	12
151-180 days after receipt	1
180 + days after receipt	2

In addition, we noted four reports which were not date stamped when received. As a result, we could not determine whether the review of these reports occurred within 60 days of receipt. Of the two subrecipients reviewed six months after the date the audit report was received, 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, 2006 were as follows:

Program	Total Fiscal Year 2006 Subrecipient Expenditures	Total Fiscal Year 2006 Program Expenditures	%
WIC	\$166,570,000	\$183,714,000	90.7%
Vocational Rehabilitation	\$23,266,000	\$82,347,000	28.3%
Early Intervention	\$8,083,000	\$26,207,000	30.8%
TANF	\$228,157,000	\$556,455,000	41.0%
Child Care	\$196,520,000	\$213,191,000	92.2%
Title XX	\$43,326,000	\$115,496,000	37.5%
SAPT	\$66,720,000	\$69,615,000	95.8%

According to OMB Circular A-133 § .400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. 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 ends. IDHS notes that there is no timeframe required for review prescribed in the regulations, however the auditors have interpreted a reasonable timeframe to be 60 days.

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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 06-13, 05-27)

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:

Disagree. OMB Circular A133.400(d)(5) clearly states under pass-through entity responsibilities that a management decision on audit findings be issued to a subrecipient within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action. 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, Audit Review Section internal procedure was changed so that within 15 business days of receiving forwarded reports from Springfield, the Audit Review Supervisor scans each report for 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.

Auditors' Comment:

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 reports include procedures in addition to following up on findings including reconciliation of federal expenditures to IDHS records and review of risk assessments to ensure the audit was properly performed.

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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)
US Social Security Administration (USSSA)

Program Name: Rehabilitation Services – Vocational Rehabilitation Grants to States
Block Grants for Prevention and Treatment of Substance Abuse
Social Security Disability Insurance

CFDA # and Program Expenditures: 84.126 (\$82,347,000)
93.959 (\$69,615,000)
96.001 (\$61,815,000)

Award Numbers: H126A050018/H126A050018A (84.126)
(CFDA number) 05B1ILSAPT/06B1ILSAPT (93.959)
0504ILD100/0604ILD100 (96.001)

Questioned Costs: \$6,871

Finding 06-14 *Inaccurate Interest Liability Calculations*

IDHS did not properly calculate its interest liabilities for the Rehabilitation Services – Vocational Rehabilitation Grants to States (Vocational Rehabilitation), Block Grants for Prevention and Treatment of Substance Abuse (SAPT), and Social Security Disability Insurance (SSDI) programs.

Annually, the State of Illinois negotiates the Treasury-State Agreement (TSA) with the US Department of the Treasury (the Treasury) which details the funding techniques to be used for the draw down of federal funds. Certain approved funding techniques utilized by the State require the use of a clearance pattern which identifies the average number of days federal funds are held by the State. The clearance pattern is used to calculate the State's interest liability for the program.

The TSA requires IDHS to determine the total time federal funds are held by measuring two separate time periods: the time federal funds are held in a State account prior to being disbursed (preissuance time) and the time federal funds are held by the State between the issuance and the clearance of warrants (clearance time). The preissuance time is to be measured annually by selecting a statistical sample of warrants and calculating the weighted average number of days between the date federal funds were deposited and the date the warrant was issued. The clearance time is to be calculated and certified at least every five years and is included in the TSA. The sum of these time periods is used to calculate the State's interest liability.

During our testwork over the June 30, 2005 interest calculation (submitted in fiscal year 2006), we noted IDHS improperly used a simple average time instead of the dollar weighted average time in calculating the preissuance time. In addition, the clearance time used to calculate the administrative interest liabilities for the Vocational Rehabilitation, SAPT, and SSDI programs was one day as opposed to the six, nine, and six days, respectively, prescribed in the TSA. As a result, the interest liabilities calculated by IDHS were overstated by \$663 for the Vocational Rehabilitation program and were understated by \$6,042 and \$829 for the SAPT and SSDI programs, respectively.

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According to the Treasury-State Agreement signed between the US Department of Treasury and the State of Illinois, IDHS is required to calculate an interest liability on federal funds for the Vocational Rehabilitation, SAPT, and SSDI programs based on the annual program expenditures times the average equivalent yield of the 13-week Treasury bills auctioned during the year times the sum of the preissuance time and the clearance time. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the interest liability calculation is performed in accordance with the TSA.

In discussing these conditions with IDHS personnel, they state IDHS followed its process for interest liability calculations that had been in place since fiscal year 2002.

Failure to calculate the interest liability in accordance with the TSA may result in an underpayment of an interest liability to the federal government. (Finding Code 06-14)

Recommendation:

We recommend IDHS recalculate the interest liability for the year ended June 30, 2005 using the methodology stated in the TSA. A review of the interest liability calculation should be performed by an independent person that is knowledgeable of the TSA requirements.

IDHS Response:

Disagree. IDHS has already recalculated our fiscal year 2005 and fiscal year 2006 interest liability using the dollar weighted methodology, and it resulted in a net overpayment of \$10,249. Fiscal year 2005 recalculation resulted in an underpayment totaling \$6,208 and fiscal year 2006 recalculation indicated an overpayment totaling \$16,457. We disagree with the auditors' assertion that the incorrect clearance time was used in the calculation. The clearance times shown in Exhibit II represent the combined pre-issuance and clearance time for payroll expenditures used in the prior year's calculation. We performed the calculations in accordance with Section 8.7.1C of the TSA using clearance times for payroll warrants that were recalculated in fiscal year 2004 in response to audit recommendation 03-27. The clearance patterns for payroll warrants averaged one day since 73% of IDHS employees are on direct deposit for payroll earnings. The clearance pattern documentation was included with our fiscal year 2004 interest calculations. The pre-issuance time plus the one-day clearance pattern equals the six, nine and six days for the mentioned programs shown in Exhibit II. IDHS will notify the agency responsible for negotiating the TSA agreement that the proper clearance time for payroll expenditures of the SAPT, VR and SSDI programs is one day.

Auditors' Comment:

The TSA requires interest to be calculated based upon the clearance times specified in Exhibit II of the TSA. To the extent the TSA contains inaccurate clearance patterns, IDHS should work with the Governor's Office of Management and Budget to amend the TSA to include the corrected clearance patterns.

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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 (\$556,455,000)
Award Numbers: G-0501ILTANF/G-0602ILTANF
Questioned Costs: None

Finding 06-15 *Inaccurate ACF-204 TANF Annual Report*

IDHS did not properly report state program expenditures in the ACF-204 TANF Annual Report.

In order to be eligible to receive federal funds under the TANF program, the State is required to maintain a level (amount) of “qualified State expenditures” for certain TANF activities designed to assist families to attain and maintain self-sufficiency. IDHS submits a special report, ACF-204 TANF Annual Report, to USDHHS on an annual basis which allows USDHHS to monitor whether the State has complied with the maintenance of effort (MOE) requirement. The report includes a series of individual reports on each separate program funded by State MOE funds and is an important source of information detailing the different ways resources are used to help families attain and maintain self-sufficiency.

During our review of the September 30, 2005 ACF-204 TANF Annual Report, we noted the amounts reported by IDHS for several state programs as “total state expenditures for the program for the fiscal year” (line 6) were equal to the amounts reported as MOE. However, we noted the program expenditures funded by the State were in excess of the TANF MOE expenditures. As a result, the amount of State expenditures reported for certain state programs were understated. IDHS has not been able to determine the amounts that should have been reported.

According to the OMB Circular A-133 Compliance Supplement, dated March 2006, IDHS is required to complete and submit the ACF-204, TANF Annual Report (OMB No. 0970-0199) to the USDHHS annually. Instructions for completing of the ACF-204 TANF Annual Report require the total amount of non-federal funds spent to pay for program benefits or services during the fiscal year to be reported regardless of whether such expenditures were claimed as MOE.

In discussing these conditions with IDHS personnel, they stated the procedures used in reporting program expenditures on line 6 (Statewide Expenditures) of the ACF-204 report were adopted to facilitate reconciliation with the ACF-196 TANF quarterly reports.

Failure to accurately report total state expenditures on the ACF-204 TANF Annual Report inhibits USDHHS’ ability to appropriately monitor and evaluate the performance of the TANF program. (Finding Code 06-15)

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Recommendation:

We recommend IDHS review the process for preparing the ACF-204 report and implement procedures necessary to ensure the information reported is accurate and in accordance with program requirements.

IDHS Response:

The Department accepts the recommendation. IDHS has revised and re-submitted the ACF-204 report for federal fiscal year 2006. The amounts included on line six of the ACF-204 report are informational only and do not affect any federal claim for the TANF program. IDHS will make the necessary efforts to document the statewide expenditures on future ACF-204 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: Temporary Assistance for Needy Families
State Children's Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.558 (\$556,455,000)
93.767 (\$502,539,000)
93.775/93.777/93.778 (\$5,223,946,000)

Award Numbers: G-0501ILTANF/G-0602ILTANF (93.558)
(CFDA Number) 05-0505IL5021/05-0605L5021/05-0605IL6101/05-0605IL5R21 (93.767)
05-0605IL5048/05-0505IL5048 (93.775/93.777)
05-0605IL5028/05-0505IL5028 (93.778)

Questioned Costs: Cannot be determined

Finding 06-16 Missing Documentation in Client Eligibility Files

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

During our test work of 50 TANF, 50 SCHIP, and 125 Medicaid beneficiary payments, we selected eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits provided. We noted the following exceptions during our testwork:

- In two Medicaid files, IDHS could not locate the application signed by the client in the case file records.
- In two TANF case files, a high school diploma or GED certificate was not on file to document education requirements for beneficiaries under the age of 19 had been completed.
- In one TANF case file, the application for benefits signed by the individual did not include responses to questions designed to determine whether the beneficiary has reportable assets. IDHS could not locate documentation considered in determining whether the beneficiary had any reportable assets in the case file.

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

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must meet certain general criteria. Those criteria require, among other things, that each expenditure must be adequately documented.

In accordance with 42 USC 602(a)(1)(B)(iii), 42 CFR 431.10, and the OMB Circular A-133 Compliance Supplement, dated March 2006, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plan. The current State Plans require redeterminations of eligibility for beneficiaries on an annual basis. Additionally, 42 CFR 435.907 requires a signed application to be on file for all beneficiaries of the Medicaid and SCHIP programs.

In discussing these conditions with IDHS officials, they stated there are specific causes for the various bullet points included in the finding. In the first bullet point where original signed application was not located, subsequent applications had been signed, filed, and are present in the case records. In the second bullet point, IDHS disagrees with the idea that IDHS case files must include copies of high school diplomas as an eligibility requirement. We have reviewed relevant regulations and could not find any statement that IDHS is required to include high school diplomas in the case file. For the third bullet point, since assets are not an eligibility factor for all programs, the determination of available assets would have been covered in a face to face interview, and not on the paper application filed by the client.

This finding is due to paper document filing error. IDHS agrees to continue to communicate to staff the importance of proper documentation and filing.

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 06-16, 05-30, 04-18, 03-20, 02-26, 01-15)

Recommendation:

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

IDHS Response:

Partially Agree. The finding has three dot points; the first dot point refers to a missing initial application in two cases. In both cases, although the original signed application was not located, subsequent applications have been signed, filed, and are present in the case records.

The second dot point refers to two TANF case files that do not contain copies of the client's high school diploma. IDHS disagrees with the idea that our physical case files must include copies of high school diplomas as an eligibility requirement. The state plan indicates teen parents must attend high school unless they have a high school diploma or a GED. Although IDHS does determine the high school status of teen parents, copies of diplomas are not required as an eligibility requirement.

The third dot point refers to a case file that had no documentation regarding possible reportable assets. Our combined application form is used for all programs, which do not share all eligibility requirements. Since

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assets is not an eligibility factor for all programs, the determination of available assets would have been covered in a face to face interview, and not on the paper application filed by the client.

IDHS Program Manual (PM) 07-01-01 and Workers Action Guide (WAG) 07-01-01 requires the asset limits be applied to nonexempt assets only. The asset limits for TANF are based on the number of people in the assistance unit. The asset limits are: one person – \$2,000; two persons – \$3,000; and three or more persons - \$3,000 for the first two people, plus \$50 for each additional person. Apply the total amount of available nonexempt assets to the asset limit for the unit size. If total nonexempt assets exceed the asset limit, the case is ineligible for Cash assistance. There are no asset limits for Parent Assist or any of the KidCare programs.

IDHS Division of Capital Development believes that the fact that information was identified as missing from only four cases out of a total of 285 cases reviewed (.014%) supports the assertion that proper documentation continues to be of the highest priority for all staff. IDHS agrees to continue to communicate to staff the importance of proper documentation.

Auditors' Comment:

IDHS personnel have stated that beneficiary statements relative to whether or not educational requirements have been completed are sufficient documentation that educational requirements have been met. We disagree and believe IDHS should verify the accuracy of information provided by beneficiaries through crossmatches or other mechanisms.

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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
Medicaid Cluster

CFDA # and Program Expenditures: 93.558 (\$556,455,000)
93.775/93.777/93.778 (\$5,223,946,000)

Award Numbers: G-0501ILTANF/G-0602ILTANF (93.558)
(CFDA Number) 05-0605IL5048/05-0505IL5048 (93.775/93.777)
05-0605IL5028/05-0505IL5028 (93.778)

Questioned Costs: Cannot be determined

Finding 06-17 *Failure to Obtain Documentation of Assignment of Child and Medical Support Rights*

IDHS did not obtain written documentation from beneficiaries of the Temporary Assistance for Needy Families (TANF) or Medicaid Cluster (Medicaid) programs documenting they had assigned their rights to child or medical 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. Additionally, as a condition of receiving Medicaid benefits, beneficiaries are required to assign their rights to collections of medical support payments to the State for the time periods the individuals are receiving Medicaid benefits. IDHS has designed its standard application for benefits to include an acknowledgement that the applicant understands child and medical support payments collected on his or her behalf may be retained by the State as long as TANF and/or Medicaid Cluster program benefits are being received.

During our testwork over the TANF and Medicaid programs, we selected eligibility files for 50 TANF and 125 Medicaid beneficiaries to review for compliance with eligibility requirements and for the allowability of the related benefits. We noted the following exceptions during our testwork:

- Four TANF beneficiary files and three Medicaid beneficiary files did not contain an acknowledgement of assigning child support payments to the State. 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. Additionally, beneficiaries who apply for benefits at certain hospitals also may use a short form of the application. IDHS could not identify the number of applicants for which the short form application (without the rights and responsibilities certification) had been used. Payments made during the year ended June 30, 2006 to the four TANF beneficiaries identified in our testwork were \$8,280. Medical payments made on behalf of the three Medicaid beneficiaries selected for our testwork during the year ended June 30, 2006 were \$29,317.

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- Four TANF beneficiary files did not contain a signed acknowledgement of assigning child support payments to the State. Although the standard application used by these beneficiaries included the assignment of rights clause, the assignment of rights clause section of the application includes a separate signature line for the acknowledgement which was not signed by the beneficiary. Payments made during the year ended June 30, 2006 to these beneficiaries were \$15,852.

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. Additionally, according to 42 CFR 433.145, the State must require individuals receiving Medicaid benefits to assign their rights and the rights of their legal dependents receiving benefits to medical support and to payment for medical care from any third party to the State.

In discussing these conditions with IDHS officials, they stated the cause of this finding is related to cases that have been active since an era when child support and medical assignment of rights language was not used. The short form mentioned in the audit finding has been modified to include the child support assignment of rights language. The finding also was written due to cases having signatures in places other than the specific assignment of rights page. The IDHS Division of Human Capital Development review noted that documents were present in the cases that strongly indicated IDHS issued and explained child support requirements as well as documents showing the customer knew and understood these requirements.

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 06-17, 05-24)

Recommendation:

We recommend IDHS obtain written documentation of the assignment of child support and/or medical support rights from all TANF and/or Medicaid beneficiaries.

IDHS Response:

The Department partially agrees with the finding. The IDHS Division of Human Capital agrees to continue to ensure all new TANF applications include the signed Child Support assignment of rights. The Division of Human Capital is making every effort to identify all existing cases that do not include the assignment of rights language, upon identification, we agree to facilitate assignment of rights signatures. We also agree to obtain signatures on the proper pages of the paper applications effective immediately. It must be noted however that a name, address, and signature is all that is required in order for IDHS to accept an application for benefits.

Auditors' Comment:

Federal regulations and the State of Illinois' TANF and Medicaid State plans require beneficiaries of the TANF and Medicaid programs to assign their rights to child and medical support to the State as a condition of receiving program benefits. IDHS is required to obtain written documentation of such assignments.

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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)
US Social Security Administration (USSSA)

Program Name: Food Stamps Cluster
Special Supplemental Nutrition Program for Women, Infants, and Children
Rehabilitation Services – Vocational Rehabilitation Grants to States
Special Education – Grants for Infants and Families with Disabilities
Temporary Assistance for Needy Families
Child Care Development Fund Cluster
Social Services Block Grant
Block Grants for Prevention and Treatment of Substance Abuse
Social Security Disability Insurance

CFDA # and Program Expenditures: 10.551/10.561 (\$1,570,652,000)
10.557 (\$183,714,000)
84.126 (\$82,347,000)
84.181 (\$26,207,000)
93.558 (\$556,455,000)
93.575 / 93.596 (\$213,191,000)
93.667 (\$115,496,000)
93.959 (\$69,615,000)
96.001 (\$61,815,000)

Award Numbers: 2IL400098/2IL420120 (10.551/10.561)
(CFDA number) 20051W100342/20051W100642/20061W100342/20061W100642 (10.557)
H126A050018/H126A050018A (84.126)
H181A030001/H181A040003/H181A050007 (84.181)
G-0602ILTANF/G-0501ILTANF (93.558)
G0601ILCCDF/G-0501ILCCDF (93.575)
G-0401ILSOSR/G-0501ILSOSP (93.667)
05B1ILSAPT/06B1ILSAPT (93.959)
0504ILD100/0604ILD100 (96.001)

Questioned Costs: None

Finding 06-18 *Inadequate Controls Over Access to Information Systems*

IDHS does not have adequate controls over user access rights to its information systems.

Employees and local agency personnel are assigned access to IDHS information systems based upon the needs of their positions and duties performed. The IDHS Systems Administrator assigns user access rights. This assignment is based upon the completion and approval of an access request form by each user and the user's supervisor. The access request form identifies the user's name, certain personal information, location or local agency, and the user's access rights being requested.

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During our review of the procedures for granting access to applications used to administer IDHS' federal programs, we noted program developers had access to the production environment for the payroll system to perform system updates. Individuals responsible for the development of information systems should only have access to the development environments. Separation of duties should be maintained by not allowing developers access to the production environment.

The A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring the information systems associated with the administration of the federal programs are adequately secured.

In discussing these conditions with IDHS officials, they stated IDHS management believes that they have implemented adequate internal controls and compensating controls over the issues noted by the auditors within the IDHS Division of Management Information Services. These controls include automated monitoring and logging of access, management review, balancing controls with both the Department of Central Management Services and the Illinois State Comptroller's offices.

Failure to adequately control the access rights of system users may result in granting user access to employees who do not need or should not have access and may result in inadequate segregation of duties. (Finding Code 06-18)

Recommendation:

We recommend IDHS establish an adequate segregation of duties between those employees who develop and maintain the system from those who are authorized to use the system. Additionally, we recommend IDHS establish periodic reviews of user rights to ensure the access granted is appropriate.

IDHS Response:

Disagree. Due to the age and complexity of the payroll system, IDHS does allow the MIS Human Resource Systems personnel direct access to the production data to correct errors and problems that cannot be corrected by any other means. However, management has implemented an adequate system of internal controls, including both preventative and detective controls, to insure the propriety of the data. The auditors did not perform any review of the system of internal controls nor did they conduct any review of the changes made to production data. Generally Accepted Auditing Standards would have required such a review before making comments and recommendations. At a minimum, a limited scope statement would have been made to inform the reader that the system of internal controls was not reviewed.

IDHS MIS and Human Resource management developed the current system of internal control with input from the Illinois Office of Internal Audit. In addition, the compliance audit firm completed an audit of the payroll system, its internal controls and the MIS access to production data. In the transmittal letter, dated March 14, 2007 from the compliance audit firm to the Auditor General, regarding their review of the Payroll and Timekeeping System (PTS) they stated,

“Based on our review, it appears the PTS is functioning properly and appears to have adequate system and procedural controls established to ensure the system is processing adequately. However, although no

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weaknesses were identified with the PTS application itself, our review identified Department-specific weakness, although not significant, relating to excessive access.” (Emphasis added)

In the Auditor General’s cover letter to the Agency, dated April 13, 2007 states in part, “... However, we recommend the Department continue to assess access to production and datasets to ensure that only personnel needing access for completing their job responsibilities have access and powerful access privileges to programs and datasets are restricted.

We also found that the number of changes to the PTS production data appears excessive as well. We recommend the Department consider modifying the PTS system to include additional update capabilities, including inherent controls and audit trails, within the application itself for making payroll data adjustments.”

We believe that had the single audit firm actually reviewed the entire system of internal control, they would have had a different conclusion.

In addition, IDHS MIS management has repeatedly informed the auditors that we perform a 100% review of EVERY user’s access rights. The review process has been in place for years and is initiated automatically by the computer system. Management must approve their staff’s access rights and an automated process follows up any outstanding responses. We are not sure why the auditors are recommending for the same controls that we have had in place for years.

Auditors’ Comment:

As previously stated, program developers should not have access to the production environment. Additionally, the “mitigating” controls identified in IDHS’ response are not documented, and, as a result, could not be verified by our audit procedures. Generally accepted auditing standards require that we obtain sufficient competent audit evidence to support our audit procedures, conclusions, and opinion on compliance for each major program. The lack of documentation in this situation does not enable us to obtain sufficient audit evidence that the mitigating controls discussed above are operating effectively.

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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 (\$26,207,000)
93.558 (\$556,455,000)
93.667 (\$115,496,000)
93.994 (\$21,987,000)

Award Numbers: H181A040004/H181A040003/H181A050007 (84.181)
(CFDA number) G-0501ILTANF/G-0602ILTANF (93.558)
G-0501ILSOSR/G-0601ILSOSR/G-0601ILSOS2 (93.667)
B04MC04271-01-03/B04MC06556 (93.994)

Questioned Costs: Cannot be determined

Finding 06-19 *Improper Cost Allocation Methodology*

IDHS did not amend the allocation methodology included in Public Assistance Cost Allocation Plan (PACAP) to accurately allocate the costs of its Early Intervention Program (State EI) to all applicable federal programs in a timely manner.

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, 2005, we noted the allocation methodology included in the PACAP for the State EI program did not reflect the actual activities of the program. The cost allocation methodology included in the PACAP required 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 Part C and the Social Services Block Grant programs and are also used to meet the MOE requirements for

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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. Effective April 1, 2006, IDHS amended the PACAP allocation methodology for State EI to allocate expenditures to all benefiting federal and State programs.

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 a cost allocation plan amendment was filed effective April 1, 2006 and the prescribed methodology was used to allocate the fiscal year 2006 administrative costs of the EI program.

Failure to amend PACAP cost allocation methodologies for changes in program administration may result in disallowances of costs. (Finding Code 06-19, 05-23)

Recommendation:

We recommend IDHS continue using the revised cost allocation methodology for the State EI program.

IDHS Response:

Disagree. This finding was written because the amendment was not in effect until April 1, 2006. However, the revised allocation methodology was used during the audit period and per OMB regulations must be used for subsequent periods. The revised methodology was used to allocate the administrative costs for the period July 1, 2005 through June 30, 2006. Adequate supporting documentation for the revised allocation methodology was also provided to the auditor for review and no exceptions were noted. There is no need for this recommendation.

