

REPORT DIGEST

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

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

For the One Year Ended:
June 30, 2006

Summary of Findings:

Total this audit	95
Total last audit	101
Repeated from last audit	55

Release Date:
July 26, 2007



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

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the worldwide web at
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SYNOPSIS Background

- ◆ The State expended \$15.5 billion from federal awards in FY 06.
- ◆ A total of 52 federal programs were classified and audited as major programs at fourteen (14) State agencies. These programs constituted approximately 94.5% of all federal spending or about \$14.6 billion.
- ◆ Overall, 42 State agencies expended federal financial assistance in FY 06. Ten (10) State agencies accounted for about 97.0% of federal dollars spent.

Statewide Finding - Financial Reporting

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

Significant Agency Findings Classified as a *Material Weakness*² Resulting in An Auditor Qualification

- ◆ The Department of Human Services (DHS) has a *material weakness* for:
 - failing to perform re-determinations of eligibility within the time-frames prescribed by regulation for the Temporary Assistance for Needy Families, State Children's Health Insurance, and Medicaid programs.
 - inadequate procedures to prevent individuals convicted of drug felonies from receiving benefits under the Temporary Assistance for Needy Families programs.
 - including unallowable expenditures to meet the earmarking requirements for the Social Services Block Grant program.
 - failing to enforce sanctions required by the State Plan for individuals receiving benefits from the Temporary Assistance for Needy Families program.
 - making unallowable expenditures on behalf of eligible beneficiaries of the Rehabilitation Services-Vocational Rehabilitation Grants to States program.
 - an *Audit Scope Limitation*³ on the Special Education – Grants for Infants and Families with Disabilities program because DHS could not provide documentation to substantiate the base level of State funded expenditures for the year.

- ◆ The Department of Healthcare and Family Services has a *material weakness* for not referring recipients of the Temporary Assistance for Needy Families program but who are non-cooperative in establishing paternity under the Child Support Enforcement Program for sanctioning.
- ◆ The Department of Children and Family Services has a *material weakness*:
 - due to missing case file documentation to support eligibility determinations for beneficiaries of both the Foster Care Title IV-E and Adoption Assistance programs.
 - due to a failure to ensure that judicial determinations were made in court rulings for the Foster Care Title IV-E.
 - due to late permanency hearings on the Foster Care Title IV-E program.
 - due to making adoption assistance benefits payments that were not properly supported by adoption assistance agreements under the Adoption Assistance program.
- ◆ The Department of Public Health has a *material weakness* due to lack of an adequate process for determining client eligibility on the HIV Care Formula Grants program.
- ◆ The State Board of Education has a *material weakness* due to not sanctioning a Local Education Agency that did not meet the comparability of services requirement under the Title One Grants to Local Educational Agencies program.
- ◆ The Student Assistance Commission has a *material weakness* due to not complying with the regulations regarding submission and processing of reinsurance claims of the Federal Family Education Loan program.
- ◆ The Department of Employment Security has a *material weakness* in the Trade Adjustment Assistance – Workers program because of inadequate administration and coordination with the Department of Commerce and Economic Opportunity resulting in benefit payments were made to ineligible beneficiaries and missing client eligibility file documentation.
- ◆ The Department of Transportation has a *material weakness* due to not obtaining certifications from subrecipients for not being suspended or debarred from Federal participation for the Airport Improvement program.
- ◆ The IL State Board of Elections has a *material weakness*:
 - failing to provide required federal award information to subrecipients of the Help America Vote Requirements Payments program.
 - due to advancing funds to subrecipients of the Help America Vote Requirements Payments program in excess of their immediate cash needs.
 - due to not obtaining certifications from subrecipients for not being suspended or debarred from Federal participation for the Help America Vote Requirements Payments program.

Findings Involving Multiple Agencies

- ◆ The Departments of Healthcare and Family Services (HFS), Children and Family Services (DCFS), Public Health (DPH), Transportation (DOT), and the Emergency Management Agency have a *material weakness* due to inadequate monitoring of subrecipient audit reports for federal programs.
- ◆ The Departments on Aging (DOA), Public Health (DPH), Transportation (DOT), Emergency Management Agency and the State Board of Elections have a *material weakness* due to inadequate and/or lack of on-site monitoring of subrecipients of federal awards.

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

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

²*Material weakness*: An internal control deficiency that is a reportable condition. The magnitude of the condition(s) noted raises the risk that noncompliance could occur and not be detected by employees in the normal course of performing their assigned function.