Auditors' Comment:

As discussed in the finding above, this finding is a result of prior year findings which were not corrected by IDHS until the fourth quarter of the State's fiscal year.

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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 (\$556,455,000)
Award Numbers: G-0501ILTANF/G-0602ILTANF
Questioned Costs: \$393

Finding 06-20 *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 five 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 \$393 during the year ended June 30, 2006.

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.

In discussing these conditions with IDOR officials, they stated the changes made to the TANF tracking process did not take place until January 2007.

Failure to establish effective procedures to ensure expenditures claimed under federal programs meet allowability requirements results in unallowable costs. (Finding Code 06-20, 05-31)

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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:

IDOR has responded to the finding by refining the TANF tracking process that was in place in 2006. As of January 2007, IDOR separately identifies refundable earned income tax credit amounts that are offset by the Department for any obligation of the recipient from refundable earned income credit amounts that are sent to the Comptroller's Office for issuance of a refund to the recipient. The reporting changes to IDHS result in TANF reimbursement being requested only for the refundable earned income credit amounts which are sent to the Comptroller's Office for issuance of a refund to the recipient.

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

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

Program Name: Low-Income Home Energy Assistance

CFDA # and Program Expenditures: 93.568 (\$189,157,000)

Award Numbers: G-05B2ILLIEA/G-06B2ILLIEA

Questioned Costs: None

Finding 06-21 *Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports*

DHFS does not have an adequate process for ensuring subrecipients of the Low-Income Home Energy Assistance program (LIHEAP) have complied with OMB Circular A-133 audit requirements.

DHFS requires subrecipients expending more than \$500,000 in federal awards during their fiscal year to submit OMB Circular A-133 audit reports. DHFS program staff 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 DHFS 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 eleven subrecipients of the LIHEAP program, we noted the following:

- There were seven subrecipients of the LIHEAP 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 DHFS to obtain the missing audit reports.
- There were four subrecipients of the LIHEAP program for which A-133 audit reports were obtained within required timeframes; however, DHFS had not performed desk review procedures over these reports as of the date of our testwork.

Subrecipient expenditures under the LIHEAP program for the year ended June 30, 2006 were \$186,307,000.

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. According to the OMB Circular A-133 compliance supplement, dated March 2006, 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.

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In discussing these conditions with DHFS officials, they stated that when the Office of Energy Assistance was at the Department of Commerce and Economic Opportunity, another unit performed the LIHEAP subrecipient audit collection and review function, thus program staff were not experienced in those areas.

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 06-21, 05-33)

Recommendation:

We recommend DHFS 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.

DHFS Response:

The Department agrees with the finding and will develop procedures and document efforts to obtain LIHEAP subrecipient audit reports. In addition, desk review procedures are being developed for reviewing the LIHEAP subrecipient A-133 audit reports.

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

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

Program Name: Temporary Assistance for Needy Families

CFDA # and Program Expenditures: 93.558 (\$556,455,000)

Award Numbers: G-0501 IL TANF/G-0601 IL TANF

Questioned Costs: Cannot be determined

Finding 06-22 *Failure to Enforce Sanctions over TANF Recipients*

DHFS 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 Human Services (IDHS) to enforce sanctions.

DHFS 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, DHFS 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 DHFS 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:

- In three cases, DHFS did not refer non-cooperative beneficiaries 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, 2006 were \$8,474.
- In four cases, IDHS did not sanction beneficiaries for non-cooperation or document good cause existed for non-cooperation with DHFS. IDHS and DHFS were unable to determine whether the delays in sanctioning these cases were caused by untimely referrals by DHFS or untimely case evaluation by IDHS. Benefits paid to these individuals during the year ended June 30, 2006 were \$5,008.

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 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.

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In discussing these conditions with DHFS officials, they stated the documents are automatically generated and immediately delivered to the DHS mailroom, where they are sorted for distribution to local DHS offices for handling.

Failure to enforce sanctions against non-cooperative parents results in the overpayment of TANF benefits. (Finding Code 06-22, 05-34, 04-29)

Recommendation:

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

DHFS Response:

The Department respectfully disagrees with this finding. The required documents are generated and provided to IDHS for handling. The Department is meeting its mandate to provide timely notice of non-cooperation to the TANF agency. Relative to the three cases that were not referred, this is a carryover finding from the previous fiscal year and relates to a temporary suspension of non-cooperation notices due to a re-engineering of child support business processes.

Auditors' Comment:

Due to the manual nature of DHFS' process for reporting the non-cooperation of TANF beneficiaries with child support enforcement efforts, DHFS was not able to provide documentation supporting that referrals by DHFS were made on a timely basis.

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For the Year Ended June 30, 2006

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

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

Program Name: Child Support Enforcement

CFDA # and Program Expenditures: 93.563 (\$114,700,000)

Award Numbers: 0504IL4004/0604IL4004

Questioned Costs: None

Finding 06-23 *Failure to Properly Perform Non-Custodial Parent Location Procedures*

DHFS 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).

DHFS 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, DHFS 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 DHFS 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:

- Fifteen cases (30%) in which interviews with custodial parents were not scheduled for timeframes ranging from 21 days to 370 days after the referral or application had been received.
- Two cases (4%) in which interviews were never scheduled or performed and for which further location procedures do not appear to have been performed.

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 DHFS officials, they stated that necessary and relevant information may be gathered through mail-in processes as well as in-person interviews.

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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 06-23, 05-37, 04-32, 03-29, 02-15, 01-04)

Recommendation:

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

DHFS Response:

The Department partially agrees with the finding. One aspect of DHFS' improvements in the delivery of child support services was the development and implementation of a mail-in interview packet. Use of this method of gathering information reduces lost-work time by DHFS' clients and better serves their needs, while maintaining the flow of information needed to move the child support case forward. The mail-in interview packet was implemented in April 2004.

In eight of the 15 error cases, questionnaires (mail-in interview packets) had been generated and mailed to the client within the twenty-day timeframe. These questionnaires replace in-person interviews and are intended to solicit the necessary and relevant information from the client without requiring the client to attend an on-site interview. The error rate related to the remaining seven cases is 11.6% rather than 30%.

Auditors' Comment:

Federal regulations require DHFS to 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 within 20 calendar days of the receipt of a referral of a case or an application for services. Interviews of custodial parents were scheduled in all 60 cases selected for our testwork. Accordingly, we believe interviews of custodial parents continue to be DHFS' primary source for soliciting necessary and relevant information from custodial parent and should be scheduled for completion within 20 calendar days of the receipt of a referral of a case or an application for services.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

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

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

Program Name: Child Support Enforcement

CFDA # and Program Expenditures: 93.563 (\$114,700,000)

Award Numbers: 0504IL4004/0604IL4004

Questioned Costs: None

Finding 06-24 *Failure to Properly Manage and Document Interstate Cases Within KIDS*

DHFS did not adequately perform case management procedures for initiating interstate cases and failed to accurately and adequately document interstate cases within the Key Information Delivery System (KIDS).

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

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

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

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

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

During our test work of 30 initiating and 30 responding cases (total of 60 cases), we noted the following:

- One initiating case (3%) was not referred to the responding state within the twenty day federal timeframe after DHFS had determined the non-custodial parent was located in another state. The delay in referring this case was 22 days after the required federal timeframe.
- Two responding cases (7%) were not acknowledged or forwarded to the appropriate authorities after being referred to DHFS within the 10 day required federal time frame. Delays in acknowledging and forwarding these cases were 14 and 499 days after the required federal timeframe.
- Two responding cases (7%) were not acknowledged as received by DHFS and the initiating state was not notified where the cases were sent for action within the 10 day required federal time frame. Delays in acknowledging and notifying initiating states of actions on these cases ranged from 120 to 491 days after the required federal timeframe.
- One initiating case (3%) and three responding cases (10%) did not contain sufficient documentation within the KIDS system to determine if proper actions had been taken within the required timeframe.

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

In discussing these conditions with DHFS officials, they stated although documentation reminders have been sent to staff, there are a few instances of cases that lack the documentation taken on the case.

Failure to (1) properly manage interstate child support cases and (2) accurately and adequately document case activity may result in DHFS failing to provide required and appropriate child support services. (Finding Code 06-24)

Recommendation:

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

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DHFS Response:

The Department partially agrees with the finding. The Department agrees the content of each exception is correct; however, the number of errors is overstated due to the complexities of interpreting event codes and timelines. The Department is engaged in ongoing continuous process improvement efforts focused on additional improvements in the area of interstate case processing.

Auditors' Comment:

DHFS personnel responsible for administering the Child Support Enforcement program agreed to the exceptions listed in the findings during numerous discussions held. As a result, we do not believe the number of errors have been overstated.

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For the Year Ended June 30, 2006

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

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

Program Name: Child Support Enforcement

CFDA # and Program Expenditures: 93.563 (\$114,700,000)

Award Numbers: 0504IL4004/0604IL4004

Questioned Costs: None

Finding 06-25 *Failure to Establish Support Orders Within Required Timeframe*

DHFS did not adequately perform procedures to ensure support orders were established within required time frames or did not document failed attempts to serve process.

DHFS is responsible for administering the Child Support Enforcement Program. The objectives of this program are to enforce support obligations owed by non-custodial parent, to locate absent parents, establish paternity, and obtain child and spousal support. During our testwork of 30 child support cases, we noted three cases in which DHFS never initiated support order procedures or documented unsuccessful attempts to serve process. Additionally, we noted one case in which DHFS did not initiate support order procedures within the federally prescribed 90 calendar day timeframe. The delay in establishing this support order was seven days in excess of the 90 calendar day requirement.

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 DHFS officials, they stated that, although the Department strives to comply with the 90-day timeframe in every instance, cases are dependent upon DHFS receiving all documentation timely. 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 06-25, 05-39, 04-34)

Recommendation:

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

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DHFS Response:

The Department accepts the finding and has implemented practices to reduce the timeframe in which orders are established and continues to work with legal representatives to improve timeliness and the documentation of legal action.

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

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

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.775/93.777/93.778 (\$5,223,946,000)

Award Numbers: 05-0605IL5028/05-0505IL5028 (93.778)
(CFDA Number) 05-0605IL5048/05-0505IL5048 (93.775/93.777)

Questioned Costs: None

Finding 06-26 *Inadequate Monitoring of Subrecipients*

DHFS is not adequately monitoring subrecipients of the Medicaid Cluster.

DHFS passed through approximately \$97,339,000 in Medicaid funding to the Local Education Agencies (LEAs) during the year ended June 30, 2006 to assist DHFS in identifying students whose families may need Medicaid assistance and to monitor the coordination of the student's medical care. DHFS' subrecipient monitoring process includes: (1) providing subrecipients with technical guidance through training sessions, provider notices, and handbooks; (2) performing data analysis of electronic claims data; (3) performing desk reviews of quarterly administrative claims documentation; (4) performing 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 DHFS for 30 subrecipients, we noted the following:

- On a quarterly basis, LEAs 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 DHFS. However, during our review of the claims selection process used by DHFS, 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.
- DHFS uses a risk based approach to determine the LEA's for which fiscal and programmatic site visits will be performed. The risk based approach uses a risk score calculation which is based on the following five risk factors: (1) the percentage of time coded to school related activities, (2) a change in the organization filing the LEA's claim, (3) receipt of reimbursement in excess of \$200,000 under the Medicaid program, (4) identification by the Illinois State Board of Education as being of as poor financial stability, and (5) significant changes in amounts claimed over a five quarter period of time. DHFS' selection criteria require LEAs with a calculated risk score greater than 1.9 to receive an on-site review. During our testwork on 30 subrecipients, we identified two LEAs with calculated risk scores less than 1.9 for which on-site visits were performed. Individuals responsible for performing subrecipient risk assessments indicated these LEAs were selected based upon other risk factors which were not documented.

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In addition, during our review of 30 subrecipient on-site monitoring files, we noted the following exceptions:

- On-site reviews were only partially completed for seven LEAs tested due to the fact the reviews were performed at the end of the school year and were unable to be completed by DHFS staff.
- Adjustments identified in five on-site reviews were not communicated to LEAs in a timely manner (defined 90 days per DHFS Policy). Timeframes for communicating adjustments ranged from 95 days to 282 days after the on-site review.
- On-site review checklists were not signed by the reviewer for two LEAs tested.
- On-site review checklists were not completed for two local health department reviews. Upon further investigation, we noted DHFS does not require staff performing on-site reviews for local health departments to formally document the review procedures performed. DHFS passed through approximately \$97,339,000 to 73 local health departments statewide.

According to OMB Circular A-133 §___400(d)(3), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. In addition, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include implementing procedures to adequately monitor subrecipients.

In discussing these conditions with DHFS officials, they stated staff has been dedicated to making the necessary improvements to the documentation related to the subrecipient monitoring process, they were working on updating the procedures in fiscal year 2006, since then the procedures have been revised.

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 06-26, 05-38, 04-30, 03-30)

Recommendation:

We recommend DHFS:

- Implement procedures to ensure (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.
- Establish procedures to ensure risk assessments are documented for each subrecipient.
- Verify on-site reviews for all subrecipients are completed in a timely manner and adequately documented. The results of these reviews (including any adjustments identified) should be communicated in a timely manner.

DHFS Response:

The Department partially agrees with the finding. The Department has made revisions to the documentation related to the subrecipient monitoring process to ensure an audit trail is present. Staff have improved documentation of the risk assessment, claim reviews, and procedures. Also, procedures have been implemented to notify the LEAs within 60 days regarding the corrective action related to the on-site reviews. The quarterly claiming of subrecipient costs can result in an extended timeline for the completion of the adjustment process.

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The Department disagrees with the partial completion of seven LEA on-site reviews. The seven reviews were initiated in May, for an on-site review to be conducted the following school year. Preliminary information is needed from the school before an on site review is conducted. The seven files contained only an initiation letter to request the required preliminary information.

Auditors' Comment:

The seven subrecipients for which on-site reviews were only partially completed had risk scores greater than 1.9 and were required by DHFS' risk based approach to have on-site reviews performed in state fiscal year 2006. In addition, these seven on-site reviews were included in management's statistics of on-site monitoring reviews performed during state fiscal year 2006. To the extent these reviews were simply initiated and not performed, they would still be reported as exceptions in our testwork and should have been excluded from monitoring statistics.

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

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

Program Name: Low-Income Home Energy Assistance Program

CFDA # and Program Expenditures: 93.568 (\$189,157,000)

Award Numbers: G-05B2ILLIEA/G-06B2ILLIEA

Questioned Costs: None

Finding 06-27 *Failure to Follow Up On Monitoring Findings*

DHFS did not obtain follow up on on-site monitoring review findings for subrecipients of the Low-Income Home Energy Assistance Program (LIHEAP).

DHFS passed through approximately \$186,307,000 in LIHEAP funding to Local Administering Agencies (LAA's) during the year ended June 30, 2006 to assist DHFS in identifying households who meet the applicable eligibility criteria and to provide assistance directly to eligible households. DHFS' subrecipient monitoring process includes: (1) providing subrecipients with technical guidance through training sessions, provider notices, and handbooks; (2) performing reviews of monthly expenditure claims documentation; (3) performing on-site reviews of subrecipient operations; and (4) performing desk reviews of single audit reports. During our review of the monitoring procedures performed by DHFS for eleven subrecipients selected for testwork, we noted three fiscal on-site reviews performed during the year for which the Office of Energy Assistance reported findings, but did not obtain or require subrecipients to submit corrective action plans.

According to OMB Circular A-133 §___400(d)(3), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. In addition, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include implementing procedures to follow up on findings identified during subrecipient reviews.

In discussing these matters with DHFS officials, they stated the LIHEAP site monitor reported the finding in a response letter to the agency. Although a LIHEAP corrective action plan response was not required in writing, a follow-up site visit was conducted to ensure the condition reported in the finding had been corrected.

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 06-27)

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Recommendation:

We recommend DHFS establish procedures to require all subrecipients who receive findings during a fiscal on-review to complete a corrective action plan. In addition, DHFS should implement procedures to verify corrective action has been taken by subrecipients in a timely manner.

DHFS Response:

The Department agrees with the finding and will require LIHEAP subrecipients to submit a corrective action plan for all reported findings. The LIHEAP on-site monitoring letter will be revised to include the time frame for submitting a reply.

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

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

Program Name: State Children's Health Insurance Program

CFDA # and Program Expenditures: 93.767 (\$502,539,000)

Award Numbers: 05-0505IL5021/05-0605L5021
05-0605IL6101/05-0605IL5R21

Questioned Costs: None

Finding 06-28 *Failure to Include a Program in the Treasury State Agreement*

DHFS did not include the State Children's Health Insurance Program (SCHIP) in the Treasury State Agreement (TSA) for the year ended June 30, 2006.

Annually, the State of Illinois negotiates the TSA with the US 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 DHFS did not include SCHIP in the TSA. Based upon the June 30, 2005 single audit report, this program was considered a major federal assistance program. Further, the program expenditures exceeded the \$60,000,000 threshold during the fiscal year ended June 30, 2006, 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 DHFS officials, they stated that SCHIP program information, necessary to submit an amendment to the TSA for State fiscal year 2006, had been provided to the Governor's Office of Management and Budget in January 2006. It was the Department's understanding that the 2006 agreement would be amended and include the SCHIP program. An amendment was not processed for fiscal year 2006, but the SCHIP program was included in the fiscal year 2007 agreement.

Failure to include all required programs in the TSA is a violation of the Cash Management Improvement Act (CMIA) and may result in DHFS utilizing an unapproved funding technique. (Finding Code 06-28, 05-40)

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Recommendation:

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

DHFS Response:

The Department agrees with the finding. The fiscal year 2007 TSA includes the SCHIP program.

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For the Year Ended June 30, 2006

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 (\$230,236,000)

Award Numbers: 0601IL1401/0501IL1401/0401IL1401

Questioned Costs: \$14,669

Finding 06-29 Missing Documentation in Eligibility Files

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

In order to be eligible to receive benefits under the program, a child must meet specific financial and non-financial eligibility criteria. One of these criterion is that the child would be eligible for the former Aid to Families with Dependent Children (AFDC) program for which eligibility is based on a child's age, among other factors. In addition, DCFS was authorized by USDHHS to conduct a subsidized guardianship waiver demonstration project, which falls under the Title IV-E Foster Care program. Under the subsidized guardianship program, the court assigns legal guardianship for a child to a private caregiver, providing the child with a more permanent, stable living arrangement as an alternative to long-term foster care while providing administrative cost savings to the program.

During our testwork of Foster Care 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 child's birth certificate evidencing the child met the age limitations of the program. DCFS claimed foster care payments on behalf of this child totaling \$12,000 during the year ended June 30, 2006.
- In one case, DCFS could not locate the child's "Order Appointing Private Guardian," evidencing that the subsidized guardianship had been granted to the child's private caregiver. DCFS claimed foster care payments on behalf of this child totaling \$2,669 during the year ended June 30, 2006.

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

Eligibility for the Foster Care Program is predicated on certain eligibility criteria of the former Aid to Families with Dependent Children (AFDC) Program. According to 45 CFR 233.90, an otherwise eligible child who is under the age of 18 years may not be denied AFDC, regardless of whether she attends school or makes satisfactory grades. In addition, a state may elect to include in its AFDC program children age 18 who are full-time students in a secondary school, or in the equivalent level of vocational or technical training, and

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who may reasonably be expected to complete the program before reaching age 19. Based on the forgoing, unless the specific factors are met, eligibility ceases at the child's 18th birthday.

In discussing these conditions with DCFS officials, they state the documents requested were received a number of years ago and the documents were thought to have been filed with in the original foster care case files. When those files were retrieved, the documents were not included and apparently had been misplaced.

Failure to maintain case file documentation, including birth certificates and relevant court orders, could result in payments to ineligible beneficiaries. (Finding Code 06-29)

Recommendation:

We recommend DCFS review its procedures for retaining and documenting how beneficiaries have met eligibility requirements and implement changes necessary to ensure birth certificates and relevant court orders exists for all children for whom foster care benefits are claimed.

DCFS Response:

The Department agrees and will review procedures for obtaining and retaining documents. Changes will be made, if necessary, to ensure judicial determination, copies of birth certificates, orders to terminate/surrender parental rights, and other required documents are retained for all children. If, after further investigation by the Department and if obtaining a replacement copy of birth certificate or the appointing order, the issues remain, 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 (\$230,236,000)

Award Numbers: 0601IL1401/0501IL1401/0401IL1401

Questioned Costs: \$3,068

Finding 06-30 *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 two cases, 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 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.

DCFS claimed reimbursement for foster care maintenance payments made on behalf of these children totaling \$3,829 during the year ended June 30, 2006. Of this amount, \$761 for one of the children is also included as questioned costs related to Finding 06-32, “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.

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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 state the two 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.

Failure to ensure the appropriate judicial determinations are made could result in payments being claimed for ineligible beneficiaries, which are unallowable. (Finding Code 06-30, 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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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 (\$230,236,000)

Award Numbers: 0601IL1401/0501IL1401/0401IL1401

Questioned Costs: \$7,408

Finding 06-31 *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 the following exceptions during our testwork:

- In three cases, permanency hearings were not performed within the required timeframe. The delays in performing the permanency hearings for these cases ranged from 45 days to 486 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 these children during the “period of ineligibility” totaling \$7,408.
- In two cases, DCFS could not provide the necessary documentation to substantiate that the permanency hearing was performed. Based on our review of the legal history in the eligibility information system (CYSIS), it appears that the required permanency hearings for these two children were performed within the federally required timeframes. DCFS claimed reimbursement for foster care maintenance payments made on the behalf of these children totaling \$1,049 during the year ended June 30, 2006.

Additionally, DCFS does not have an adequate process in place to ensure permanency hearings are completed within required timeframes for all beneficiaries or to identify beneficiaries for whom permanency hearings have 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

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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 state 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 result of a federal requirement for specific language for permanency hearings, which required further clarification by the federal Administration for Children and Families, 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 06-31, 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.

The federal Administration for Children and Families Children's Bureau monitors State child welfare systems through the Child and Family Services Review (CFSR) process. CFSR's are designed to ensure that State child welfare agency practices are in conformity with Federal child welfare requirements and to assist States to enhance their capacity to help children and families achieve positive outcomes. The CFSR process includes the submission of a Statewide Assessment as well as participation in an onsite review of outcomes and program systems. 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 was 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 will be held in July 2008 or later.

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

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

Program Name: Adoption Assistance

CFDA # and Program Expenditures: 93.659 (\$88,344,000)

Award Numbers: 0601IL1407/0501IL1407/0401IL1407

Questioned Costs: \$45,344

Finding 06-32 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 to support the payment of subsidies and non-recurring expenses on behalf of eligible children with special needs. In order to be eligible to receive benefits under the adoption assistance program, the child must have been removed from the home of a relative either pursuant to a voluntary placement agreement or a judicial determination that remaining in the home is contrary to the welfare of the child, the child must be under the age of 18, and the State must have determined that the child has met certain criteria which may preclude the adoption of the child without adoption assistance benefits. These criteria are defined as “special needs” and include a determination that the child cannot or should not be returned to the home of his/her parents, as well as documentation of the child’s specific factor(s) or condition(s) (such as ethnic background, age, sibling group, or handicap) that precludes the child’s placement for adoption without assistance benefits.

During our testwork of 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 five cases, DCFS could not locate the initial judicial determination effecting that the child’s continuation in the residence would be contrary to the welfare of the child, or that placement would be in the best interest of the child. DCFS claimed reimbursement for adoption assistance benefits made on behalf of these children totaling \$18,110 during the year ended June 30, 2006.
- In three cases, DCFS could not locate the child’s birth certificate evidencing the child met the age requirements of the program. DCFS claimed adoption assistance payments on behalf of these children totaling \$9,446 during the year ended June 30, 2006.
- In seven cases, DCFS could not locate the petition to terminate, order to terminate, or surrender of parental rights, evidencing that the child could not or should not be returned to the home of his/her parents. DCFS claimed adoption assistance payments on behalf of these children totaling \$25,864 during the year ended June 30, 2006. Included in this amount is \$8,464 pertaining to two cases which are also reported in the first bullet.
- In one case, DCFS could not locate the “Child Summary” document, which documents the special needs factors that were met as a condition of the eligibility determination. DCFS claimed adoption assistance payments on behalf of this child totaling \$419 during the year ended June 30, 2006.

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

According to 42 USC 673 (a)(2)(A)(i), in order to be eligible for adoption assistance benefits, a child must have been removed from a home pursuant to a voluntary placement agreement or a judicial determination that remaining in such home would be contrary to the child's welfare. The only stipulation specified in the requirement is that the child need not be removed from the home of a relative. According to 42 USC 673 (a)(4), payments are discontinued when the child attains the age of eighteen, unless the child has a physical or mental handicap which may warrant the continuation of assistance until the age of twenty-one. In accordance with 42 USC 673(c), a child shall not be considered a child with special needs unless the State has determined that the child cannot or should not be returned to the home of his parents and the child cannot be placed with adoptive parents because of the child's specific factor(s) or condition(s), such as ethnic background, age, sibling group, or handicap. In addition, the State must have made a reasonable effort to place the child for adoption without a subsidy, unless it is against the best interests of the child because of significant emotional attachment to the prospective adoptive parent.

In discussing these conditions with DCFS officials, they state the documents requested were received a number of years ago and the documents were thought to have 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 initial judicial determinations, birth certificates, and relevant documentation to support the special needs determinations, could result in payments to ineligible beneficiaries, which are unallowable costs. (Finding Code 06-32, 05-44)

Recommendation:

We recommend DCFS review its procedures for retaining and documenting how beneficiaries have met eligibility requirements and implement changes necessary to ensure judicial determinations, birth certificates, and adequate documentation of special needs exists 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 judicial determination, copies of birth certificates, orders to terminate/surrender parental rights, and other adoption assistance documents are retained for all children. If, after further investigation by the Department, and if obtaining replacement documents, i.e. replacement copies of birth certificates, the issues cited remain, 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, 2006

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 (\$88,344,000)

Award Numbers: 0601IL1407/0501IL1407/0401IL1407

Questioned Costs: \$1,749

Finding 06-33 *Failure to Properly Document or Execute Adoption Assistance Agreements*

DCFS made recurring and nonrecurring payments of adoption assistance benefits that were not properly supported by adoption assistance agreements.

The adoption assistance program provides funds to States for adoption assistance benefits to 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. The agreement must be executed prior to the finalization of the adoption.

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 two cases, the amount of the payment made on behalf of the children were in excess of the amount specified in the executed adoption assistance agreement. The excess amount claimed for reimbursement during the year ended June 30, 2006 was \$1,749.
- In one case, DCFS claimed reimbursement for subsidy payments made on behalf of a child for whom a subsidy amount was not specified in the executed adoption assistance agreement. DCFS claimed adoption assistance subsidy payments on behalf of this child totaling \$2,669 during the year ended June 30, 2006.
- In one case, DCFS claimed reimbursement for nonrecurring adoption expenses of \$419 on behalf of a child for whom an adoption agreement had not been executed.
- In two cases, the adoption assistance agreement was not signed by both parents to whom the adoption was granted. In one of these two cases, the subsidy payment was made to the parent who did not sign the agreement. DCFS claimed adoption assistance subsidy payments on behalf of these children totaling \$5,338 during the year ended June 30, 2006.

The amounts reported in the second, third, and fourth bullets above, are also included as questioned costs related to Finding 06-33, "Missing Documentation in Eligibility Files" and will not be included in the reported questioned costs for this finding to avoid reporting the same questioned costs twice.

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,

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costs must meet certain general criteria. Those criteria, among other things, require that the expenditures must be necessary, reasonable, and supported by adequate documentation.

According to 42 USC 675(3), the agreement for the subsidy must contain information concerning the nature and amount of payments to be provided and be signed and in effect prior to the final adoption decree. According to 45 CFR 1356.41, the amount of the payment made for nonrecurring expenses of an adoption shall be determined through an agreement between the adopting parent(s) and the State agency administering the program which is required to be signed and in effect prior to the final adoption decree.

In discussing these conditions with DCFS staff, they stated the amounts for two reported errors appear to be data entry errors or were entered some years ago based on agreements that cannot be located and the others appear to be based on incomplete documents.

Failure to document the subsidy amount or properly execute adoption assistance agreements could result in unallowable payment being made to otherwise eligible beneficiaries. (Finding Code 06-33)

Recommendation:

We recommend DCFS review its procedures for documenting and executing adoption agreements and implement changes necessary to ensure adoption assistance agreements contain the required elements and are properly executed for all children for whom adoption subsidy payments and nonrecurring expenditures are claimed.

DCFS Response:

DCFS agrees and will be conducting a review of its procedures for entering adoption agreement amounts and a review of the selected cases to determine if the documents being entered are identical to the adoption agreement amounts. DCFS will investigate the circumstances around each reported error and, if no additional information is located, make the appropriate claiming adjustments 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: Temporary Assistance for Needy Families
Foster Care Title IV-E
Adoption Assistance
Social Services Block Grant

CFDA # and Program Expenditures: 93.558 (\$556,455,000)
93.658 (\$230,236,000)
93.659 (\$88,344,000)
93.667 (\$115,496,000)

Award Numbers: G-0501ILTANF/G-0602ILTANF (93.558)
(CFDA Number) 0601IL1401/0501IL1401/0401IL1401 (93.658)
0601IL1407/0501IL1407/0401IL1407 (93.659)
G-0501LSOSP/G-0601LSOSR/G-0601LSOS2 (93.667)

Questioned Costs: None

Finding 06-34 *Inadequate and Untimely Fiscal Monitoring of Subrecipients*

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

In our sample of 50 subrecipient monitoring files out of a total of 389 subrecipients (totaling \$103,212,429 of \$133,592,839 in total subrecipient expenditures), we noted the following:

- For six subrecipients, we noted no evidence of follow-up to noted A-133 audit findings pertaining to DCFS programs. In each of these six instances, we noted DCFS issued a “no findings” letter indicating that no further action was required when a corrective action plan should have been procured. As such, it does not appear that DCFS is issuing management decisions on audit findings within six months of completing the desk review.
- For one subrecipient that received less than \$500,000 in federal funds from DCFS, we noted DCFS 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 DCFS did not exceed \$500,000, this subrecipient 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.

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 27 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 18 of the 389 total subrecipients of the

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Temporary Assistance for Needy Families, Foster Care Title IV-E, Adoption Assistance, and Social Services Block Grant programs during the year ended June 30, 2006.

Per OMB Circular A-133 Compliance Supplement, dated March 2006, 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 that the Department has a number of monitoring units and programs in place and that all A-133 reports reviewed by the Field Audit unit have a corrective action plan; however, a process for issuing formal management decisions has not been in place. The one subrecipients report identified for this finding that was not reviewed, was not required to file an audit report nor an A-133 report since total expenditures for the year were less than the Department's \$150,000 threshold and was verified through a Uniform Cost Report submitted by the provider.

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 06-34, 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:

- 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.
- Certifications are collected from all subrecipients, regardless of the amount of DCFS funding, to determine whether the \$500,000 threshold is met taking into account all sources of federal funding and submission of an OMB Circular A-133 report is required.

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:

DCFS accepts the finding and increased the staff in the field audit unit by five beginning in April 2004. As positions become vacant, the positions are reviewed and replacements are sought. It has been the policy, however, for DCFS to rely on agency-contracted auditors for these annual reviews. DCFS' Administrative Rules require all subrecipient providers receiving more than \$150,000 in funding during a fiscal year to undergo and submit an audit report to DCFS. In addition, those subrecipients receiving \$500,000 or more in federal dollars from all sources are required to submit their A-133 audit report to DCFS. Subrecipients selected for Office of Field Audits field visits are generated from the desk reviews completed in the prior year

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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.

The Office of Field Audits is developing a set of written instructions for implementing a management decision memo procedure, whereby during the desk review process, the Unit looks at the findings in the audit report and will refer programmatic findings to the appropriate program monitoring units. Each monitoring unit that is responsible for following up on the findings will then submit to the Field Audit Unit a management decision. The Office will then compile the memos into one document to be sent to the Agency and filed in the desk review file. This will enable the requirement of the management decision memo to be met for the next desk review season.

The DCFS Office of Quality Assurance (OQA) is responsible for supporting and overseeing the implementation of OQA and Continuous Quality Improvement for DCFS and is comprised of three primary units, each charged with monitoring agency practice towards ensuring the delivery of quality child welfare services. These three units are the Field Review unit, Regional Quality Improvement and Accreditation Unit, and Aristotle Consent Decree and Special Projects Unit. As part of their on-site review/field audit process, the auditors meet with the programmatic monitors and the licensing representatives to discuss and share any potential problems at the subrecipients prior to beginning the audit to aid in determining overall risk and aid in the assignment of resources.

In addition, the federal Administration for Children and Families Children's Bureau monitors State child welfare systems through the Child and Family Services Review (CFSR) process, as discussed in finding. 06-34. The CFSR's are designed to ensure that State child welfare agency practices are in conformity with federal child welfare requirements and to assist States to enhance their capacity to help children and families achieve positive outcomes.

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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 (\$230,236,000)

Award Numbers: 0601IL1401/0501IL1401/0401IL1401

Questioned Costs: None

Finding 06-35 *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 agency 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, 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 administrative case reviews for these cases ranged between five and 175 days after the required six-month timeframe. Additionally, DCFS does not have an adequate process in place to ensure administrative case reviews are 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 that staff illness postponed one review five days; and, the scheduling of two reviews was missed due to system changes. The error was identified and those two reviews were completed in September 2006.

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 06-35, 05-48)

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Recommendation:

We recommend DCFS implement procedures to ensure administrative case reviews are performed within federally prescribed timeframes.

DCFS Response:

The Department agrees that reviews should be conducted within prescribed timeframes and will continue to stress the importance of conducting administrative case reviews within required timeframes.

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

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

Program Name: Adoption Assistance

CFDA # and Program Expenditures: 93.659 (\$88,344,000)

Award Numbers: 0601IL1407/0501IL1407/0401IL1407

Questioned Costs: None

Finding 06-36 *Failure to Ensure That Adoption Assistance Recertifications Are Performed On A Timely Basis*

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

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

During our review of the eligibility for 50 beneficiaries receiving recurring subsidy payments under the adoption assistance program, we noted 21 instances in which DCFS could not locate a recertification form submitted by the adoptive parent within the most recent two year period. Upon further review of the recertification history in the eligibility information system (CYSIS), it appears that five of the 21 cases had a recertification performed within the last two years.

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

In discussing these conditions with DCFS officials, they stated the process is required per agreement with the Illinois Department of Healthcare and Family Services for the annual issuance of the medical card. The federal guidelines only require that we perform periodic reviews to assure the family circumstances have not changed.

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Failure to complete the necessary eligibility recertifications could result in payments to ineligible beneficiaries, which are unallowable costs. (Finding Code 06-36)

Recommendation:

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

DCFS Response:

The Department agrees that its recertification procedures need to be a complete and accurate process of determining any changing needs and/or circumstances within an adoptive family. We will continue efforts already begun for improving and streamlining the recertification process and implement new systems and identify additional staff resources, as they become available.

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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 (\$11,439,000)

Award Numbers: G-0601IL1400

Questioned Costs: None

Finding 06-37 *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 20 of the initial case plans were completed within a range of six to 237 days over the 60 day federal requirement.

Part I of Title IV-E, Child Welfare Services requires that an initial case plan must be developed for each child within 60 days of placement. Per 45 CFR 1356.21(g)(2), case plans are required to be developed within a reasonable period, to be determined by the State, but no later than 60 days from the child's removal from their home. Per State requirements (705 ILCS 405/2-10.1), the State has defined a reasonable timeframe as 45 days.

In discussing these conditions with DCFS officials, they state timely preparation of case plans is always a concern. Unfortunately, due to staff reductions, placement changes, and coordination with other procedures and agencies, 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 06-37, 05-51, 04-37, 03-35, 02-33, 01-20, 00-20, DCFS 99-5)

Recommendation:

We recommend DCFS stress the importance of preparing and completing the initial service plans timely to all caseworkers to comply with Federal requirements.

DCFS Response:

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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 has recently implemented an Integrated Assessment program that includes preparation of a comprehensive service plan where one cannot be completed without the other. The service plan will be part of an integrated system that will automate preparation of the plan and other required documentation. We continue to stress the importance of adequate and timely case planning as a key component of providing quality service to children.

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For the Year Ended June 30, 2006

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 (\$45,663,000)
Award Numbers: 06AAILT3SP/05AAILT3SP/06AAILNSIP/05AAILNSIP
Questioned Costs: None
Finding 06-38 *Inadequate On-Site Monitoring of Subrecipients*

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

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

During our testwork of eight subrecipients of the Aging Cluster with total expenditures of \$23,095,000, we noted no on-site monitoring procedures had been performed since 1998. Total awards passed through to subrecipients of the Aging Cluster were approximately \$43,567,000 during the year-ended June 30, 2006.

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

In discussing these conditions with IDOA officials, they stated they are in the process of developing procedures for performing on-site monitoring visits.

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 06-38, 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:

Agree. The Illinois Department on Aging is developing an action plan to adequately perform on-site monitoring of the thirteen area agencies on aging. In the coming weeks, the Division of Finance and Administration will be conducting an internal control self assessment questionnaire of the 13 subrecipient agencies to be used as an initial assessment tool. As those questionnaires are returned and reviewed by the Department, on-site reviews will begin to be scheduled. The plan will be that at least every three years each of the area agencies on aging will be reviewed by Department staff via a site visit.

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For the Year Ended June 30, 2006

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 (\$45,663,000)
Award Numbers: 06AAILT3SP/05AAILT3SP/06AAILNSIP/05AAILNSIP
Questioned Costs: None
Finding 06-39 *Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports*

IDOA is not adequately monitoring the OMB Circular A-133 reports submitted by its subrecipients receiving federal awards for the Aging Cluster.

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

During our testwork of eight subrecipients of the Aging Cluster with total expenditures of approximately \$23,095,000, we noted the following regarding the desk review process:

- The tracking report used to monitor the receipt of the OMB Circular A-133 audit reports from the subrecipients was not kept up to date.
- Two subrecipient OMB Circular A-133 audit reports were not reviewed within 180 days of receipt.
- One subrecipient OMB Circular A-133 audit report due on June 30, 2006 was not received until November 6, 2006, and IDOA did not perform follow up procedures with the subrecipient to obtain the report.
- One subrecipient OMB Circular A-133 audit report was not date stamped, thus we were unable to determine if it was reviewed in a timely manner.
- The checklist used to document the review the OMB Circular A-133 audit reports for eight subrecipients did not have a documented supervisory review.
- The checklist used to document the review of one subrecipient's OMB Circular A-133 audit report was incomplete.
- The expenditures reported by one subrecipient were not reconciled to the schedule of expenditures of federal awards in its OMB Circular A-133 audit report.

Total awards passed through to subrecipients of the Aging Cluster were \$43,567,000 during the year-ended June 30, 2006.

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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 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 March 2006, 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 IDOA officials, they state turnover in staff responsible for the desk reviews of OMB Circular A-133 audit reports caused the deficiencies in the desk review process.

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 06-39)

Recommendation:

We recommend IDOA establish procedures to ensure:

- The tracking report used to monitor the receipt of the OMB Circular A-133 reports is kept current.
- 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.
- OMB Circular A-133 audit reports are date stamped when received.
- Desk review checklists are completed and the supervisory review of the checklist is documented.
- Expenditures reported by the subrecipients are reconciled to the schedule of expenditures of federal awards submitted in the OMB Circular A-133 audit reports.

IDOA Response:

Agree. During the period recently audited, the Department on Aging had experienced several unexpected loss of personnel within a short period of time due to death, retirement, and resignation within the Division of Finance and Administration. One of the several functions of the division that was affected was the monitoring of the subrecipient audit reports. The timing of the receipt of the audit reports ran parallel with the loss of staff responsible for this function. Since that time, several of the affected positions have been filled and the new incumbents have instituted a procedural review that has assisted with the documentation and automation of several functions within the Division. The staff has diligently worked to ensure that through the automation and documentation of the process, that all the necessary steps are completed timely and accurately so that the subrecipient monitoring of the audit reports is adequately accomplished in the current fiscal year as well as future fiscal years.

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For the Year Ended June 30, 2006

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 (\$45,663,000)
Award Numbers: 06AAILT3SP/05AAILT3SP/06AAILNSIP/05AAILNSIP
Questioned Costs: None

Finding 06-40 *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, 2006.

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, 2006. We noted the cumulative expenditures to date on the AoA supplemental form for the AAA's were understated by \$2,546,982. 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 \$11,608,000 per quarter in fiscal year 2006. Additionally, we noted IDOA does not reconcile the financial status report to the general ledger.

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, 2005 and March 31, 2006:

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Six month period ended September 30, 2005

Title	As reported	Actual	Difference	
			Dollars	Percentage
B	\$ 7,188,614	7,363,451	(174,837)	(2.4)
C-1	4,978,750	4,696,272	282,478	6.0
C-2	4,391,466	4,554,777	(163,311)	(3.6)
D	453,952	407,384	46,568	11.4
E	3,104,583	3,236,436	(131,853)	(4.1)
B (Ombudsman)	551,243	506,172	45,071	8.9
Administrative	2,308,764	2,488,824	(180,060)	(7.2)
Total	\$ 22,977,372	23,253,316	(275,944)	

Six month period ended March 31, 2006

Title	As reported	Actual	Difference	
			Dollars	Percentage
B	\$ 6,838,144	7,055,161	(217,017)	(3.1)
C-1	4,984,598	5,598,670	(614,072)	(11.0)
C-2	3,290,324	4,322,458	(1,032,134)	(23.9)
D	389,279	464,803	(75,524)	(16.2)
E	2,432,661	2,894,680	(462,019)	(16.0)
B (Ombudsman)	425,789	505,869	(80,080)	(15.8)
Administrative	2,270,481	2,336,617	(66,136)	(2.8)
Total	\$ 20,631,276	23,178,258	(2,546,982)	

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.

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 06-40, 05-53)

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For the Year Ended June 30, 2006

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:

Department agrees with this recommendation and will review our procedures in place to prepare the semiannual financial status reports and AoA supplemental form to ensure expenditures are reported in the correct reporting period and are reconciled to the general ledger. The Division of Finance and Administration removed the estimated expenditure amount and is currently reviewing ways to ensure expenditures reported are accurate, timely and in the correct reporting period.

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For the Year Ended June 30, 2006

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 (\$45,663,000)

Award Numbers: 06AAILT3SP/05AAILT3SP/06AAILNSIP/05AAILNSIP

Questioned Costs: None

Finding 06-41 *Inadequate Cash Management Procedures for Subrecipients*

IDOA does not have adequate procedures to monitor the cash needs of subrecipients and to determine whether subrecipients are minimizing the time elapsing between the receipt and disbursement of funding for the Aging Cluster program.

IDOA passes through federal funding to thirteen area agencies on aging (subrecipients) throughout the State. The subrecipients request monthly cash advances based upon estimated expenditures, and IDOA will disburse estimated expenditures for the requested period not to exceed 1/12th of the subrecipient's grant award. Each subrecipient is required to maintain the federal funds in an interest bearing account, and remit the interest earned back to IDOA upon close out of the grant. During our test work we noted IDOA does not reconcile the estimated monthly expenditures to the actual monthly expenditures and does not reduce the cash advance if the subrecipient is showing excess cash on hand. During the federal fiscal year ended September 30, 2005, we noted the subrecipients remitted approximately \$97,000 in interest earned on excess federal funds to IDOA.

When funds are provided in advance of expenditure, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the US Treasury and disbursement. Specifically, 45 CFR 92.37 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 IDOA officials, they stated they were unaware of the 30 day requirement.

Providing subrecipients funding advances of greater than 30 days results in additional costs of financing for the US Treasury. (Finding Code 06-41)

Recommendation:

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

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IDOA Response:

Agree. The Division of Finance and Administration within the Illinois Department on Aging is currently reviewing its policies and procedures for the purpose of revising and implementing new written procedures. During this process, the funding of the area agencies on aging will be reviewed and modified to ensure that the subrecipients do not receive more than 30 days of funding on an advance basis. In addition, the Division will draft a Plan of Action to ensure that this issue is properly addressed before the end of the current grant cycle.

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For the Year Ended June 30, 2006

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 (\$45,663,000)

Award Numbers: 06AAILT3SP/05AAILT3SP/06AAILNSIP/05AAILNSIP

Questioned Costs: \$2,283

Finding 06-42 *Inadequate Supporting Documentation for Costs Used to Meet Match Requirement*

IDOA did not have adequate supporting documentation for costs used to meet the match requirement for state plan administration of the Aging Cluster program.

IDOA develops a State Plan on Aging (State Plan) detailing how funds will be used to meet the goals and objectives of the Aging Cluster programs, including the expenditures the State will contribute to meet certain match requirements. In accordance with the State Plan, IDOA utilized salary and consulting expenditures funded by state dollars related to planning, service, research, and other services to meet the state plan administration matching requirement.

During our testwork of thirty expenditures used as match for the Aging Cluster program, we noted one salary expenditure totaling \$2,283 was not supported by a time allocation report. We also noted one consultant was paid a rate for services that did not agree with the signed contract on file. IDOA utilized \$578,164 in state expenditures for state plan administration match under the Aging Cluster program for the fiscal year ended June 30, 2006.

According to the OMB Circular A-133 Compliance Supplement, dated March, 2006, expenditures used as match to federal grants must be allowable under the applicable cost circulars. OMB Circular A-87 Attachment B, Section 11(h)(4) requires that compensation for personal services for individuals working on multiple activities or cost objectives be supported by personnel activity reports which (1) reflect an after-the-fact distribution of actual activity of each employee, (2) must account for the total activity for which each employee is compensated, (3) must be prepared at least monthly and must coincide with one or more pay periods, and (4) must be signed by the employee. Further, OMB Circular A-87, Attachment B, Section 32 (b) requires that costs for consultant services should be supported by an adequate contractual agreement for the service which includes, among other things, the rate of compensation that will be paid. Additionally, the OMB Circular 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 discussion these conditions with IDOA, they state that the missing time allocation report was an oversight. The consultants paid rate was approved by the Governor's Office of Management and Budget; however, the signed contract was not revised to reflect the changes.

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Failure to adequately support costs used for match results in unallowable costs and could result in the match requirement not being met. (Finding Code 06-42)

Recommendation:

We recommend IDOA implement procedures to ensure all expenditures used for match are adequately supported in accordance with OMB Circular A-87.

IDOA Response:

IDOA does agree that there was one time allocation which was without a signature sheet. To solve this issue the budget office in conjunction with management information staff is developing a reporting mechanism which will allow supervisors to view monthly the number if any of their employees which have not enter their time for signature. This should reduce the possibility of missing signature sheets.

In addition, the consultant services were paid at the rate stated in our current ePAR on file. Our calculations showed that estimated amount of the current contract totaled \$26,500 and the consultant was paid approximately \$23,700, based on current ePAR on file for the period ending June 30, 2006. This resulted in an underpayment of approximately \$(2,800).

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For the Year Ended June 30, 2006

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 (\$36,660,000)
Award Numbers: 6X07HA00013-16-2/6X07HA00013-15-03
Questioned Costs: Cannot be determined

Finding 06-43 *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 five case files did not contain documentation supporting the beneficiary had been diagnosed with the HIV disease. Additionally, in 13 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.

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.

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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 06-43, 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 in the finding and recommendation. As an explanation of why there are occasions in which complete documentation is not available, the following example is offered. In some instances, AIDS Drug Assistance Program (ADAP) applicants are newly identified as HIV-infected, have recently been released from correctional facilities, or have moved to Illinois from another state. In many of these cases, laboratory tests results for CD4 or viral load are not yet available or could not be forwarded from the correctional facility prior to determining initial eligibility. In these cases, individuals are given temporary or presumptive eligibility for ADAP services pending the subsequent submission of lab reports. If the lab reports are not submitted in a timely manner the case is closed. It is IDPH policy to allow temporary or presumptive eligibility in order to ensure continuity of care and to provide access to drugs that are essential to minimizing the development of drug resistance.

With respect to when determining eligibility for ADAP, IDPH staff checks the Illinois Medicaid Recipient Database to verify that a new or (re)applicant is not currently enrolled for drug coverage through the Medicaid Program. Staff also check Medicaid enrollment on a monthly basis prior to authorizing shipment of each refill. When an individual approved for ADAP services transitions to Medicaid and becomes retroactively enrolled, ADAP is able to back-bill Medicaid for services provided during the eligibility period, thus recouping any cost for services provided during that time. However, an applicant is not required to apply for Medicaid prior to approval for ADAP services. The Department also requires a signed affidavit from prospective ADAP clients who cannot provide required proof of income that attests to zero income and/or homeless status. This signed affidavit must be submitted prior to approval of ADAP enrollment.

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For the Year Ended June 30, 2006

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 (\$35,187,000)
93.917 (\$36,660,000)

Award Numbers: Various (93.283)
(CFDA number) 6X07HA00013-16-2/6X07HA00013-15-03

Questioned Costs: None

Finding 06-44 *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 50 subrecipients of the Bioterrorism program expending \$7,260,000 and thirteen subrecipients of the HIV program expending \$4,714,000, we noted the following exceptions:

- Twelve of the HIV subrecipients had not been subject to on-site monitoring procedures in 2005 or 2006 as required by IDPH procedures.
- A corrective action plan was not obtained for findings identified in the one on-site review conducted for subrecipients of the HIV program.
- Ten of the Bioterrorism subrecipients were not subject to regular on-site programmatic review. Upon further investigation, we noted only local health departments have been subject to on-site monitoring procedures.

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

Total subrecipient expenditures for the Bioterrorism and HIV programs were \$17,556,000 and \$7,293,000, respectively, during the year ended June 30, 2006.

In accordance with the OMB Circular A-133 Compliance Supplement, dated March 2006, 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.

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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 06-44, 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 in the finding and recommendation. The IDPH HIV/AIDS Section has detailed existing staff to perform on-site reviews of HIV/AIDS subrecipients. Staff will examine subrecipient compliance with programmatic and administrative deliverables, as defined by grant agreement terms, and upon exit interviews will further communicate IDPH programmatic expectations and identify the need for correction action plans when applicable. For bioterrorism grantees, procedures will be drafted to include a subrecipient fiscal and administrative review during site visits. Grantees that are not local health departments will also be scheduled for a site visit.

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For the Year Ended June 30, 2006

State Agency: Illinois Department of Public Health (IDPH)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Immunization Grants
CFDA # and Program Expenditures: 93.268 (\$39,597,000)
Award Numbers: H2/CCH522568-04-1
Questioned Costs: None

Finding 06-45 *Inadequate Monitoring of Subrecipients of the Immunization Grants Program*

IDPH is not adequately monitoring subrecipients receiving federal awards and vaccines under its Immunization Grants program.

Under the Immunization Grants program, IDPH passes through vaccines to subrecipients who are responsible for disbursing vaccines to eligible program participants. In addition, certain subrecipients also receive an administrative cash grant to provide reimbursement for administrative costs associated with disbursing the vaccines. Subrecipients of the Immunization Grants program are responsible for determining whether vaccine recipients meet program eligibility requirements, ensuring vaccines are properly maintained, accounted for, and safeguarded, and documenting the administration of vaccines in each recipient's permanent medical file.

During our testwork of 60 subrecipients (30 not-for-profit and 30 for-profit) of the Immunization Grants program expending \$36,221,000, we noted the following exceptions:

- For twenty not-for-profit and fifteen for-profit subrecipient on-site reviews, there were findings for which a corrective action plan was not obtained by IDPH.
- For two for-profit subrecipient on-site reviews, there were potential exceptions identified for which the reviewer did not document whether the subrecipient was required to take corrective action relative to the findings identified during the visit. Corrective action plans were not on file for either of these subrecipients.
- For nine not-for-profit and twenty for-profit subrecipient on-site reviews, there was no documentation maintained in the monitoring files that follow up procedures were performed to ensure prescribed corrective action identified during the review was implemented.

Total subrecipient expenditures for the Immunization Grants program were \$39,597,000 during the year ended June 30, 2006.

In accordance with the OMB Circular A-133 Compliance Supplement, dated March 2006, 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.

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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 06-45)

Recommendation:

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

IDPH Response:

The Department concurs with the finding and recommendation. The Immunization Grant program conducts site visits according to the Vaccines for Children (VFC) site visit protocols required by the CDC National Center for Immunization and Respiratory Diseases (formerly NIP), utilizing the questionnaire that was developed to compliment the VFC site review protocol. The database maintained for all site visits was developed by CDC. The site visit questionnaire identifies "priority areas" that recommend further follow-up. Following a visit, a letter citing any deficiencies is sent to the provider. If a priority area is identified as deficient, a follow-up visit is conducted by staff. Under the CDC protocol, formal corrective action plans are not required to be filed by the provider to IDPH.

On-site monitoring is also conducted in accordance with the federal immunization grant guidance. The regulatory language from the federal CDC is as follows: "Conduct site visits to VFC provider offices to evaluate vaccine management, ensure compliance with VFC program requirements, assess immunization practices and make recommendations for improvement." Staff conducted follow-up visits when deficiencies were identified in priority areas.

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

CFDA # and Program Expenditures: 93.268 (\$39,597,000)
93.283 (\$35,187,000)
93.917 (\$36,660,000)

Award Numbers: H2/CCH522568-04-1(93.268)
(CFDA number) Various (93.283)
6X07HA00013-16-2/6X07HA00013-15-03 (93.917)

Questioned Costs: None

Finding 06-46 *Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports*

IDPH does not have an adequate process for ensuring subrecipients of the Immunization Grants, 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 Immunization Grants program, 50 subrecipients of the Bioterrorism program, and thirteen subrecipients of the HIV program, we noted A-133 desk reviews were not performed for any of the subrecipients tested. As a result, management decisions were not issued (if applicable) within the required timeframes.

Subrecipient expenditures under the federal programs for the year ended June 30, 2006 were as follows:

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Program	Total Fiscal Year 2006 Subrecipient Expenditures	Total Fiscal Year 2006 Program Expenditures	%
Immunization Grants	\$39,597,000	\$39,597,000	100.0%
Bioterrorism	17,556,000	35,187,000	49.9%
HIV	7,293,000	36,660,000	19.9%

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 March 2006, 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 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 06-46, 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 in the finding and recommendation. The Division of Accounting Services has now put into place a tracking system to monitor the receipt of subrecipient audit reports. Letters are being sent to subrecipients to inform them of their audit report being due and/or a late filing needs to be in place with the Department. Audit confirmation letters, upon request, are being sent to subrecipients. This entails a listing of Department expenditures to the subrecipient during their fiscal year. Audit reports are being reviewed to evaluate type of audit opinion. Findings are noted that are the Department's programs and are reported to the specific program office.

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State Agency: Illinois Department of Public Health (IDPH)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Immunization Grants
CFDA # and Program Expenditures: 93.268 (\$39,597,000)
Award Numbers: H/2CCH522568-04-01

Questioned Costs: None

Finding 06-47 *Inadequate Control and Accountability for Vaccines*

IDPH did not adequately control, safeguard, and account for vaccines received and distributed under its Immunization Grants program.

IDPH receives the majority of its Immunization Grants program funding in the form of vaccines which are distributed to medical providers throughout the State. In order to properly manage these vaccines, IDPH requires a Vaccine Accountability Form to be prepared by each provider to document the usage of vaccines previously disbursed. The form requires providers to report whether vaccines were administered to eligible individuals or were otherwise unusable because they expired or were broken. In addition, IDPH is required to maintain vaccines within a specified temperature range to maintain the effectiveness of the vaccines.

During our testwork over 60 vaccine orders placed by medical providers during the year ended June 30, 2006, we noted seven Vaccine Accountability Forms could not be located for testwork. As a result, IDPH could not provide documentation accounting for the use of the vaccines replaced by each of these orders. Additionally, during our review of the logs used to document the daily temperature of the vaccine storage coolers, we noted 35 instances in which vaccines were maintained at temperatures outside the acceptable ranges (between 35 and 46 degrees Fahrenheit).

The A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include procedures to ensure vaccines are used solely for authorized purposes and stored at temperatures within the prescribed range.

In discussing these conditions with IDPH officials, they stated that they simply misplaced some of the Vaccine Accountability Forms. Additionally, temperature logs documented both the internal and external temperatures resulting in temperatures outside the acceptable range.

Failure to properly control and safeguard vaccines may result in the improper usage and ineffectiveness of vaccines. (Finding Code 06-47)

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Recommendation:

We recommend IDPH review its established procedures to ensure documentation supporting the use of vaccines is maintained. Additionally, IDPH should monitor vaccine storage facilities to ensure vaccines are maintained at temperatures within the prescribed range.

IDPH Response:

The Department concurs with the finding and recommendation. Although a small number of Vaccine Accountability Forms were not located within the reviewed files, IDPH could, in all instances, replicate the missing forms upon request.

Regarding temperatures at vaccine storage facilities, all vaccine storage units contain an external temperature monitor that is connected to a commercial alarm system. In addition, IDPH has placed internal temperature monitors into each vaccine storage unit for use as a control mechanism to verify/assure proper vaccine storage temperature ranges are maintained. These internal and external temperature monitors provide a continuous history log of internal and external temperatures. At no time were internal storage temperatures outside acceptable ranges, and therefore vaccines were not compromised.

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State Agency: Illinois Department of Public Health (IDPH)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Immunization Grants
CFDA # and Program Expenditures: 93.268 (\$39,597,000)
Award Numbers: H/2CCH522568-04-01
Questioned Costs: None

Finding 06-48 *Insufficient Federal Award Information Provided to Subrecipients*

IDPH did not provide all subrecipients of its Immunization Grants program with required federal award information.

During our review of 60 subrecipient award communications, we noted award documents did not provide evidence IDPH communicated the federal program's CFDA number and title, the amount of federal awards passed through, applicable laws and regulations, or allowable activities information to subrecipients of the Immunization Grants program

According to OMB Circular A-133 _____.400 (d), a pass through entity is required to identify each federal award made by informing each subrecipient of the federal program's CFDA title and number. The pass through entity is also required to advise subrecipients of award value and requirements imposed on them by federal laws and regulations.

In discussing these conditions with IDPH officials, they stated that they were aware of this requirement and simply missed some of the notifications.

Failure to inform subrecipients of the 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 06-48)

Recommendation:

We recommend IDPH notify all subrecipients in writing of the CFDA title and number, program regulations, and amount of the award.

IDPH Response:

The Department concurs with the finding and recommendation. All subsequent subrecipient award notices will now include the CFDA title and number, program regulations, and amount of the award.

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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 (\$36,660,000)
Award Numbers: 6X07HA00013-16-2/6X07HA00013-15-03
Questioned Costs: \$8,592

Finding 06-49 *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 \$2,224,803) charged to the HIV Care Formula Grant (HIV) program, we noted two expenditures (totaling \$8,592) 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 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 compensation expenditures are allocated through the PACAP.

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 06-49, 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 a process is put into place to allocate all costs associated with interns to the benefited program(s). The department will include all costs associated with the intern into the direct cost pool and allocate the interns time using the RMS allocation methodology.

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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 (\$36,660,000)
Award Numbers: 6X07HA00013-16-2/6X07HA00013-15-03
Questioned Costs: None

Finding 06-50 *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 Children and Family Services (DCFS). As the state agency responsible for administering the HIV program, IDPH has executed an interagency agreement with 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, 2006, IDPH used expenditures totaling \$6,209,000 from DCFS 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 and remained open in 2006 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 06-50, 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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IDPH Response:

The Department concurs with the finding and recommendation and will propose an amendment to the interagency agreement with the Department of Children and Family Services (DCFS) that specifies the criteria necessary to certify applicable state maintenance of effort expenditures. In addition, the proposed amended interagency agreement will require designated officials of the DCFS, as agent of the IDPH, to provide written certification of applicable MOE expenditures.

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For the Year Ended June 30, 2006

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 (\$540,016,000)
Award Numbers: S010A030013/S010A040013/S010A050013
Questioned Costs: None

Finding 06-51 *Failure to Sanction Non-Comparable Local Education Agency (LEA)*

ISBE does not take adequate measures to sanction a LEA that did not meet the comparability of services requirement under the Title One Grants to Local Education Agencies (Title One) program.

LEAs must provide educational services for schools receiving Title One funds that are comparable (equal) to those that are not receiving Title One funds within the same school district (“comparability of services”). Based on information provided from a recent USDE audit and procedures performed during our audit, we noted one LEA which is not in compliance with the comparability of services requirement. Specifically, this LEA appears to have 33 schools receiving Title One funds that are providing educational services (based on both on a teacher to pupil ratio and expenditure to pupil ratio) that are less than schools not receiving Title One funds. ISBE was aware of the noncompliance but has not cited this LEA for failure to meet comparability of services requirement, or taken steps to ensure the LEA achieves comparability. This LEA received an allocation of approximately \$282,000,000 in federal funds under the Title One program during the year ended June 30, 2006. Of this amount, the 33 schools that did not meet the comparability of services requirement received approximately \$6,800,000.

Section 1120A(c), of the Elementary and Secondary Education Act states that a subrecipient may receive funds under this part only if state and local funds will be used in schools served under this part to provide services that, taken as a whole, are at least comparable to services in schools that are not receiving funds under this part. Each subrecipient must maintain records that are updated biennially, documenting compliance with the comparability requirement. The State Educational Agency is ultimately responsible for ensuring that all subrecipients remain in compliance with the comparability requirement. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure that the subrecipients are effectively monitored in order to ensure they are compliant with the comparability of services requirement.

In discussing these conditions with ISBE officials, they stated that the Agency was aware of this situation and had numerous conversations with the LEA regarding the corrective action taken by the LEA to achieve comparability. The LEA advertised and attempted to fill the positions necessary to achieve comparability in the forty nine (49) schools.

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Failure to ensure that LEAs remain in compliance with the comparability of services requirement may result in 1) an inequitable education for students attending schools receiving Title One funds and 2) unallowable costs. (Finding Code 06-51)

Recommendation:

We recommend ISBE implement procedures to appropriately monitor and sanction LEAs not meeting the comparability of services requirement.

ISBE Response:

The Agency concurs that the LEA was not comparable and that ISBE did not sanction the LEA when the corrective action they employed did not achieve comparability. ISBE is awaiting receipt of the comparability audit report from the US Department of Education (USDE) as well as the USDE's guidance in determining what sanction would be appropriate to impose in this situation.

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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 (\$44,344,000)
Award Numbers: V048A030013/V048A040013/V048A050013
Questioned Costs: None

Finding 06-52 *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 \$18,665,000, or 42%, of the total Vocational Education program expenditures for the year ended June 30, 2006. 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 the establishment of an interagency agreement and a day-long on-site visit to review ICCB's fiscal and programmatic subrecipient monitoring. The review of ICCB's fiscal monitoring consisted of a review of the monitoring files completed by ICCB staff during fiscal year 2006. The review of ICCB's programmatic monitoring consisted of a review of the documentation of ICCB's award and monitoring process, the federal Perkins and Tech monitoring process, ICCB's grant monitoring instrument, and a sample Perkins' grant. While the process narratives provided to ISBE by ICCB include procedures for cash management, eligibility determinations, determination of allowability of expenditures and subrecipient monitoring, there is no documentation that ISBE reviewed specific files during its programmatic review to ensure that the processes were followed as described in the documents provided.

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 that the Agency's monitoring efforts for fiscal year 2006 focused on ICCB's monitoring of its subrecipients as required by 34 CFR 80.40, so as to address fiscal years 2004 and 2005 audit findings.

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 06-52, 05-61)

Recommendation:

We recommend ISBE review the existing monitoring procedures to ensure that the procedures performed and the documentation of such is sufficient to determine that 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 will develop, document and execute monitoring procedures to ensure that ICCB is administering the Vocational Education program in accordance with the provisions of laws, regulations, and the interagency agreement.

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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 (\$540,016,000)

Award Numbers: S010A030013/S010A040013/S010A050013

Questioned Costs: None

Finding 06-53 *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 test work of 5 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, 2006, ISBE approved 19 subrecipient waivers requesting the carryover of \$869,670 to the subsequent year.

According to 20 USC 6339(a)(b)and(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 USDE brought this issue to the Agency’s attention in a finding received June 14, 2005. Enhanced procedures regarding documentation of carryover waivers, including revision of the waiver request form, were implemented at the beginning of July 2005. Four of the five waiver request exceptions noted by the auditors were received by ISBE prior to the implementation of the enhanced procedures. The remaining exception appears to be the result of oversight.

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 06-53, 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 revised its carryover waiver request form and implemented its use at the beginning of FY 2006. The revised form requires subrecipients to provide a description of the reason(s) 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. Subrecipients must provide a description of the specific activities and amount of funds to be expended for each proposed activity.

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State Agency: Illinois Community College Board (ICCB)
Federal Agency: US Department of Education (USDE)
Program Name: Vocational Education – Basic Grants to States
CFDA # and Program Expenditures: 84.048 (\$44,344,000)
Award Numbers: V048A030013/V048A040013/V048A050013
Questioned Costs: None

Finding 06-54 *Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports*

ICCB is not adequately reviewing OMB Circular A-133 audit reports that are required to be received from subrecipients of the Vocational Education – Basic Grants to States (post-secondary education) program.

ICCB receives OMB Circular A-133 audit reports from subrecipients who expend \$500,000 or more of federal awards in their fiscal year. ICCB reviews these reports to assess whether or not there are violations of program requirements (findings). As part of this review process, ICCB completes a checklist, which primarily consists of questions related to whether or not the subrecipient audit report discloses any audit findings. However, no documentation exists to support that:

- ICCB performs a thorough “desk review” of the report to determine whether the audits were performed in accordance with OMB Circular A-133.
- The federal funds reported in the schedule of expenditures of federal awards reconciles to funding notifications.
- ICCB program grants that are Type A programs (as defined by OMB Circular A-133) are being audited at least every three years.

Additionally, we selected 30 subrecipients of the Vocational Education – Basic Grants to States program and noted the following:

- There were six subrecipients for which a desk review checklist was not completed.
- There were twenty-four subrecipients for which the desk review checklist was not dated. As a result, the timeliness of the review could not be determined.
- There were two subrecipients that had findings in the OMB Circular A-133 audit report for which ICCB did not perform any follow-up procedures or issue a management decision.

Total federal awards passed through to subrecipients of the Vocational Education program were \$15,500,000 during the year ended June 30, 2006

According to OMB Circular A-133 §____.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that project goals are achieved. According to the OMB Circular A-133 Compliance Supplement, dated March 2006, a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the

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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. According to 34 CFR Sections 80.40 and 80.42, ICCB is required to have an effective internal control structure in place to ensure proper monitoring of subrecipients.

In discussing these conditions with ICCB officials, they stated they added objectives, scope of work, methodology, sample size information, check numbers and vouchers to the verification process, and supervisory sign off to the monitoring checklist. They thought this would satisfy the finding.

Failure to adequately obtain, review, and perform follow-up procedures on 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 06-54)

Recommendation:

We recommend ICCB:

- Establish a review period of not more than 60 business days from the receipt of the OMB Circular A-133 audit reports,
- Update its checklist to include additional criteria to ensure that a sufficient review is performed over the reports,
- Establish a process for updating the subrecipients files with the results of the findings follow-up review, and
- Require its subrecipients to certify that less than \$500,000 was expended in total federal awards if an OMB A-133 audit report is not submitted.

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ICCB Response:

The Board partially agrees with the finding above. The review of A-133 audits will be documented by dating and signing the review sheet. Follow-up of the monitoring document will be documented for auditor verification. A subrecipient certification will be developed for the grantees receiving less than \$500,000.

It is unclear to the Board what specific criteria needs to be added to the checklist to “Update its checklist to include additional criteria to ensure that a sufficient review is performed over the reports.”

Auditors’ Comment:

As discussed in the finding above, at a minimum, the A-133 report desk review checklist should be updated to include procedures designed to:

- determine whether the audits were performed in accordance with OMB Circular A-133;
- reconcile the federal funds reported in the schedule of expenditures of federal awards to ICCB records; and
- ensure ICCB program grants that are Type A programs (as defined by OMB Circular A-133) are being audited at least every three years.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

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 (\$44,344,000)

Questioned Costs: None

Finding 06-55 *Inadequate Documentation of On-Site Monitoring of Subrecipients*

ICCB did not adequately document on-site fiscal and administrative reviews of subrecipients receiving federal awards for the Vocational Education – Basic Grants to States (post-secondary education) program.

The Illinois State Board of Education provided ICCB with an interagency grant of \$18,665,000 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 – Basic Grants to States (post-secondary education) program, we noted the following:

- Procedures for on-site fiscal and administrative reviews 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.
- Procedures relative to subrecipient internal controls were not documented for any Vocational Education (post-secondary education) program subrecipients.

Total federal awards passed through to subrecipients of the Vocational Education – Basic Grants to States program were \$15,500,000 during the year ended June 30, 2006

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 administrative review procedures were adequate and addressed all the applicable federal requirements.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement. (Finding Code 06-55, 05-74, 04-57, 03-51)

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

Recommendation:

We recommend ICCB review its on-site monitoring procedures for subrecipients of the Vocational Education – Basic Grants to States (post-secondary education) program and implement changes necessary to ensure procedures performed adequately address fiscal and administrative processes and controls. Additionally, the fiscal and administrative on-site monitoring files should include appropriate documentation and conclusions as well as documented supervisory review.

ICCB Response:

The ICCB partially accepts the recommendation. Supervisory review is included on monitoring document. To meet last year's recommendations, the checklist was revised and expanded. Sample size was defined for each recipient. Scope of work and objectives were added to the report to properly meet fiscal administrative controls. Voucher numbers, voucher dates, payee names and descriptions were added to the documentation for possible challenges to findings. Any problems were documented with copies of the vouchers. Cash on hand verification was added by including the calculations in the documentation.

Auditors' Comment:

We acknowledge the monitoring document was revised in the prior year and includes a sign off to evidence supervisory review. However, the monitoring document is one page and consists of summarized high level procedures which do not enable a reviewer to determine whether all appropriate fiscal and administrative procedures have been performed.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

State Agency: Illinois Community College Board (ICCB)
Federal Agency: US Department of Education (USDE)
Program Name: Vocational Education – Basic Grants to States
CFDA # and Program Expenditures: 84.048 (\$44,344,000)
Award Number: V048A030013/V048A040013/V048A050013
Questioned Costs: None

Finding 06-56 *Failure to Draw Funds Only for Immediate Cash Needs*

ICCB did not minimize the time elapsing between the draw down of federal funds and their disbursement for program purposes.

ICCB requests funds from the Illinois State Board of Education (ISBE) for the Vocational Education – Basic Grants to States (postsecondary education) program based upon cash requests received from ICCB's subrecipients. ISBE then draws the funds from USDE and disburses them to ICCB for payment to ICCB's subrecipients. ICCB is required to follow Subpart B of the US Treasury Regulations for the Vocational Education – Basic Grants to States (postsecondary education) program, which requires that funds be drawn in a way that minimizes the time elapsing between the receipt and disbursement of Federal funds. During our test work of thirty cash draws, we noted twelve instances in which more than three business days elapsed between the receipt of funds from ISBE and disbursement of funds to the subrecipients. Specifically, the time elapsing between the receipt and subsequent disbursement of funds for these twelve instances ranged from four to fifteen business days.

According to US 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. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure cash draws are performed in accordance with the US Treasury Regulations.

In discussing these conditions with ICCB officials, they stated they are not able to draw finds directly from the US Department of Education. The Illinois State Board of Education is responsible for the cash draws. The time lag between request by the Board and deposit by the ICCB is inconsistent.

Failure to draw funds in accordance with the US Treasury Regulations could result in an interest liability to the Federal government. (Finding Code 06-56).

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

Recommendation:

We recommend ICCB implement procedures to ensure cash draws are made in accordance with the US Treasury Regulations.

ICCB Response:

The ICCB is not directly responsible for the draw of federal funds. Of the thirty samples pulled by the auditors, the ISBE deposited funds from nine days prior to the scheduled request to nine days after the request. In those instances, if the vouchers were sent to be processed within three days, the Illinois Office of the Comptroller would have returned 11 of the 17 “as needed” draws for lack of funds. The ICCB believes that the Illinois State Board of Education should implement procedures for consistent timing of requests for funds.

Auditors' Comment:

While we understand ISBE draws federal funds from USDE on the behalf of ICCB, ISBE performs these draws according to funding requests made by ICCB. We recommend ICCB work with ISBE to implement procedures to minimize the time between the receipt of federal funds from ISBE and their disbursement for program purposes.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

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 (\$278,810,000)

Award Numbers: None

Questioned Costs: Cannot be determined

Finding 06-57 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 US 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;
- (4) The loan was in default before the agency paid a default claim filed thereon;

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For the Year Ended June 30, 2006

- (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.

During the year ended June 30, 2006, 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

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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, 2006, ISAC received \$ 120 million out of a total of \$ 140 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 86% 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 to industry practice and federal regulations as interpreted in the Common Manual. In a 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. In addition, ISAC implemented a quality review process beginning in January 2006 which selects a statistical sample of claims for each quarter to perform a more thorough review to assess the accuracy of the claims payment 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 06-57, 05-69, 04-53, 03-45)

Recommendation:

We recommend ISAC continue consultation 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 to those requirements including determining whether the new post-claim review process established during the current fiscal year meets the requirements of the USDE.

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ISAC Response:

ISAC agrees with the recommendation calling for continued consultation with the United States Department of Education (USDE) relative to the interpretation of federal laws and regulations relating to the processing and submission of reinsurance claims. The Commission has an appeal pending with the USDE challenging the accuracy of the data on which this finding is based. Based on the outcome of this appeal and any subsequent discussions, ISAC will modify our claims process, as appropriate.

The Commission has implemented a post-claim review process which meets the requirements outlined by the US Department of Education (USDE) in December 2005. ISAC is also part of the student loan industry-wide work group that has submitted proposals to the USDE to implement a standard post-claim review process.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

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 (\$278,810,000)

Award Numbers: None

Questioned Costs: None

Finding 06-58 *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 receipts of the borrower payments (received from outside collection agencies) and deposited into the federal fund. During our testwork over 30 borrower payments, we noted 3 instances where borrower payments were not made deposited into the federal fund within the required 48 hours. The delays ranged between 3 and 11 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 06-58, 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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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

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, 2006

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 (\$278,810,000)

Award Numbers: None

Questioned Costs: Cannot be determined

Finding 06-59 *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 11,245 defaulted loans that meet these criteria as of April 19, 2006 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 06-59, 05-72, 04-54)

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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 continues to monitor loans eligible for assignment and is seeking to assign all defaulted loans meeting the criteria stated in the regulation to the US Department of Education.

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For the Year Ended June 30, 2006

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 (\$32,701,000)

Award Numbers: TA134920455/TA143770555/TA153000655/UI144320555/UI151190655

Questioned Costs: \$426,524

Finding 06-60 *Inadequate Administration and Coordination of Program Responsibilities, Inadequate Case File Documentation and Payment of Benefits to Ineligible Beneficiaries*

IDES did not adequately administer or coordinate the program responsibility of the Trade Adjustment Assistance – Workers (TAA) program with the Illinois Department of Commerce and Economic Opportunity (DCEO) resulting in inadequate case file documentation and the payment of benefits to ineligible individuals.

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.

The TAA program is administered in Illinois jointly by DCEO through Local Workforce Investment Areas and other local providers, and by IDES. DCEO is responsible for written determinations concerning client eligibility for training or training waivers. DCEO utilizes their local workforce investment agencies to administer the program and document the eligibility determinations and training waivers in the Illinois Workforce Development System (IWDS). IDES is responsible for determining whether the claimant has continued to remain eligible to receive TAA benefits prior to the actual payment of benefits.

During our test work of the TAA program, we selected 50 individuals receiving TAA benefits to review for compliance with eligibility and allowability requirements, and noted IDES paid benefits to individuals without determining whether those individuals were properly enrolled in or waived from training. Specifically, we noted the following:

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- In thirty-two cases, the waiver for training was either not signed by a state official, 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 30 days. Benefits paid to these individuals during the year ended June 30, 2006 were \$312,844.
- In seven 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, 2006 were \$18,000.
- In two cases, DCEO and IDES were unable to locate the training agreement. 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, 2006 were \$31,798.
- In one case, 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 this individual during the year ended June 30, 2006 was \$21,982.
- In twenty cases, DCEO and IDES were unable to locate a 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, 2006 was \$41,990.

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 (2)(vi), waivers must contain a signature block (with signature) for the appropriate state official. 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. DCEO has adopted a policy to review the waivers every 30 days.

In discussing these conditions with the agency officials, they stated that the program was in a state of transition at both the federal and state levels and the federal government had not yet promulgated rules to implement the Trade Act of 2002.

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Failure to verify whether individuals receiving benefits remain eligible for such benefits and failure to maintain source documentation for eligibility determinations may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs (Finding Code 06-60, 05-85, 04-66)

Recommendation:

We recommend IDES review its procedures for the coordination of the TAA program 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 agree. We have and will continue to work collaboratively with both DCEO and the US Department of Labor (USDOL) to ensure future TRA benefit payments are handled in accordance with USDOL's directions. A settlement was reached with USDOL covering this issue and all 50 of the payments tested were related to claims initiated during the period covered by the settlement.

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For the Year Ended June 30, 2006

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 (\$1,845,449,000)

Award Numbers: UI126360355/UI135450455/UI144320555/UI151190655

Questioned Costs: \$721

Finding 06-61 *Incomplete Documentation in Client Eligibility Files*

IDES did not maintain complete documentation supporting client eligibility determinations made for the Unemployment Insurance program.

The Unemployment Insurance (UI) program administered by IDES provides benefits to eligible individuals that are unemployed and able and available to work. The structure of the Federal-State UI Program partnership is based upon Federal law; however it is implemented through State law, specifically the Illinois Unemployment Insurance Act (the Act). IDES has also developed a comprehensive policies and procedures manual available on their intranet to all employees to allow for the consistent and proper administration of the UI program. During our test work of the UI program, we selected 60 beneficiary payments to review for compliance with eligibility requirements and for the allowability of the related benefits, and noted the following exceptions:

- In two cases, the claimant's application contained insufficient documentation to determine if the claimant had dependents and provided over half the support, however the benefit payment included a dependent allowance. One claimant was subsequently notified by IDES and verified that the claimant did have a dependent. Additional dependent benefits paid to the other individual during the year ended June 30, 2006 were \$721.
- In three cases, the UI application did not contain evidence that the claimant's identification was reviewed during the claim intake process. In each instance we noted other procedures performed by IDES to support the eligibility of the claimants.
- In two cases the application was not complete and did not document if the claimant received shutdown pay. In each case additional documentation in the claimant's electronic case file supported there was no shutdown pay received.
- In one case, the claimant chose to have federal income taxes withheld, however no taxes were deducted from the benefit amount.

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

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Section 401 (C) of the Act states that with respect to any benefit year beginning on or after January 4, 2004 and before January 6, 2008, an individual with a dependent child or dependent children to whom benefits are payable with respect to any week shall, in addition to those benefits, be paid 17.2% of his or her prior average weekly wage, provided that the total amount payable to the individual with respect to a week shall not exceed 65.2% of the statewide average weekly wage. Section 700 of the Act states that claims for benefits shall be made in accordance with such regulations as the Director may prescribe. IDES has established policies and procedures that require each claimant to complete an application for benefits and present valid identification during the intake process. The claim processor is required to initial the application, certifying that the identification was sighted. Section 610 (A) of the Act states that whenever an employer has announced a period of shutdown and at the time of the shutdown makes a payment, such sum shall be deemed wages and as such the individual will be deemed ineligible for benefits during that period. In accordance with Section 1300 (C)(1)(c) of the Act, the individual may elect to have federal income tax deducted and withheld from his or her payments of unemployment insurance in the amount specified in the Federal Internal Revenue code.

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

In discussing these conditions with IDES, they state they believe these were relatively isolated instances where staff was somewhat less diligent in their application of existing procedures.

Failure to maintain complete supporting documentation for eligibility determinations may result in federal awards being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 06-61)

Recommendation:

We recommend IDES implement procedures to ensure all eligibility determination documentation is complete and properly maintained.

IDES Response:

We agree. We will review existing procedures to determine what, if any, changes are necessary and will reinforce the importance of these documentation procedures with staff. It should be noted that the single instance with questioned costs noted here is a claim that was previously identified as being fraudulent through the use of other internal controls and we are attempting to recover the benefits paid to this individual as aggressively as the law allows.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

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 (\$1,845,449,000)

Award Numbers: UI126360355/UI135450455/UI144320555/UI151190655

Questioned Costs: None

Finding 06-62 *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 US citizens and was created to allow for follow-up to ensure non-citizens were registered with the federal Verification Information System (VIS).
- Combined Application Error Report – All daily claim applications appear on this report. Regional offices have the ability to request the report for any of their local offices as needed. Each transaction is reviewed to confirm that it was accepted; any rejected transactions require follow-up.
- File Maintenance Error Report and Rejected Transaction Report – All daily rejected transactions, other than applications and certifications, appear on one of these two reports. The File Maintenance Error Report lists only rejections and warning messages from system generated transactions and local office adjudication data entries. Regional offices have the ability to request both reports for any of their local offices as needed. Each transaction is reviewed to determine if corrective action is needed. If corrective action is taken, documentation of the action is required by annotating the report with the type and dates of the action. The corrected error reports are periodically reviewed by the local office supervisor.
- Media Transfer Report – All claimants must file for benefits at the local office responsible for the area in which the claimant lives. Often times a claimant will go to a different local office, thus the claim will be taken and transferred to the correct local office. All claims transferred in and out of each local office are listed on this report, and each office is responsible for verifying that all files that should be transferred in have been received.

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For the Year Ended June 30, 2006

- 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, 2006. Based on a limited review of claim exception reports, 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 state they believe that the exceptions on the reports are being processed and/or corrected.

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 06-62, 05-88)

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.

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For the Year Ended June 30, 2006

IDES Response:

We agree. Training and/or retraining of staff in the local offices responsible for processing the exception reports occurred between December 2006 and February 2007. In addition, our procedures were updated to ensure consistency throughout the state. However, space limitations would preclude extending the retention period of the paper reports. We continue to consider more extensive automation of the reporting process as part of the ongoing benefit system redesign. In May 2007, the agency applied for supplemental funding from USDOL to address automating the exception reports.

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For the Year Ended June 30, 2006

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 (\$1,845,449,000)
Award Numbers: UI126360355/UI135450455/UI144320555/UI151190655
Questioned Costs: None

Finding 06-63 *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 help 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 38,949 during the year ended June 30, 2006.

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 reviewed the reports and determined which items required 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 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 06-63, 05-90)

Recommendation:

We recommend IDES establish clear criteria for determining which claims should be investigated. IDES should also document procedures performed.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

IDES Response:

We agree. When this was reported as a finding in last year's audit, we began to address the recommendation. On September 13, 2006, the procedure on the Multiple Claimant/Single Address Report was revised to include criteria for determining which addresses are investigated, documentation of supervisory review, documentation of follow-up procedures performed and retention requirements.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

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 (\$1,845,449,000)
Award Numbers: UI126360355/UI135450455/UI144320555/UI151190655
Questioned Costs: None
Finding 06-64 *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.
- During the calendar year ended December 31, 2005, 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 were not formalized or standardized for all reports. Procedures do not require that claimant identification be

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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 06-64, 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. As a result of this finding being reported in last year’s audit, the identified directive that was issued via a memo was formally incorporated into the agency’s Procedure Manual in October 2006. 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. Currently, internet claims are validated using the wage record system and, if the claimant has filed before, the previous claim information is used. A weekly, random management review of claimant eligibility files was implemented in December 2006 and is documented on a standard worksheet that was developed for this review.

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For the Year Ended June 30, 2006

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 (\$32,701,000)

Award Numbers: UI144320555/UI151190655

Questioned Costs: \$783

Finding 06-65 *Inadequate Cash Draw Procedures*

IDES did not follow established procedures to reconcile cash draws to actual disbursements (cleared checks).

IDES draws funds for the Trade Adjustment Assistance – Workers (TAA) program based upon checks presented for payment at their bank. Each day, IDES accesses the banking website to retrieve a cash letter which provides the dollar amount of TAA checks that have been presented for payment, and this amount is used as the basis for the draw of federal funds. However IDES does not reconcile the amount of the checks presented for payment in the cash letter to the amounts reported as checks cleared from the electronic file received from the bank. Accordingly, we noted one of thirty draws selected for test work was \$783 dollars more than the amount of checks that cleared the bank for that day, resulting in a cash overdraft.

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 properly reconciled to cleared checks.

In discussing this condition with IDES, they stated that in the past they have not compared the amount obtained from the website to the amount of checks that actually cleared the bank, and that they have relied upon the bank to perform that reconciliation.

Failure to reconcile the cash draws to cleared checks could result in an interest liability to the Federal government. (Finding Code 06-65)

Recommendation:

We recommend IDES implement procedures to ensure the cash draws are reconciled to actual disbursements (cleared checks).

IDES Response:

We agree. The TRA overdraft was the result of an initial error in the Federal Reserve Bank's (FRB) Combined Account Total Report (i.e., total checks cleared with separate subtotals for TRA and UI), which they later corrected, but which was undiscovered by IDES. We have established and implemented procedures to reconcile the checks presented for payment in the cash letter to the electronic file of cleared checks received from the bank.

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For the Year Ended June 30, 2006

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 (\$40,785,000)

Award Numbers: ES139940455/ES148620555/TE9555063DV/TE9555063LV/TE9565063DV
TE9565063LV

Questioned Costs: None

Finding 06-66 *Inadequate Cash Management Procedures*

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

The State of Illinois is required to follow the Treasury State Agreement (TSA), which is negotiated annually with the US Department of the Treasury and details the funding techniques to be used for the draw down of federal funds. The TSA must include federal programs exceeding \$60,000,000 in expenditures, and must be amended at least annually or as needed to add or delete federal assistance programs subject to the TSA. IDES is required to follow Subpart B of the US Treasury Regulations for the Employment Services Cluster as it expended less than \$60,000,000 during the fiscal year ended June 30, 2006.

During our audit we noted two of thirty draws selected for test work for the Employment Services Cluster utilized a payment schedule method, a common funding technique prescribed in the TSA. This method requires that the amount of the cash request is the annual grant divided by 24. However, this program was not included in the TSA.

The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure cash draws are performed in accordance with the US Treasury Regulations.

In discussing this condition with IDES, they stated that this was an error that was isolated to the Wagner Peyser Grants, which are a portion of the Employment Services Cluster.

Failure to draw funds in accordance with the US Treasury Regulations could result in an interest liability to the Federal government. (Finding Code 06-66, 05-92)

Recommendation:

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

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For the Year Ended June 30, 2006

IDES Response:

We agree. As a result of a similar finding in last year's audit, we established and implemented a review and approval procedure by the Supervisor of Cash Management for all cash draws that will eliminate future errors.

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For the Year Ended June 30, 2006

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 (\$32,701,000)

Award Numbers: UI144320555/UI151190655

Questioned Costs: None

Finding 06-67 Undocumented Review of Performance Reports

IDES has not implemented formal review and approval procedures for the ETA 563 performance report.

The ETA 563 report is due quarterly and reports the number of individuals receiving different types of TAA benefits by petition number. An information systems report (TR025MC) is run from the benefit payment system for each petition number, and the amounts are accumulated using an excel spreadsheet, from which totals are then included into the ETA 563 report and submitted to the Department of Commerce and Economic Opportunity (DCEO), who inputs additional information and submits it electronically to the USDOL.

During our review of the ETA 563 report, we noted the same IDES employee accumulates the information on the excel spreadsheet, prepares and submits the ETA 563 report to DCEO without a formal, documented supervisory review.

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include a formally documented supervisory review of all reports prepared and filed with federal agencies.

In discussing this with IDES personnel, they stated they relied on the system edits and the several layers of reviews at IDES to detect any errors.

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 USDOL to effectively monitor and evaluate program performance. (Finding Code 06-67)

Recommendation:

We recommend IDES personnel formally document the review and approval of the ETA 563 special report.

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For the Year Ended June 30, 2006

IDES Response:

We agree. The ETA 563 is a collaborative effort between IDES and DCEO. IDES submits data taken from an information systems report (TR025MC) to DCEO for additional inputs and their subsequent transmission to the Employment and Training Administration (ETA) in Washington, DC. It has been the practice of States to report Trade Adjustment Assistance (TRA) by petition number. As of the 4th quarter of 2006, the federal requirement changed and the new mandate calls for a summary of Trade Adjustment Activities for the quarter to be reported to ETA. The new reporting system was put in place May 15, 2007 per federal mandate. IDES and DCEO worked on implementation of the new format. Under this new format, IDES now furnishes aggregated data on basic TRA, additional TRA and remedial TRA to DCEO to allow incorporation of their inputs. The last two quarterly reports have been successfully submitted to ETA by DCEO using this new procedure. The IDES review process has been revised to include a final quality and accuracy review by the Manager of Economic Information and Analysis UI Research.

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For the Year Ended June 30, 2006

State Agency: Illinois Department of Employment Services (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance Program

CFDA # and Program Expenditures: 17.225 (\$1,845,449,000)

Award Numbers: UI126360355/UI135450455/UI144320555/UI151190655

Questioned Costs: None

Finding 06-68 *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 terminating access rights is not followed. Specifically, we selected 25 employees that were terminated and noted that IDES did not document requests to delete user ids after employees have been terminated.

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- 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.
- One technical services and security manager utilizes two active user ids, one of which has been assigned to this individual's name.
- Security badge request forms for access to the IT computing resources could not be located.
- Policies and procedures relating to the documentation of testing of program changes have not been updated since 1997. We selected 25 program changes and noted that there was no evidence of testing performed on the authorization form. Additionally, we noted that eight of the 25 changes were approved by the same individual requesting the change.
- User acceptance tests for the development of one new system placed into production did not have signatures from two members of the project team.
- The Information Security Policies and Procedures have not been updated since 1999.
- IDES does not have documented data backup policies and procedures for the mainframe environment
- 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 procedures are in place to address most of the documentation issues raised in this finding. However, data backup and restoration policies and procedures need to be documented to ensure that Production Control effectively implements backup and restore procedures. It was an oversight that user acceptance tests for the development of an IBIS-related application did not contain signatures of two members of the project team.

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 06-68, 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. Current RACF procedures will be reviewed to ensure that RACF access termination requests are properly documented. Technical Services and Security (TSS) staff did not always document requests to terminate user access; however documentation procedures are in place and will be included in the Procedures Manual. Security badge requests for access to the computer room are now kept in a separate file for easy retrieval. The Department will also document procedures for information systems backups and restoration. The prior findings have been addressed and corrected including documentation of the semi-annual review of access rights.

We disagree with the third dot point. The TSS Manager has his own user ID. He also has use of a shared user ID exclusively for DB2 administration purposes. Access to a shared user ID for this purpose is critical to

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timely and proper security administration of DB2 applications and has been approved by management at Central Management Services, Bureau of Communications and Computer Services.

Auditors' Comment:

The use of shared generic administrative ID's is not considered a good practice, unless the use of the ID is frequently monitored. The user account identified above is shared by three users, thus specific transactions executed using the shared ID cannot be traced to any one individual. IDES did not provide documentation that the use of the shared ID's was monitored.

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For the Year Ended June 30, 2006

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 (\$152,912,000)

Award Numbers: AA-12923-03-50/AA-13796-05-50/AA14673-05-55

Questioned Costs: \$454,000

Finding 06-69 *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 \$454,000 during the year ended June 30, 2006. 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) and 35-35(a) of the Illinois Procurement Code (30 ILCS 500/35-30) 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

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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 06-69, 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:

DCEO has adequate procedures in place to ensure all procurements are performed in accordance with applicable State rules and regulations and Federal procurement requirements. This finding is the continuation of a condition identified in the fiscal year 2005 audit period. The subrecipient grants cited in this audit were executed in fiscal year 2005 and early fiscal year 2006 before the issuance of the auditors’ finding for the prior year audit period.

Auditors’ Comment:

We disagree with DCEO’s position that this is a subrecipient grant. We believe the substance of the contract is for professional accounting services for which there are no substantive compliance requirements or responsibilities for programmatic decision making by the contractor, and as such, should have been bid in accordance with the Illinois Procurement Code.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

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 (\$91,286,000)

Award Numbers: Various

Questioned Costs: None

Finding 06-70 *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 28 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, 2006, IDOT passed through approximately \$47,622,000 to 34 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 06-70, 05-75)

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

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 this finding. The Suspension and Debarment clause has been added to Aeronautics' Agency and Participation Agreement which is signed by subrecipient as well as the Director of the Division of Aeronautics.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

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 (\$91,286,000)

Award Numbers: Various

Questioned Costs: None

Finding 06-71 *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 \$50,790,000 to 34 subrecipients of the Airport Improvement program during the year ended June 30, 2006. 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 March 2006, 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 06-71, 05-76)

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.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

IDOT Response:

The Department disagrees with the finding. The Federal Aviation Administration (FAA), which provides 100 percent of the federal funds to the Division of Aeronautics, is completely satisfied with the Division's monitoring of subrecipients. Approximately 50 percent of the federal funds received from the FAA are applied to projects let by IDOT's Division of Aeronautics. There is extensive oversight and monitoring of these projects by Division personnel starting with the planning and programming process, the design and construction phases, and the final acceptance. The other 50 percent of the funds received by the FAA are provided to the subrecipient through the Division, but only after all required documentation is in place. This documentation includes signed certifications by the subrecipient showing that they have accepted the product, all procurement procedures have been followed and evidence of the cancelled check for projects requiring reimbursements. The Manager of the FAA's District Office (who issues the federal grants) has provided a letter indicating that the Division's procedures are acceptable in providing "reasonable assurance", in accordance with OMB Circular A – 133. In the FAA's letter, which was provided to the auditors, the FAA indicated that they only require signed certifications, and that they do not expect anything more than that from the state.

Auditors' Comment:

The OMB Circular A-133 Compliance Supplement, dated March 2006, 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. A letter from a manager in a district office of the FAA is not sufficient evidence to interpret the regulations of OMB Circular A-133.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)
US Department of Homeland Security (USDHS)

Program Name: Airport Improvement Program
Highway Planning and Construction Program
Homeland Security Cluster

CFDA # and Program Expenditures: 20.106 (\$91,286,000)
20.205 (\$1,019,336,000)
97.004/97.067 (\$65,682,000)

Award Numbers: Various (20.106)
Various (20.205)
2003-TE-TX-0165/2003-MU-T3-0029/2004-GE-T4-0027/
2005-GE-T5-0002 (97.004/97.067)

Questioned Costs: None

Finding 06-72 *Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports*

IDOT does not have an adequate process to review subrecipient OMB Circular A-133 reports on a timely basis.

IDOT passed through \$72,060,000, \$50,790,000, and \$5,482,000 to subrecipients of the Highway Planning and Construction, Airport Improvement, and Homeland Security Cluster programs, respectively, during the year ended June 30, 2006. During our testwork, we selected nineteen subrecipient monitoring files (fourteen from the Highway Planning and Construction program, four from the Airport Improvement program, and one that received funding from all three programs) and noted the following:

- One subrecipient report was not received as of the date of our test work.
- Eight subrecipient reports were reviewed in excess of 180 days of receipt
- Two subrecipient reports were reviewed in excess of 117 days of receipt

In addition, the checklist used by IDOT to perform A-133 desk reviews does not address procedures to reconcile funds sent by IDOT to the schedule of expenditures of federal awards reported by the subrecipient. During our test work over the Airport Improvement Program, we noted IDOT accepted a certification from one subrecipient stating it did not need an audit performed in accordance with OMB Circular A-133 because it did not spend more than \$500,000 in federal funds during its fiscal year ended April 30, 2005, however IDOT had sent this subrecipient approximately \$1,700,000 during this period. During our test work over one subrecipient for the Homeland Security Cluster, we noted amounts passed through by IDOT were not included on the subrecipient's schedule of expenditures of federal awards and were not identified by IDOT as a deficiency in the review of the OMB Circular A-133 report.

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For the Year Ended June 30, 2006

Per OMB Circular A-133 Compliance Supplement, dated March 2006, 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 the Department is now making the review of single audits a major priority, something which needed to be done to ensure timely completion of the reviews. Since the requirement to reconcile funds sent by IDOT to the schedule of expenditures of federal awards reported by the subrecipient is not a specific federal requirement but a new requirement from the auditors, the Department did not have protocols in place to perform the reconciliations.

Failure to receive 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 06-72, 05-77, 04-62, 03-54, 02-48)

Recommendation:

We recommend IDOT implement procedures to ensure the OMB Circular A-133 audit reports are received when due and reviewed within sixty days of receipt. Additionally, we recommend IDOT implement procedures to ensure amounts reported by subrecipients in the schedule of expenditures of federal awards are reconciled to departmental records.

IDOT Response:

The Department agrees with the finding. The Audit Section has now implemented new procedures and prioritized the completion of these reviews. The Audit Section will also revise its protocols to now reconcile amounts reported received by the subrecipient with the Department's records.

The auditors reported that one of the Department's subrecipients that did receive over \$500,000 in federal funds certified that it was not required to have a single audit performed but this was an anomaly. The project awarded to the subrecipient only received federal funding some time after its award and the subrecipient was not aware of the new funding source. The auditors also reported that IDOT did not cite a subrecipient for not reporting funds it received from the Homeland Security Cluster. The subrecipient did in fact report Homeland Security funds it received from the Illinois Emergency Management Agency (IEMA). The Department facilitated the contract for IEMA through an intergovernmental agreement. The Federal grant was never to the Department but to IEMA.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

Auditors' Comment:

Although IEMA is the state agency responsible for coordinating the Homeland Security Cluster for the State of Illinois as a whole, through an interagency agreement, IDOT assumed responsibility for administering a portion of the State's federal Homeland Security Cluster funding. As a result, IDOT was responsible for performing monitoring activities (including obtaining and reviewing OMB Circular A-133 audit reports) for all subrecipients to which IDOT provided Homeland Security Cluster funding.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

State Agency: Illinois Department of Transportation (IDOT)
Federal Agency: US Department of Homeland Security (USDHS)
Program Name: Homeland Security Cluster
CFDA # and Program Expenditures: 97.004/97.067 (\$65,682,000)
Award Numbers: 2003-TE-TX-0165/2003-MU-T3-0029/
2004-GE-T4-0027/2005-GE-T5-0002
Questioned Costs: None

Finding 06-73 *Inadequate On-site Monitoring of Subrecipients*

IDOT is not performing on-site reviews of subrecipients receiving federal awards under the Homeland Security Cluster.

IDOT passed through approximately \$5,482,000 to two subrecipients of the Homeland Security Cluster during the year ended June 30, 2006. The majority of funding was passed through to a city government which was responsible for designing and installing an emergency traffic signal battery backup system for use in evacuating the city in the event of a disaster. As a pass-through entity, IDOT monitors subrecipients of the Homeland Security Cluster by receiving and reviewing periodic expenditure and equipment inventory reports. However, IDOT does not perform on-site reviews of the Homeland Security Cluster 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 March 2006, 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 that they have controls in place to monitor the subrecipient's projects.

Failure to adequately monitor subrecipients may result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 06-73)

Recommendation:

We recommend IDOT develop and implement formal monitoring procedures to perform on-site reviews to ensure subrecipients are administering its Homeland Security Cluster program in accordance with the applicable laws and regulations.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

IDOT Response:

The Department disagrees with the finding. The force account work was performed by a subrecipient. The Department has given both State and Federal fuel tax money to this subrecipient for many years and we have a system in place to monitor these funds through our Bureau of Local Roads. Our Audit Section has also audited their controls, overhead rates and billings on a routine basis for many years.

Auditors' Comment:

During our testwork, IDOT could not provide documentation supporting on-site monitoring procedures had been performed specific to Homeland Security Cluster funding provided to subrecipients.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)
US Department of Homeland Security (USDHS)

Program Name: Airport Improvement Program
Highway Planning and Construction Program
Homeland Security Cluster

CFDA # and Program Expenditures: 20.106 (\$91,286,000)
20.205 (\$1,019,336,000)
97.004/97.067 (\$65,682,000)

Award Numbers: Various (20.106)
Various (20.205)
2003-TE-TX-0165/2003-MU-T3-0029/2004-GE-T4-0027
2005-GE-T5-0002 (97.004/97.067)

Questioned Costs: None

Finding 06-74 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 Highway Planning and Construction, Airport Improvement, and Homeland Security Cluster programs for the year ended June 30, 2006.

During our testwork of 26 subrecipients who received \$49,352,212 in Highway Planning and Construction program funds, 28 subrecipients who received \$43,715,000 of the Airport Improvement program funds, and one subrecipient who received \$5,437,000 in Homeland Security Cluster 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 or program regulations for 12 of the 26 subrecipients tested who received funding from the Highway Planning and Construction program and for all subrecipients tested who received funding from the Airport Improvement Program and Homeland Security Cluster. Subrecipient expenditures under the federal programs for the year ended June 30, 2006 were as follows:

Program	Total Fiscal Year 2006 Subrecipient Expenditures	Total Fiscal Year 2006 Program Expenditures	%
Highway Planning and Construction Program	\$72,060,000	\$1,019,336,000	7.1%
Airport Improvement Program	\$47,622,000	\$91,286,000	52.2%
Homeland Security Cluster	\$5,482,000	\$65,682,000	8.3%

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

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.

In discussing these conditions with IDOT officials, they state that contractual provisions may have needed some revisions to reflect the program 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 06-74, 05-78, 04-63)

Recommendation:

We recommend IDOT review its current process for preparing subrecipient funding notifications to ensure all required information is properly communicated to its subrecipients.

IDOT Response:

The Department agrees with the finding. The required program information will be included in all contracts with subrecipients awarded contracts during fiscal year 2008. The revised contract provisions have been drafted and shared with the auditors for their comments.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

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 (\$91,286,000)

Award Numbers: Various

Questioned Costs: \$35,197

Finding 06-75 *Inaccurate Interest Liability Calculation*

IDOT improperly calculated the interest liability for the Airport Improvement program.

Annually, the State of Illinois negotiates the Treasury-State Agreement (TSA) with the US Department of the Treasury (the Treasury) which details the funding techniques to be used for the draw down of federal funds and the method for calculating any potential interest liability owed to the Treasury. The TSA requires the interest liability for the Airport Improvement program to be calculated using the dollar weighted average time between the warrant date and the deposit date of federal funds. During our audit, we noted there was a formula error in the excel spreadsheet used to arrive at the total dollar amount of federal funds spent which resulted in the improper calculation of the dollar weighted average time between the warrant date and the deposit date of the federal funds. This error resulted in an understatement of the interest liability owed to the Treasury by approximately \$35,197. Based on the timing of our audit procedures, IDOT was able to subsequently re-calculate and properly report the interest liability for the Airport Improvement Program to the Treasury.

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 interest liability calculation is performed in accordance with the US Treasury Regulations.

In discussing this condition with Department officials, they state there was unfortunately a formula error in the excel spreadsheet used to arrive at the total dollar amount of federal funds spent which resulted in the improper calculation of the dollar weighted average time between the warrant date and the deposit date of the federal funds.

Failure to calculate the interest liability in accordance with the US Treasury Regulations could result in inaccurate reporting of the State's interest liability to the Federal government. (Finding Code 06-75)

Recommendation:

We recommend IDOT implement procedures to ensure the interest liability calculation is performed in accordance with US Treasury Regulations.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

IDOT Response:

The Department agrees with the finding. The Department's Audit Section will be more diligent in checking the accuracy of Excel spreadsheet formulas on future CMIA calculations.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

State Agency: Illinois Department of Transportation (IDOT)
Federal Agency: US Department of Homeland Security (USDHS)
Program Name: Homeland Security Cluster
CFDA # and Program Expenditures: 97.004/97.067 (\$65,682,000)
Award Numbers: 2003-TE-TX-0165/2003-MU-T3-0029/
2004-GE-T4-0027/2005-GE-T5-0002

Questioned Costs: None

Finding 06-76 *Failure to Draw Funds Only for Immediate Cash Needs*

IDOT did not minimize the time elapsing between the draw down of federal funds from the US Treasury and their disbursement for program purposes.

During our review of 25 expenditures (totaling \$6,398,120) related to federal fiscal year 2003 and 2004 Homeland Security Cluster grants, we noted warrants were not issued for six expenditure vouchers, totaling \$1,451,321, within ten business days of receiving federal funds intended to finance these expenditures. The number of days between the receipt of federal funds and the issuance of warrants ranged from 15 to 36 business days. Total expenditures for the Homeland Security Cluster program administered by IDOT were \$7,766,000 during the year ended June 30, 2006.

According to 28 CFR 66.20(b)(7), grantees are required to implement procedures for minimizing the time elapsing between the transfer of funds from the US Treasury and disbursement whenever advance payment procedures are used. Part III, Chapter 1 of the US Department of Justice Financial Guide (applicable to federal fiscal year 2003 and 2004 Homeland Security Cluster grants) states "recipients should time their drawdown requests to ensure that federal cash on hand is the minimum needed for disbursements/reimbursements to be made immediately or within ten days." In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include procedures in place to minimize the time elapsing between the receipt of federal funds and their disbursement.

In discussing these conditions with IDOT personnel, they stated the 10 day time limit is a very difficult time frame to meet compared to 60 days that they follow under the State's Prompt Payment Act for other types of funding.

Failure to draw and disburse federal funds in accordance with program regulations may result in an interest liability to the federal government. (Finding Code 06-76)

Recommendation:

We recommend IDOT implement procedures to ensure cash drawn in advance is disbursed in accordance with program regulations.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

IDOT Response:

The Department agrees with the finding. The 10 day time limit is a very difficult time frame to meet compared to 60 days that we follow under the State's Prompt Payment Act for other types of funding. We will work with the Comptroller's Office to implement a protocol to process the Homeland Security funds in a more timely manner.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Highway Planning and Construction Program

CFDA # and Program Expenditures: 20.205 (\$1,019,336,000)

Award Numbers: Various

Questioned Costs: Cannot be determined

Finding 06-77 *Failure to Follow Sampling and Testing Program for Construction Materials*

IDOT did not test materials used for construction activities under the Highway Planning and Construction Program in accordance with their approved sampling and testing program.

The Highway Planning and Construction program administered by IDOT provides federal funding to construct and rehabilitate interstate highways and public roads. IDOT is required to have a sampling and testing program in place to ensure that materials and workmanship generally conform to approved plans and specifications. Each State is required to develop their own sampling and testing program which must conform to requirements established by Federal law and must be approved by the Federal Highway Administration (FHWA). IDOT has developed a comprehensive sampling and testing program as documented in the Project Procedures Guide for Sampling Frequencies for Materials Testing and Inspection (the Guide) that meets these requirements.

IDOT utilizes the Materials Integrated System for Test Information and Communication (MISTIC) system to track which materials require testing and the method of testing to be used. This system is integrated with IDOT's construction billing system in which resident engineers enter quantities used during construction to generate payments to the contractors. If quantities entered do not have a test number which conforms to the type of testing required by the Guide assigned in MISTIC, it is the resident engineer's responsibility to ensure the proper test is completed before payment is made.

During our test work, we selected 50 materials from construction projects that were completed (closed) during the year ended June 30, 2006 and 50 materials from ongoing (open) construction projects.

Of the 50 materials that were selected from construction projects that were completed, six materials were accepted using a method of testing that was not in accordance with the Guide. Additionally, we noted 12 materials for which an improper testing method was initially entered into the MISTIC system; however, the appropriate testing method appears to have been used after the error was identified by a resident engineer.

Of the 80 materials that were selected from ongoing construction projects, we noted four materials were accepted using a method of testing that was not in accordance with the Guide. Additionally, we noted two materials for which an improper testing method was initially entered into the MISTIC system; however, the appropriate testing method appears to have been used after the error was identified by a resident engineer.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

According to 23 CFR Section 637.205(a), each State's transportation department shall develop a quality assurance program which will assure that the materials and workmanship incorporated into each Federal-aid highway construction project on the National Highway System are in conformity with the requirements of the approved plans and specifications, including approved changes. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure materials used in each Federal-aid highway construction project on the National Highway System are tested in accordance with the sampling and testing plan approved by the FHWA.

In discussing these conditions with IDOT officials, they state that this finding is the result of a lack of training and available information to the materials inspection staff.

Failure to follow the sampling and testing program approved by the FHWA could result in substandard materials and workmanship in the State's interstate highways and public roads. (Finding Code 06-77)

Recommendation:

We recommend IDOT implement procedures to ensure all materials are tested in accordance with the sampling and testing program approved by the FHWA.

IDOT Response:

The Department agrees with this audit finding. As noted in the finding, IDOT's controls were in place to identify testing issues and make sure the appropriate testing method was used when issues were identified. The Department also performs additional reviews during the final material certification process to close out active construction projects.

For corrective action, the Department will begin an analysis of the training needs related to this finding. Discussions have already been held with the districts concerning this finding prior to it becoming official and it will be a topic of discussion at the upcoming spring project implementation management level meeting. Because materials acceptance is a continual process with seemingly no beginning and no end, there isn't an easy fix that will have an immediate effect on the process across the board. Some changes can be implemented quickly and others will take time but the effects may be hard to measure right away. The Department will begin to implement the following actions as soon as possible.

- 1 Continue to update the Manual for Materials Inspection to reflect current best practices for materials acceptance and continue to post the latest version of this document on the IDOT web site.
- 2 Notify the districts that materials acceptance should be according to the current Manual for Materials Inspection or current Bureau of Materials and Physical Research Policy Memorandum (whichever is more current)
- 3 Notify the districts that materials acceptance documentation and MISTIC input should match the proper method of acceptance for each material
- 4 Develop a materials acceptance documentation training presentation for materials inspectors
- 5 Update and re-issue instructions for the LA-15 form.

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For the Year Ended June 30, 2006

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Highway Planning and Construction Program

CFDA # and Program Expenditures: 20.205 (\$1,019,336,000)

Award Numbers: Various

Questioned Costs: \$94,000

Finding 06-78 *Reimbursement of Subrecipient Expenditures Incurred Prior to Funding Period*

IDOT reimbursed expenditures to subrecipients under the Highway Planning and Construction program that were incurred prior to the beginning of the funding period specified in the grant award.

IDOT enters into grant agreements with each subrecipient that specifies the funding period in which project expenditures can be incurred and reimbursed under the Highway Planning and Construction program. During our test work of fifty reimbursements for expenditures incurred by subrecipients during the year ended June 30, 2006 totaling approximately \$18,455,000, we noted IDOT reimbursed two subrecipients for expenditures totaling approximately \$94,000 that were incurred prior to the beginning of the funding period specified in the grant award. Amounts passed through to subrecipients of the Highway Planning and Construction program totaled \$72,060,000 during the year ended June 30, 2006.

According to 49 CFR Section 18.23, where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure only expenditures within the funding period are reimbursed with federal funds.

In discussing these conditions with IDOT officials, they state the primary cause of the finding is a lack of understanding by some local agencies of the federal requisite requiring federal authorization prior to the commencement of work. In addition, a check of the authorization date by IDOT prior to the preparation and reimbursement of invoices was not made.

Reimbursement to subrecipients for expenditures incurred prior to the funding period specified in the grant award results in unallowable costs being claimed to federal programs. (Finding Code 06-78)

Recommendation:

We recommend IDOT implement procedures to ensure all expenditures reimbursed to subrecipients are incurred within the funding period specified in the grant award.

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Schedule of Findings and Questioned Costs

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IDOT Response:

The Department agrees with the finding. Reimbursements were made to local agencies for work performed prior to the federal authorization date on two of the fifty projects sampled. IDOT is currently investigating the specific cause of the two incidents and will petition the FHWA for dispensation based on 23 CFR Section 1.9. Should the FHWA deny our request, IDOT will invoice the local agencies for the amount reimbursed prior to authorization. IDOT has implemented an additional check of the federal authorization date prior to the processing of reimbursement invoices.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

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 (\$91,286,000)

Award Numbers: Various

Questioned Costs: None

Finding 06-79 *Inaccurate Contract Execution Dates*

IDOT entered inaccurate contract execution dates into the contracting information systems.

The Electronic Letting Management System (ELM) is used during the initial letting stages of a construction contract, and stores information from bids and contracts that are subsequently awarded. Once the contract is awarded, the detail contract information and terms, including execution date, are interfaced from the ELM to the Bureau of Contract Management (BCM) system. Payments to contractors and federal billings are generated by the BCM system. The BCM will not allow payments for items to be processed if the period of the resident engineer report is dated outside of the contract period. This ensures that costs are not incurred and paid prior to the date the contract was executed.

During our test work over the Airport Improvement Program (AIP), we selected forty contracts awarded during the fiscal year ended June 30, 2006 and noted that two contracts in which the contract execution date in the BCM system was different than the contract execution date in the final contract. In one instance, the contract execution date in the BCM system was six days later than the execution date in the final contract. In the other instance, the contract execution date in the BCM system was 77 days earlier than the execution date in the final contract. As of the date of our test work, expenditures had not yet been incurred or paid under either of these contracts.

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 final contract terms are accurately entered into the contracting information systems.

In discussion this with IDOT officials, they state the award date is established by the Division of Aeronautics' Bureau of Administrative Services when all the required information/documentation is in place. The date is then provided to Aeronautics' Bureau of Airport Engineering to complete the ELM process so that the project can be transferred to the BCM system for contractor payments. It is unclear how the miscommunication occurred in five percent (2/40) of the contracts that were sampled.

Failure to accurately enter contract terms could result in the payment of costs that are incurred prior to the date the contract was executed. (Finding Code 06-79)

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For the Year Ended June 30, 2006

Recommendation:

We recommend IDOT implement procedures to ensure final contract terms are accurately entered into the contracting information systems.

IDOT Response:

The Department agrees with the finding. The award date is established by the Division of Aeronautics' Bureau of Administrative Services when all the required information/documentation is in place. The date is then provided to Aeronautics' Bureau of Airport Engineering to complete the ELM process so that the project can be transferred to the BCM system for contractor payments. It is unclear how the miscommunication occurred in five percent (2/40) of the contracts that were sampled. Procedures have been modified so that the ELM/BCM award date matches that of the executed contract.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

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 (\$91,286,000)

Award Numbers: Various

Questioned Costs: None

Finding 06-80 *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, 2006. Specifically, we selected eight real property acquisition payments and one rental assistance payment for test work, totaling \$3,986,000 out of \$4,166,000 expenditures for property acquisitions and relocation assistance during the year ended June 30, 2006 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 the checklists were not available at the time of the auditors' review.

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 06-80, 05-81)

Recommendation:

We recommend that IDOT implement procedures to ensure the standardized checklist is completed for all real property acquisition and relocation assistance payments.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

IDOT Response:

The Department agrees with this finding. Although all required documentation stipulated on the checklist was readily available in the files, the checklist itself wasn't. All land acquisition projects initiated after July 1, 2006 will utilize the requested checklist.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Airport Improvement Program
Highway Planning and Construction

CFDA # and Program Expenditures: 20.106 (\$91,286,000)
20.205 (\$1,019,336,000)

Award Numbers: Various

Questioned Costs: None

Finding 06-81 *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.

During our test work over the access, program change and development, and computer operations controls of the systems, we noted the following:

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For the Year Ended June 30, 2006

- The policy in place for granting, modifying, and terminating access rights is not followed. Specifically, IDOT had not 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 thirty 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 these items have been identified during the OAG Audit a few months prior. The Department was already working on many of these items in an effort to eliminate these gaps.

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 06-81, 05-82)

Recommendation:

We recommend IDOT implement procedures to ensure all information systems are adequately secured.

IDOT Response:

The Department agrees with this finding.

- As a result, of the OAG Information Systems audit, the Department was made aware of concerns and is actively updating the Information Technology policy to reflect the current environment and address the passwords for users.
- The Department has implemented a new automated Action Request process for system changes and enhancements to provide improved documentation and approval of changes by the system owners. We believe this measure will eliminate this issue.
- The Department is working with Central Management Services (CMS) to address the User accounts managed by CMS. The Department will be using their new Enterprise Service Request (ESR) process.
- The Department has implemented a monthly review of separated and transferred employees. The Department believes this will resolve this issue.
- The Department is also working with CMS on testing the Disaster recovery plan over the last several months. The Department is expecting the next test to be completed in the first half of 2007.

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For the Year Ended June 30, 2006

State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.067 (\$65,682,000)

Award Numbers: 2003-TE-TX-0165/2003-MU-T3-0029/
2004-GE-T4-0027/2005-GE-T5-0002

Questioned Costs: None

Finding 06-82 *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. Staff are currently in process of utilizing another region's templates for developing inventory control and reporting procedures. These procedures will be provided to subrecipients who pass through funds to other organizations.
- ITTF has not developed procedures to monitor fiscal and administrative processes and controls.

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For the Year Ended June 30, 2006

Total federal awards passed through to subrecipients of the Homeland Security program were \$59,066,000 during the year ended June 30, 2006.

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 state 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 06-82, 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:

The ITTF conducts annual on-site inventory of equipment with an acquisition cost of \$5,000 or more in accordance with the requirements outlined in the *OJP Financial Guide*. We learned for the first time in the state fiscal year 2005 audit that *OMB Circular A-133* requires grantees to perform subrecipient monitoring of equipment below the OJP standard if our state had a lower threshold. In a letter from Central Management Services dated July 28, 2006 we were exempted from that state requirement thereby reinstating the \$5,000 threshold. The operational cost of conducting on-site monitoring of equipment below the \$5,000 federal standard would have made that activity more costly than the equipment itself.

The Illinois Law Enforcement Alarm System (ILEAS), one of our major sub grantees, employed an individual in state fiscal year 2007 to perform subrecipient monitoring of grantees of the ITTF and ILEAS. The initial focus of this individual is to review interoperable communication and regionally purchased command vehicles.

Auditors' Comment:

As noted in IEMA's response, this is a repeat finding from the 2005 audit for which the proposed corrective action is not planned to be implemented until state fiscal year 2007.

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For the Year Ended June 30, 2006

State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.067 (\$65,682,000)

Award Numbers: 2003-TE-TX-0165/2003-MU-T3-0029/
2004-GE-T4-0027/2005-GE-T5-0002

Questioned Costs: None

Finding 06-83 Untimely Review of OMB Circular A-133 Audit Reports

IEMA did not review OMB Circular A-133 audit reports received from its subrecipients for the Homeland Security program on a timely basis.

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 testwork over 30 subrecipients of the Homeland Security Cluster program, we noted:

- There were nine subrecipients for which A-133 audit reports were submitted after the nine month filing deadline (ranging from 10 to 315 days late). These files contained no documentation IEMA followed up on the delinquent report or approved an extension of the filing date. Additionally, once received, six of these reports were not reviewed within 60 days of their receipt. Delays in completing desk reviews of these reports ranged from 70 to 178 days.
- There were six subrecipients for which A-133 audit reports were received within the nine month deadline, but for which reviews were not performed within 60 days of the receipts of the report. Delays in completing desk reviews for these reports ranged from 169 to 386 days.
- There were two subrecipients for which no A-133 audit reports were submitted. These files contained no documentation IEMA followed up on the delinquent report or approved an extension of the filing date.

IEMA's subrecipient expenditures under the Homeland Security Cluster program for the year ended June 30, 2006 were \$59,066,000

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For the Year Ended June 30, 2006

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 March 2006, 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 the desk review process with IEMA officials, they stated that the ITTF has a staff of only six full-time employees. The individual in charge of audit compliance reviews was serving in the military in the Middle East and returned to work June 17, 2006.

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 06-83, 05-97)

Recommendation:

We recommend IEMA implement procedures to ensure all subrecipients receiving federal awards have audits performed in accordance with OMB Circular A-133. Additionally, IEMA should establish a review period of not more than 60 days from the receipt of the OMB Circular A-133 audit reports.

IEMA Response:

Agree. The ITTF has a staff of only six full-time employees. The individual in charge of audit compliance review was serving in the military in the Middle East and returned to work June 17, 2006. Between June 17 and December 31, 2006, she completed 325 audit reviews, cleared the entire backlog and has stayed current with all audit reviews. She also has developed various tracking programs to ensure the ITTF is aware of grantees who must conduct audits in compliance with OMB Circular A-133.

Auditors' Comment:

As noted in IEMA's response, this is a repeat finding from the 2005 audit for which the proposed corrective action is not planned to be implemented until state fiscal year 2007.

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For the Year Ended June 30, 2006

State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.067 (\$65,682,000)

Award Numbers: 2003-TE-TX-0165/2003-MU-T3-0029/
2004-GE-T4-0027/2005-GE-T5-0002

Questioned Costs: Cannot be determined

Finding 06-84 Inadequate Cash Management Procedures

IEMA does not have adequate procedures in place to ensure cash draws are performed in accordance with Homeland Security Cluster program regulations.

Federal expenditures under the Homeland Security Cluster program are comprised of programs operated by various state agencies, including the Illinois Department of Transportation (IDOT) and the Illinois State Police (State Police). As the state agency responsible for administering the Homeland Security Cluster program, IEMA has executed interagency agreements requiring each agency to limit federal advances to the agency's immediate cash needs (defined as ten days by program guidance). IEMA is responsible for drawing funds under the Homeland Security Cluster program and remitting funds to other state agencies as appropriate.

During our testwork over cash requests made by IDOT and the State Police, we noted IEMA has not implemented procedures to verify cash requests made by these agencies were limited to their immediate cash needs. As a result, IEMA advanced funds to IDOT and the State Police for periods in excess of the ten days during the year ended June 30, 2006.

We also noted several unreconciled differences between the expenditures incurred under each Homeland Security Cluster program (from the inception of the program to June 30, 2006) and the corresponding cash amounts requested according to the federal letter of credit as follows:

Grant	Cumulative Grant Expenditures	Cash Drawn from the Letter of Credit	Unreconciled Differences
2003 Equipment	\$13,278,000	\$11,777,000	\$1,501,000
2003 Exercise	3,032,000	3,034,000	(2,000)
2003 Administrative	1,006,000	1,018,000	(12,000)
2003 Training	976,000	970,000	6,000

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Grant	Cumulative Grant Expenditures	Cash Drawn from the Letter of Credit	Unreconciled Differences
2003 Supplemental Equipment	42,145,000	42,876,000	(731,000)
2003 Supplemental Infrastructure	6,398,000	6,398,000	—

These differences are the result of IEMA drawing funds under the incorrect grant award. IEMA has been in contact with the Office of Domestic Preparedness to correct the awards under which funds should have been drawn; however, these corrections had not been approved as of the date of our report.

Additionally, we noted the same individual was responsible for calculating, performing, and reconciling federal cash draws for the Homeland Security Cluster program. Independent supervisory reviews were not performed of the cash draw calculations or the related monthly reconciliations by anyone other than the preparer.

According to 28 CFR 66.20(b)(7), grantees are required to implement procedures for minimizing the time elapsing between the transfer of funds from the US Treasury and disbursement whenever advance payment procedures are used. Part III, Chapter 1 of the US Department of Justice Financial Guide (applicable to federal fiscal year 2003 and 2004 Homeland Security Cluster grants) states “recipients should time their drawdown requests to ensure that federal cash on hand is the minimum needed for disbursements/reimbursements to be made immediately or within ten days.” In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include establishing procedures to ensure compliance with cash management regulations and 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 the Agency had a policy to draw funds based on Comptroller Form C-64 Receipt Deposits and Transmittals received from state agencies.

Failure to establish adequate cash management procedures may result in noncompliance with federal regulations and an interest liability to the US Treasury. (Finding Code 06-84, 05-99)

Recommendation:

We recommend IEMA implement the procedures necessary to:

- monitor other state agencies to ensure cash advances requested are only for their immediate cash needs;
- ensure cash requests are drawn from the appropriate grant award; and
- require a formal independent supervisory review of its cash draw calculations and related monthly reconciliations by an individual knowledgeable of cash management regulations.

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IEMA Response:

Agree. IEMA currently has a policy for cash requests for certain state agencies to draw funds based on C-64 documents which has lead to inadequate cash management procedures by these agencies. Effectively immediately, to ensure that these state agencies request funds only for those immediate cash needs, IEMA will suspend the past practice of allowing direct draw requests. All state agencies will be required to submit invoices to IEMA for authorized expenditures that document their immediate cash needs, or funds that will be expended in accordance with applicable Federal and state cash management requirements, prior to the Illinois Emergency Management Agency drawing funds for the appropriate Federal Fiscal Year from the US Treasury.

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For the Year Ended June 30, 2006

State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.067 (\$65,682,000)

Award Numbers: 2003-TE-TX-0165/2003-MU-T3-0029/
2004-GE-T4-0027/2005-GE-T5-0002

Questioned Costs: \$14,936

Finding 06-85 *Failure to Properly Allocate Indirect Costs*

IEMA charged certain administrative costs directly to the Homeland Security Cluster rather than allocating the costs to all state and federal programs.

During the State fiscal year ended June 30, 2006, we noted IEMA claimed \$14,936 for general accounting services provided by an accounting firm. The accounting services provided included annual training for the preparation of financial reporting forms required by the Illinois Office of the Comptroller, the performance of review procedures required by the State of Illinois Fiscal Controls and Internal Audit Act, and assistance with managing and maintaining IEMA's capital asset records. As the accounting services provided did not directly benefit the Homeland Security Cluster program, the entire amount of these expenditures should not have been charged to the Homeland Security Cluster program.

According to OMB Circular A-87, a cost is allowable for federal reimbursement only to the extent of benefits received by federal awards and its conformance with general policies and procedures. 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 indirect costs are allocated to state and federal programs in proportion to the benefits received by each program.

In discussing these conditions with IEMA officials, they stated that while this training, and subsequent staff work related to the preparation of financial forms is of benefit to all of the various grant programs that IEMA receives and administers; the rationale for charging it exclusively to Emergency Management Performance Grant (EMPG) is because this grant is intended to support overall Emergency Management capability. EMPG is a consolidated grant providing support for essential expenses including salaries, benefits, equipment, supplies, maintenance of facilities and other necessary cost of state and local emergency management departments and agencies.

Failure to properly allocate indirect costs may result in a federal program receiving more than its fair share of administrative costs. (Finding Code 06-85)

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Recommendation:

We recommend IEMA review its procedures for recording and claiming expenditures and implement changes necessary to ensure indirect costs are allocated to its programs in accordance with federal regulations.

IEMA Response:

Agree. IEMA will review its procedures for recording and claiming expenditures and implement changes where necessary.

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For the Year Ended June 30, 2006

State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.067 (\$65,682,000)

Award Numbers: 2003-TE-TX-0165/2003-MU-T3-0029/
2004-GE-T4-0027/2005-GE-T5-0002

Questioned Costs: None

Finding 06-86 *Insufficient Federal Award Information Provided to Subrecipients*

IEMA did not provide subrecipients of the Homeland Security Cluster program with required federal award information.

During our review of award communications for 30 Homeland Security Cluster program subrecipients, we noted 23 out of 30 award documents tested were for grants years prior to federal fiscal year 2005 and did not provide evidence IEMA had communicated the federal program's CFDA title and number to the subrecipient. During the year ended June 30, 2006, IEMA passed through approximately \$59,066,000 to subrecipients of the Homeland Security Cluster 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 the federal fiscal year 2005 grant, 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 06-86, 05-98)

Recommendation:

We recommend IEMA notify subrecipients in writing of the federal program's CFDA title and number.

IEMA Response:

The ITTF and IEMA immediately complied by including the Catalogue Federal Domestic Assistance (CFDA) program name and number to all grants when notified of this finding for the fiscal year 2005 audit. Problem was, the state fiscal year 2005 audit was not completed until state fiscal year 2006 was almost over, meaning many state fiscal year 2006 grants had been completed before we were made aware of the state fiscal year 2005 audit finding. Despite that and the fact that this new audit began only about 30 days after the previous

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year's audit ended, 25% of the state fiscal year 2006 audit sample showed that the CFDA program name and numbers were included, as they have been on all grants since this was brought to our attention.

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State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.067 (\$65,682,000)

Award Numbers: 2003-TE-TX-0165/2003-MU-T3-0029/
2004-GE-T4-0027/2005-GE-T5-0002

Questioned Costs: None

Finding 06-87 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 program.

During our testwork over four (one for each open grant award year) quarterly financial status reports of the Homeland Security Cluster 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 06-87, 05-100)

Recommendation:

We recommend IEMA personnel formally document the review and approval of quarterly financial status reports.

IEMA Response:

Agree. IEMA will implement a full policy of supervisory review of all federal financial reports prior to being submitted to the appropriate federal agency. Currently Reports are completed by financial management staff and approved by the manager of the Federal Compliance and Support Section. Future documentation will also include the approval of the Finance Bureau Chief.

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State Agency: Illinois State Police (State Police)
Federal Agency: US Department of Homeland Security (USDHS)
Program Name: Homeland Security Cluster
CFDA # and Program Expenditures: 97.004/97.067 (\$65,682,000)
Award Numbers: 2003-TE-TX-0165/2003-MU-T3-0029/
2004-GE-T4-0027/2005-GE-T5-0002

Questioned Costs: None

Finding 06-88 *Failure to Draw Funds Only for Immediate Cash Needs*

State Police did not minimize the time elapsing between the draw down of federal funds from the US Treasury and their disbursement for program purposes.

During our review of 30 expenditures (totaling \$3,542,494) related to federal fiscal year 2003 and 2004 Homeland Security Cluster grants, we noted warrants were not issued for seven expenditure vouchers, totaling \$1,351,887, within ten business days of receiving federal funds intended to finance these expenditures. The number of days between the receipt of federal funds and the issuance of warrants ranged from 11 to 14 business days. Total expenditures for the Homeland Security Cluster program administered by State Police were \$8,341,000 during the year ended June 30, 2006.

According to 28 CFR 66.20(b)(7), grantees are required to implement procedures for minimizing the time elapsing between the transfer of funds from the US Treasury and disbursement whenever advance payment procedures are used. Part III, Chapter 1 of the US Department of Justice Financial Guide (applicable to federal fiscal year 2003 and 2004 Homeland Security Cluster grants) states "recipients should time their drawdown requests to ensure that federal cash on hand is the minimum needed for disbursements/reimbursements to be made immediately or within ten days." In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include the implementing procedures designed to minimize the time between the receipt of federal funds and their disbursement.

In discussing these conditions with State Police personnel, they stated these vouchers were handled through the normal voucher processing process which is experiencing delays because of the loss of personnel in the Voucher/Revenue Section.

Failure to draw and disburse federal funds in accordance with program regulations may result in an interest liability to the federal government. (Finding Code 06-88)

Recommendation:

We recommend State Police implement procedures to ensure cash drawn in advance is disbursed in accordance with program regulations.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

State Police's Response:

Concur. The State Police will modify its voucher processing procedures to ensure vouchers for the program are processed within the ten days allowed by program regulations.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

State Agency: Illinois State Board of Elections (SBOE)
Federal Agency: US Election Assistance Commission (USEAC)
Program Name: Help America Vote Act Requirements Payments
CFDA # and Program Expenditures: 90.401 (\$43,944,000)

Award Numbers: None

Questioned Costs: None

Finding 06-89 *Inadequate Monitoring of Subrecipients*

SBOE is not performing on-site reviews of subrecipients receiving federal awards under the Help America Vote Act Requirements Payments (HAVA) program.

SBOE passed through approximately \$43,944,000 to subrecipients of the HAVA program during the year ended June 30, 2006. The majority of funding was passed through to a local election authorities to implement voter education programs and to purchase equipment to improve the election systems in Illinois. As a pass-through entity, SBOE monitors subrecipients of the HAVA program by receiving and reviewing periodic expenditure reports. However, SBOE 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 March 2006, 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 SBOE official, they state SBOE has two HAVA staff and two fiscal staff that have other duties in addition to those under HAVA. Presently, SBOE does not have sufficient staff resources to perform site visits in all 110 jurisdictions Statewide. In addition, our present monitoring activities (required document submission, desk reviews, etc.) provide the agency with significant assurance that program funds are being used by subrecipients in accordance with program guidelines. We maintain records that indicate what was purchased with HAVA funds and the quantity of such, copies of invoices and copies of checks.

Failure to adequately monitor subrecipients may result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 06-89)

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

Recommendation:

We recommend SBOE develop and implement formal monitoring procedures to perform on-site reviews to ensure subrecipients are administering its HAVA program in accordance with the applicable laws and regulations.

SBOE Response:

Disagree. Although SBOE's lack of staff resources (at present, only two SBOE staff perform HAVA monitoring in addition to their other HAVA and non-HAVA duties) do not presently allow the Agency to perform extensive on-site visits of subrecipients around the State, we do believe that our monitoring processes to this point have been adequate to reasonably ensure that Federal pass-through funds are being used in accordance with Federal guidelines. As stated in the OMB Circular A-133 Compliance Supplement (referenced in the finding above), "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." Although resource restrictions presently limit our ability to do extensive site visits, we feel that our other monitoring activities (reporting, regular contact and other monitoring activities) have allowed SBOE to achieve the level of 'reasonable assurance' noted in the A-133 Compliance Supplement.

By all means, SBOE is receptive to the idea of performing site visits of subrecipients if adequate resources are available. As discussed in our exit conference, present HAVA guidelines and other Federal compliance resources (including A-133) do not contain specific guidance or instruction as to the required scope, content or activities of these site visits. Consequently, SBOE asks if the auditors and/or the OAG could provide us with basic guidelines or instruction to these site visit processes. Upon review of this information, SBOE can determine required/available resource needs for these site visits and integrate this information into a corrective action plan for submission to the auditors and the OAG.

Auditors' Comment:

As the HAVA grants provided to subrecipients are primarily for the purchase of voting equipment, we believe HAVA subrecipients should be subject to on-site reviews to ensure effective internal controls have been established and implemented to purchase and safeguard equipment purchased with HAVA funding. SBOE personnel should work with the USEAC to determine whether the current level of subrecipient monitoring activities is adequate.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

State Agency: Illinois State Board of Elections (SBOE)
Federal Agency: US Election Assistance Commission (USEAC)
Program Name: Help America Vote Act Requirements Payments
CFDA # and Program Expenditures: 90.401 (\$43,944,000)

Award Numbers: None

Questioned Costs: None

Finding 06-90 *Failure to Notify Subrecipients of Federal Funding*

SBOE did not provide subrecipients of the Help America Vote Act Requirements Payments (HAVA) program with required federal award information.

During our testwork of award communications for 30 HAVA program subrecipients, we noted award documents did not provide evidence SBOE had communicated the federal program's CFDA title and number or single audit requirements to subrecipients. During the year ended June 30, 2006, SBOE passed through approximately \$43,944,000 to subrecipients of the HAVA 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. The pass through entity is also required to advise subrecipients of requirements imposed on them by federal laws and regulations.

In discussing these conditions with SBOE officials, they stated subsequent communications of CFDA information had been made; however, documentation verifying such communications was not maintained.

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 06-90)

Recommendation:

We recommend SBOE notify all subrecipients in writing of the CFDA title and number, program regulations, and audit requirements.

SBOE Response:

Concur. In January of 2007 all jurisdictions were sent via e-mail a listing of all grants with their corresponding CFDA numbers. CFDA numbers will be included on the Acceptance Agreements of all future grants.

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For the Year Ended June 30, 2006

State Agency: Illinois State Board of Elections (SBOE)
Federal Agency: US Election Assistance Commission (USEAC)
Program Name: Help America Vote Act Requirements Payments
CFDA # and Program Expenditures: 90.401 (\$43,944,000)

Award Numbers: None

Questioned Costs: None

Finding 06-91 *Failure to Advance Only the Immediate Cash Needs to Subrecipients*

SBOE provided funds to subrecipients of the Help America Vote Act Requirements Payments (HAVA) program in excess of their immediate cash needs.

We reviewed grant award documents for 30 subrecipients of the HAVA program and noted the payment terms of 23 contracts stated the full amount of the grant award would be disbursed to the subrecipient upon the receipt and approval of the grant agreement. During our testwork, we noted SBOE had not determined whether an advance of the full grant award exceeded the immediate cash needs of these 23 subrecipients. We also noted eleven of these 23 subrecipients had not fully disbursed the cash advances received within 30 days. Advances made to these eleven subrecipients (totaling \$19,214,852) were not fully disbursed until 45 to 133 days after they were received by the subrecipient. Total subrecipient expenditures for the HAVA program administered by SBOE were \$43,944,000 for the year ended June 30, 2006.

According to 41 CFR 105-71.120(b)(7) requires pass-through entities to monitor cash advances to subrecipients to ensure 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 immediate cash needs prior to advancing program funds.

In discussing these conditions with SBOE personnel, they stated at the onset of the program it was determined that the county jurisdictions could not afford to pay on an upfront basis the costs of voting equipment and other high cost purchases pending reimbursement from HAVA funds. With two HAVA program staff, four grants programs, and additional grants being prepared for distribution to 110 jurisdictions it was difficult to administer spending of these funds by local jurisdictions within the 30 day time period. After time, the grant administration became more manageable and staff began reviewing all files, along with e-mailing/faxing and calling jurisdictions.

Providing subrecipients with advances greater than their immediate cash needs results in lost interest earnings on HAVA program funds deposited in the Vote Fund. (Finding Code 06-91)

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For the Year Ended June 30, 2006

Recommendation:

We recommend SBOE 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.

SBOE Response:

Concur. We now require all jurisdictions to submit an invoice and expenditure sheet when requesting funds. A revised Acceptance Agreement (for the Phase II grant and all future grants) will include new language in regard to the return of the funds and interest.

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For the Year Ended June 30, 2006

State Agency: Illinois State Board of Elections (SBOE)
Federal Agency: US Election Assistance Commission (USEAC)
Program Name: Help America Vote Act Requirements Payments
CFDA # and Program Expenditures: 90.401 (\$43,944,000)
Award Numbers: None

Questioned Costs: None

Finding 06-92 *Failure to Obtain Suspension and Debarment Certifications from Subrecipients*

SBOE did not obtain required certifications that subrecipients were not suspended or debarred from participation in Federal assistance programs for its Help America Vote Act Requirements Payments (HAVA) program.

During our review of 30 subrecipients of the HAVA program, we noted SBOE did not include a suspension and debarment certification in its subrecipient agreements. As a result, SBOE did not receive certifications that the subrecipients of the HAVA program were not suspended or debarred from participation in Federal assistance programs. Additionally, SBOE 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, 2006, SBOE passed through approximately \$43,944,000 to subrecipients of the HAVA program.

According to 41 CFR 105-71.135, 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 to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal control should include procedures to ensure that required certifications for covered contracts and subawards are received, documented, and that subawards are not made with a debarred or suspended party.

In discussing these conditions with SBOE officials, they stated this was the first federal funding SBOE had received and they were unaware of this requirement.

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 06-92)

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

Recommendation:

We recommend SBOE 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.

SBOE Response:

Concur. We will include within the Acceptance Agreement on all current and future grants language as follows: The Election Authority agrees that it will not use HAVA funds with any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549. These can be found on the Excluded Parties List System.

In order to further comply, upon receipt of expenditures from a jurisdiction staff will check with the Excluded Parties List System to ensure the vendor is not on the list.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

State Agency: Illinois State Board of Elections (SBOE)
Federal Agency: US Election Assistance Commission (USEAC)
Program Name: Help America Vote Act Requirements Payments
CFDA # and Program Expenditures: 90.401 (\$43,944,000)

Award Numbers: None

Questioned Costs: None

Finding 06-93 Failure to Meet HAVA Matching Requirement

SBOE failed to meet the matching requirement of its Help America Vote Act Requirements Payments (HAVA) program.

HAVA program regulations require the State to provide a matching contribution of five percent of total program expenditures. The matching contribution is required to be deposited into the fund established for the HAVA program (known as the Vote Fund) upon receipt of the federal share of program funding.

During our testwork, we noted the State appropriated \$5 million for the HAVA program; however, the amount appropriated was not sufficient to meet the matching requirement of \$5,189,000. The amount appropriated was incorrectly calculated as five percent of the federal portion of program funding versus as five percent of total program expenditures. In addition, the matching contribution was not deposited into the Vote Fund when HAVA funding was received. As a result, SBOE did not meet the matching requirement applicable to the HAVA program.

According to HAVA Section 253(b)(5) (42 US Code 15403), the State must appropriate funds for carrying out the activities for which the requirements payment is made in an amount equal to five percent of the total amount to be spent for such activities (taking into account the requirements payment and the amount spent by the State). Additionally, HAVA Section 254 (b)(1) requires states to deposit the funds appropriated to match the requirements payments into a state election fund which is described as a fund established in the treasury of the State government and consisting of the following amounts: (1) amounts appropriated or otherwise made available by the State for carrying out the activities for which the requirements payment was made to the State; (2) the requirements payment made to the State; (3) such other amounts as may be appropriated under law; and (4) interest earned on deposits of the fund.

In discussing these conditions with SBOE personnel, they stated that SBOE interpreted the language to say that the State contribution was based on the total allocated by the Federal government for requirements activities (\$98,595,252 x 5%), not the combined Federal/State requirements program resource where the State contribution is not yet known. Furthermore, SBOE's original budget request to the Illinois legislature for \$5 million in unrestricted GRF funding was changed to restricted shared bond fund resources, which contained restrictions on spending and was not made available to SBOE for expenditure until immediately before final disbursement to subrecipients for reimbursement of qualified costs. As a consequence of this legislative action, these match funds could not be transferred to the HAVA dedicated fund prior to actual disbursement to subrecipients.

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For the Year Ended June 30, 2006

Failure to meet matching requirements results in lost interest earnings on HAVA program funds deposited in the Vote Fund. (Finding Code 06-93)

Recommendation:

We recommend SBOE deposit the required state matching contribution, as well as lost interest, into the Vote Fund.

SBOE Response:

Disagree. During the tenure of the HAVA program, the SBOE has taken great care to ensure that the language and mandates of the Help America Vote Act of 2002 have been interpreted and implemented in an accurate and reasonable manner. During this implementation process, many questions have arisen regarding interpretation of the Act or supporting Federal rules. These questions (including State match questions) have been posed to authoritative bodies on the subject (including EAC staff), and the answers to these questions to this point never indicated that our calculation of the State Match requirement was incorrect or insufficient relative to the HAVA law. The SBOE also respectfully submits that the HAVA language regarding this match calculation is somewhat confusing and ambiguous, and therefore could be interpreted by a reasonable person in a manner different than that used by the EAC. SBOE continues to place high priority on full compliance with all Federal mandates in our implementation of HAVA program objectives, and would like to initiate discussion with the Auditor General's office, the auditors and EAC on other possibilities to 'make up' this deficiency in the State match calculation. Such possibilities include, but are not limited to, inclusion of surplus SBOE 'maintenance of effort' spending over FY2000 levels and excess local jurisdiction contributions in fulfillment of HAVA State/local contribution quotas.

With regards to the deposit of State match contributions directly into the dedicated HAVA fund, SBOE respectfully submits that the sometimes confusing and ambiguous language in this area of the HAVA legislation is a significant factor in SBOE's assumption that amounts 'otherwise made available' (as opposed to direct appropriation and deposit) would be sufficient to meet the State match contribution rule. In addition, the significant fiscal crunch being experienced by the State of Illinois (as well as other states) severely limited the possible sources for this sizeable State contribution. As a result it was the Illinois legislature, acting in good faith and not the SBOE who directed that a spending authority contribution 'made available' from a shared bond fund would be the most economically feasible source. This funding option was decided by the Illinois legislature as the best compliant resource, and not recommended by the SBOE. Spending from this fund is restricted, however, and can not be 'transferred' over to other funds prior to direct expenditure to vendors.

Other issues also factor in to SBOE's opinion on this finding. A complete discussion of each of these issues, however, would be outside the scope of this summary document. Consequently, the SBOE would also like to open a dialogue with the EAC through the auditors to examine all potential solutions to this particular issue.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

Auditors' Comment:

Based on our understanding of the HAVA regulations, SBOE should have provided a matching percentage of 5% of total program expenditures upon the receipt of the federal share of HAVA funding. We would encourage SBOE to work directly with USEAC to resolve this finding.

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

State Agency: Illinois State Board of Elections (SBOE)
Federal Agency: US Election Assistance Commission (USEAC)
Program Name: Help America Vote Act Requirements Payments
CFDA # and Program Expenditures: 90.401 (\$43,944,000)

Award Numbers: None

Questioned Costs: None

Finding 06-94 *Inaccurate Allocation of Interest Earned on HAVA Program Funds*

SBOE did not properly allocate interest earned on Help America Vote Act (HAVA) program funds maintained in the Vote Fund.

The Help America Vote Act created a series of federal programs under which states and local election authorities are eligible to receive funding. Amounts awarded under each of these programs were received on an advance basis from the USEAC and are required to be deposited into a fund established for all HAVA programs. SBOE received the federal share of its HAVA funding in advance in March 2005 and deposited these funds in the Vote Fund. Interest earnings are credited to the Vote Fund on a monthly basis and are available for spending under the HAVA programs.

As the advance funds for all HAVA programs have been deposited collectively in the Vote Fund, we noted SBOE performs a monthly calculation to allocate interest earnings to each HAVA program account established in its accounting records. During our testwork over two monthly interest allocation calculations, we noted SBOE inaccurately allocated interest between HAVA programs in June 2006. As a result, interest earnings allocated to the Help America Vote Act Requirements Payments program were overstated by \$15,324 and interest earnings allocated to the Entitlement Payments and Election Assistance for Individuals with Disabilities Disbursements programs were understated by \$15,202 and \$122, respectively. Additionally, we noted no evidence that an independent supervisory review was performed of the monthly interest allocation calculation; however, individuals involved in the process stated that a review was performed and that verbal approval was received from the appropriate supervisor prior to recording interest earnings in each HAVA program ledger account.

According to HAVA Section 254(b)(1), interest earned on deposits in the Election Fund is required to be recorded in the Election Fund. 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 formal review of the monthly interest allocation calculation to verify allocations are properly calculated.

In discussing these conditions with SBOE personnel, they stated that although each month's individual interest calculation and allocation to programs has been reported to and reviewed by the Chief Fiscal Officer (CFO) since the inception of HAVA operations, the posting transposition in June 2006 between the HAVA programs was an isolated incident that was not discovered during the subsequent review by the CFO.

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Inaccurately allocating Vote Fund interest earnings to HAVA programs could result in interest earnings being expended under incorrect HAVA programs. (Finding Code 06-94)

Recommendation:

We recommend SBOE review its procedures for allocating interest earnings to HAVA programs and implement the procedures necessary to ensure interest earnings are properly allocated. We also recommend SBOE personnel formally document the review and approval of monthly interest allocation calculations.

SBOE Response:

Concur. The transposition that occurred in the June 2006 interest allocation (between the Requirements and Discretionary program funds) was researched and identified as a one-time isolated incident for all months of HAVA program activities. Corrective action has been taken to restore the interest allocation to the proper programs for that particular time period.

SBOE has always utilized a supervisory review of interest earnings calculations prior to posting in the Agency's books of record; however, in order to more clearly document this review and prevent future occurrences of this type, the approval signature of the Chief Fiscal Officer will be noted on each month's interest calculation prior to posting in HAVA funds activity ledgers. Activity ledger postings will be audited by the Chief Fiscal Officer through the ongoing monthly HAVA fund reconciliation procedure.

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For the Year Ended June 30, 2006

State Agency: Illinois Department of Central Management Services (DCMS)

Federal Agency: US Department of Agriculture (USDA)
US Department of Labor (USDOL)
US Department of Transportation (USDOT)
US Department of Education (USDE)
US Election Assistance Commission (USEAC)
US Department of Health and Human Services (USDHHS)
US Social Security Administration (USSSA)
US Department of Homeland Security (USDHS)

Program Name: Food Stamp Cluster
Child Nutrition Cluster
Special Supplemental Nutrition Program for Women, Infants and Children
Child and Adult Care Food Program
Employment Services Cluster
Unemployment Insurance
Trade Adjustment Assistance – Workers
Workforce Investment Act Cluster
Airport Improvement Program
Highway Planning and Construction Cluster
Title I Grants to Local Educational Agencies
Special Education Cluster
Federal Family Education Loans – Guaranty Program
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
Help America Vote Act Requirements Payments
Aging Cluster
Immunization Grants
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
Social Security – Disability Insurance
Homeland Security Cluster

CFDA # and Program Expenditures: 10.551/10.561 (\$1,570,652,000)
10.553/10.555/10.556/10.559 (\$347,962,000)
10.557 (\$183,714,000)
10.558 (\$100,742,000)

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

17.207/17.801/17.804 (\$40,785,000)
17.225 (\$1,845,449,000)
17.245 (\$32,701,000)
17.258/17.259/17.260 (\$152,912,000)
20.106 (\$91,286,000)
20.205 (\$1,019,336,000)
84.010 (\$540,016,000)
84.027/84.173 (\$474,180,000)
84.032 (\$278,810,000)
84.048 (\$44,344,000)
84.126 (\$82,347,000)
84.181 (\$26,207,000)
84.287 (\$38,329,000)
84.357 (\$18,751,000)
84.367 (\$120,713,000)
90.401 (\$43,944,000)
93.044/93.045/93.053 (\$45,663,000)
93.268 (\$39,597,000)
93.283 (\$35,187,000)
93.558 (\$556,455,000)
93.563 (\$114,700,000)
93.568 (\$189,157,000)
93.575/93.596 (\$213,191,000)
93.658 (\$230,236,000)
93.659 (\$88,344,000)
93.667 (\$115,496,000)
93.767 (\$502,539,000)
93.775/93.777/93.778 (\$5,223,946,000)
93.917 (\$36,660,000)
93.959 (\$69,615,000)
96.001 (\$61,815,000)
97.004/97.067 (\$65,682,000)

Questioned Costs: Cannot be determined

Finding 06-95 *Inadequate Process for Monitoring Internal Service Fund Balances*

DCMS did not establish adequate procedures to identify fund balances in excess of maximum amounts allowed under OMB Circular A-87.

Certain administrative functions of the State, including communications, statistical services, and facilities management, are coordinated on a statewide basis through the use of internal service funds. DCMS is responsible for administering the internal service funds and determining the rates to be charged for the services provided. In determining the rates, DCMS estimates the costs of providing the administrative services on a statewide basis and the level of service to be provided. Because these rates are estimates and may be charged to the State's federal programs, DCMS is required to evaluate the fund balances within the

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

internal service funds to ensure they do not exceed 60 days of cash expenses for normal operations incurred for the period.

During our audit, we noted CMS had accumulated fund balances in its Communications Revolving Fund (CRF) and Statistical Services Revolving Fund (SSRF) funds in excess of amounts allowed under OMB Circular A-87 during state fiscal years 2004 and 2005. Upon further review, the fiscal year 2006 fund balances of these funds were determined to be in excess of amounts allowed under A-87. The excess fund balances, including prior year carryforward balances were estimated to be \$9,438,065 and \$10,593,225 as of June 30, 2006 for the CRF and SSRF, respectively.

According to the OMB Circular A-133 Compliance Supplement dated March 2006, working capital reserves (fund balances) are generally not allowed to exceed more than 60 days of cash expenses for normal operations. A working capital reserve exceeding 60 days may be approved by the cognizant federal agency. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal control should include establishing procedures to evaluate the fund balances of internal service funds on a periodic basis to identify whether amounts in excess of those allowed under federal regulations exist.

In discussing these conditions with DCMS officials, they stated that they believed they were in compliance with the federal guidelines.

Failure to properly monitor fund balances of internal service funds may result in claiming of unallowable costs. (Finding Code 06-95)

Recommendation:

We recommend DCMS establish a process for evaluating internal service fund balances and implement the necessary procedures to ensure these fund balances do not exceed the 60 day threshold allowed under OMB Circular A-87. DCMS should also implement procedures to ensure only expenditures meeting allowable cost criteria are used in establishing rates for expenditures charged to federal programs.

DCMS Response:

DCMS does not concur with the finding.

DCMS does have an ongoing process for evaluating internal service fund balances. DCMS complies with federal guidelines to adjust excess balances. DCMS allocates all direct and indirect costs by service according to A-87 guidelines, matches revenues to costs for each service, calculates profit/loss as well as working capital balances by service, reports annually to USDHHS through the SWCAP Section II Reconciliation, and negotiates resolutions regarding allowable costs and balances.

Federal guidelines determine rules for the calculation of excess balances and lay out remedies for correcting those balances. The remedies include cash refunds, billing credits, rate adjustments, and reallocation of costs. The State of Illinois has historically employed all four methods of "truing up" with the USDHHS. During the period in question, the state adjusted some rates as well as reallocated costs, which slowed the accumulation of excess balances but did not eliminate some accumulated balances. These balances were carried forward into future year reconciliations as required.

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While a reconciliation must be completed annually, OMB A-87 does not specify a timeframe for resolution of excess balances. If the State chooses to reconcile through a cash refund, it is somewhat dependent on the delayed federal review cycle (which occurs approximately every two years). The State cannot make a repayment without a letter of determination from USDHHS. There is no requirement that the State resolve balances prior to the federal review of the SWCAP, and, in fact, it may prove disadvantageous for the State to do so.

Auditors' Comment:

As previously stated, DCMS does not have an adequate process to identify and properly account for excess fund balances on a timely basis as required under OMB Circular A-87. Specifically, working cash reserves are generally not allowed to exceed 60 days unless approved by the cognizant federal agency. DCMS' noncompliance with these regulations is evidenced by multiple years of accumulated excess balances for which they believe it is the responsibility of the cognizant agency to approach them to settle. We disagree with DCMS' response that OMB Circular A-87 does not specify a timeframe for resolution of excess balances. OMB Circular A-87 Attachment C Section G(4) states "a comparison of the revenue generated by each billed service (including total revenues whether or not billed or collected) to the actual allowable costs of the service will be made **at least annually**, and an adjustment will be made for the difference between the revenue and the allowable costs." We believe that excess balances should be resolved on an annual basis in conjunction with the reconciliation, either through return to the applicable federal agencies or by adjustment (reduction) of the subsequent year's rates.

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Prior Year Findings Not Repeated

For the Year Ended June 30, 2006

State Agency: Illinois Department of Human Services (IDHS)

Prior Year Finding 05-02

IDHS did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. In the current audit period, financial information was provided to the IOC within established deadlines and limited audit adjustments were required to correct the information provided.

Prior Year Finding 05-15

IDHS did not have an adequate process to ensure the Special Education – Grants for Infants and Families with Disabilities and Maternal Child Health Services Block Grant to States were administered in accordance with the laws, regulations, and respective State Plans. In the current audit period, IDHS was able to provide adequate supporting documentation for amounts claimed under these programs.

Prior Year Finding 05-16

IDHS claimed expenditures under the Temporary Assistance for Needy Families (TANF) program which were unreasonable and determined using an unapproved cost allocation methodology. In the current audit period, IDHS did not claim Illinois Department of Corrections Adult Education program expenditures under the TANF program.

Prior Year Finding 05-17

State funded Low-Income Home Energy Assistance program (LIHEAP) expenditures were improperly used both to meet the maintenance of effort (MOE) requirements of TANF program and to obtain leveraging incentive awards under the LIHEAP program. In the current audit period, IDHS and the Department of Healthcare and Family Services implemented procedures to ensure state-funded LIHEAP expenditures used to apply for leveraging awards were excluded from the expenditures used to meet the TANF MOE requirement.

Prior Year Finding 05-20

IDHS claimed expenditures under the TANF program for a state operated program that did not meet one of the four purposes of the TANF program. In the current audit period, IDHS did not claim Regional Safe Schools expenditures under the TANF program.

Prior Year Finding 05-26

IDHS did not follow the Illinois Procurement Code for certain procurements made under the Social Security Disability Insurance cluster. In the current audit period, IDHS implemented additional review procedures relative to its procurement and contracting process. We did not identify any exceptions in our review of procurement transactions in the current audit period.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2006

Prior Year Finding 05-28

IDHS did not maintain adequate documentation for subrecipient risk assessments performed. In the current audit period, IDHS maintained the database used to perform its risk assessments. We did not identify any exceptions in our review of risk assessment scores in the current audit period.

Prior Year Finding 05-29

IDHS did not properly report obligated amounts in the annual Financial Status Report (SF-269) for the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) program. During our review of the federal fiscal year 2005 report, we noted the report was accurately prepared.

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

Prior Year Finding 05-32

State funded Low-Income Home Energy Assistance program (LIHEAP) expenditures were improperly used both to meet the maintenance of effort (MOE) requirements of TANF program and to obtain leveraging incentive awards under the LIHEAP program. In the current audit period, DHFS and IDHS implemented procedures to ensure state-funded LIHEAP expenditures used to apply for leveraging awards were excluded from the expenditures used to meet the TANF MOE requirement.

Prior Year Finding 05-35

DHFS 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. In the current audit period, DHFS was able to provide documentation supporting the household data reported.

Prior Year Finding 05-36

DHFS did not adequately follow up with employers to identify third parties who may be liable for medical services provided to a beneficiary. In the current period, DHFS received a letter stating USDHHS had issued a “non-concurrence determination” relative to this finding. As such, the finding is considered resolved.

Prior Year Finding 05-41

DHFS did not obtain required certifications that subrecipients were not suspended or debarred from participation in Federal assistance programs for its Child Support Enforcement program and Medicaid Cluster programs. In the current audit period, DHFS revised its procedures to verify subrecipients are not included on the federal excluded parties listing.

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Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2006

Prior Year Finding 05-42

DHFS did not properly report obligated and unobligated amounts in the annual Financial Status Report for the Low-Income Home Energy Assistance program. In the current audit period, DHFS used the correct Financial Status Report and reported obligated and unobligated amounts as required.

Prior Year Finding 05-43

DHFS did not adequately monitor earmarking requirements related to energy needs reduction for the LIHEAP program. In the current audit period, DHFS implemented procedures to monitor its earmarking requirements on a statewide basis.

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

Prior Year Finding 05-03

DCFS did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. In the current audit period, financial information was provided to the IOC within established deadlines and limited audit adjustments were required to correct the information provided.

Prior Year Finding 05-49

DCFS claimed unallowable costs under the Foster Care Title IV-E program. In the current audit period, DCFS implemented additional review procedures relative to the coding of Court of Claims payments claimed under the Foster Care Title IV-E program.

Prior Year Finding 05-50

DCFS did not properly classify employees in the Public Assistance Cost Allocation Plan (PACAP). In current audit period, DCFS implemented procedures to update employee job codes in the payroll system in a timely manner.

State Agency: Illinois Department of Public Health (IDPH)

Prior Year Finding 05-04

IDPH did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. In the current audit period, financial information was provided to the IOC within established deadlines and limited audit adjustments were required to correct the information provided.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2006

Prior Year Finding 05-57

IDPH did not have adequate procedures to monitor the cash needs of subrecipients and to determine whether subrecipients are minimizing the time elapsing between the receipt and disbursement of funding for the Centers for Disease Control and Prevention – Investigation and Technical Assistance (Bioterrorism) program. In the current audit period, IDPH implemented reconciliation procedures to monitor the cash needs of subrecipients of its Bioterrorism program.

State Agency: Illinois State Board of Education (ISBE)

Prior Year Finding 05-05

ISBE did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. In the current audit period, financial information was provided to the IOC within established deadlines and limited audit adjustments were required to correct the information provided.

Prior Year Finding 05-60

ISBE did not maintain documentation over the eligibility determinations for subrecipients receiving federal funds under the Reading First State Grants program during the year. During the current audit period, ISBE was able to provide documentation supporting the eligibility determinations for the new award period beginning in fiscal year 2006.

Prior Year Finding 05-62

ISBE did 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, Reading First State Grants, and Improving Teacher Quality State Grants programs (collectively referred to as the Education programs). During the current audit period, we noted ISBE amended its process to require that each subrecipient be reviewed at least once every three years and each program be reviewed once every six years.

Prior Year Finding 05-63

ISBE did not obtain the required certifications that subrecipients were not suspended or debarred from participating in Federal assistance programs. During the current audit period, we noted signed certifications were obtained and maintained by ISBE.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2006

Prior Year Finding 05-64

ISBE did not did not monitor earmarking requirements of subrecipient schools in “improvement status” and the budget and expenditure reports that the Local Education Agencies were required to submit to ISBE did not include a line item for professional development costs. In the current audit period, we noted ISBE implemented procedures to monitor earmarking requirement for subrecipient schools in “improvement status”. In addition, the budget and expenditure reports were revised to include a line for professional development costs.

Prior Year Finding 05-66

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 current audit period, we noted continuing grant applications were maintained in subrecipient files.

Prior Year Finding 05-67

ISBE did not document the review and approval of the Accountability Report (Part IV) Consolidated Annual Performance, Accountability, and Financial Status Report (Accountability Report). During the current audit period, we noted ISBE implemented documented supervisory reviews and approvals of the report .

Prior Year Finding 05-68

ISBE did not review OMB Circular A-133 audit reports received from its subrecipients on a timely basis. In the current audit period, we noted ISBE performed these reviews on a timely basis.

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

Prior Year Finding 05-06

ISAC did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. In the current audit period, financial information was provided to the IOC within established deadlines and limited audit adjustments were required to correct the information provided.

Prior Year Finding 05-70

ISAC did not inform borrowers on a timely basis of their rights and obligations for defaulted loans. In the current audit period, ISAC implemented procedures to manually generate required letter to this subset of borrowers in default and the programmatic changes to the systematically generate the required letter is presently in place.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2006

Prior Year Finding 05-73

ISAC did not have an adequate process to ensure that original documentation submitted by lenders for reinsurance claims were accurately and completely imaged for document retention requirements of the Federal Family Education Loan Program. In current audit period, ISAC implemented quality control and review process for the claim files to ensure that the original source documents are retained if information is missing on the imaged copy of the claim file and to ensure legibility of date stamp on the claim forms.

State Agency: Illinois Community College Board (ICCB)

Prior Year Finding 05-07

ICCB did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. In the current audit period, financial information was provided to the IOC within established deadlines and limited audit adjustments were required to correct the information provided.

State Agency: Illinois Department of Transportation (IDOT)

Prior Year Finding 05-08

IDOT did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. In the current audit period, financial information was provided to the IOC within established deadlines and limited audit adjustments were required to correct the information provided.

Prior Year Finding 05-79

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. In the current audit period IDOT revised the language in the Treasury-State Agreement to reflect the current method used to draw funds.

Prior Year Finding 05-80

IDOT did not follow the Illinois Administrative Code for pre-qualifying contractors under the Airport Improvement and Highway Planning and Construction programs. In the current year, IDOT implemented procedures to ensure the Illinois Administrative Code was followed when pre-qualifying contractors under the Airport Improvement and Highway Planning and Construction programs.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2006

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

Prior Year Finding 05-09

DCEO did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. In the current audit period, financial information was provided to the IOC within established deadlines and limited audit adjustments were required to correct the information provided.

Prior Year Finding 05-83

State funded Low-Income Home Energy Assistance program (LIHEAP) expenditures were improperly used both to meet the maintenance of effort (MOE) requirements of TANF program and to obtain leveraging incentive awards under the LIHEAP program. In the current audit period, DHFS and IDHS implemented procedures to ensure state-funded LIHEAP expenditures used to apply for leveraging awards were excluded from the expenditures used to meet the TANF MOE requirement.

State Agency: Illinois Department of Employment Security (IDES)

Prior Year Finding 05-10

IDES did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. In the current audit period, financial information was provided to the IOC within established deadlines and limited audit adjustments were required to correct the information provided.

Prior Year Finding 05-86

Sufficient documentation was not available to support information reported in the ETA 9002 and the VETS 200 performance reports. In the current audit period, IDES provided sufficient documentation to support amounts reported in the ETA 9002 and the VETS 200 performance reports.

Prior Year Finding 05-87

IDES does not have adequate procedures to follow up on invalid social security numbers for claimants of the Unemployment Insurance (UI) program. In the current audit period, IDES completed follow up procedures on the social security numbers identified as being invalid for claimants of the UI program.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2006

Prior Year Finding 05-89

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. In the current audit period, IDES implemented procedures requiring documentation to be retained in the BAM unit case files.

State Agency: Illinois Environmental Protection Agency (IEPA)

Prior Year Finding 05-94

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. In the current audit period, IEPA accurately prepared the required reports.

Prior Year Finding 05-95

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 Clean Water and Drinking Water programs. In the current audit period, IEPA implemented procedures to notify subrecipients of required federal award information.

State Agency: Illinois Emergency Management Agency (IEMA)

Prior Year Finding 05-11

IEMA did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. In the current audit period, financial information was provided to the IOC within established deadlines and limited audit adjustments were required to correct the information provided.

State Agency: Illinois Department of Corrections (IDOC)

Prior Year Finding 05-12

IDOC did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. In the current audit period, financial information was provided to the IOC within established deadlines and limited audit adjustments were required to correct the information provided.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2006

State Agency: Illinois Department of Natural Resources (IDNR)

Prior Year Finding 05-13

IDNR did not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) was accurate and timely. In the current audit period, financial information was provided to the IOC within established deadlines and limited audit adjustments were required to correct the information provided.

State Agency: Illinois State Police (State Police)

Prior Year Finding 05-101

State Police did not follow the property management regulations prescribed in the Illinois Administrative Code. In the current audit period, State Police were able to provide a complete equipment listing.