³*Scope Limitation*: A condition occurring in the audit where the auditor was unable to obtain sufficient evidential matter. This condition resulted in an inability to audit the program as required by federal regulations.

STATE OF ILLINOIS
STATEWIDE SINGLE AUDIT
For the Year Ended June 30, 2006 (in thousands)

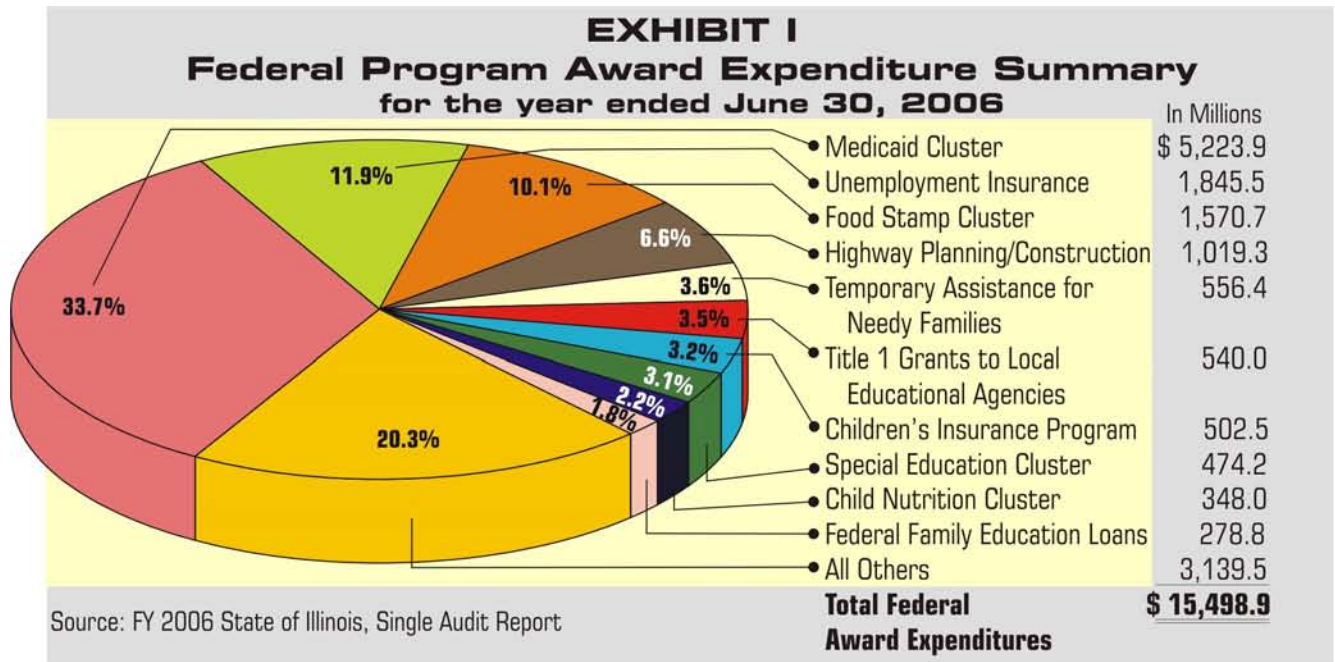
FINANCIAL ACTIVITIES	FY 2006	
EXPENDITURES BY PROGRAM	Amount	Percent
Major Programs		
Medicaid Cluster.....	\$5,223,946	33.7%
Unemployment Insurance	1,845,449	11.9%
Food Stamp Cluster	1,570,652	10.1%
Highway Planning and Construction	1,019,336	6.6%
Temporary Assistance for Needy Families	556,455	3.6%
Title I Grants to Local Educational Agencies	540,016	3.5%
State Children's Insurance Program	502,539	3.2%
Special Education Cluster	474,180	3.1%
Child Nutrition Cluster	347,962	2.2%
Federal Family Education Loans	278,810	1.8%
Foster Care – Title IV-E	230,236	1.5%
Child Care Cluster	213,191	1.4%
Low-Income Home Energy Assistance Program	189,157	1.2%
Special Supplemental Nutrition Program for Women, Infants & Children	183,714	1.2%
Workforce Investment Act Cluster	152,912	1.0%
Improving Teacher Quality State Grants	120,713	0.8%
Social Services Block Grant	115,496	0.7%
Child Support Enforcement	114,700	0.7%
Child and Adult Care Food Program	100,742	0.7%
Airport Improvement Program	91,286	0.6%
Adoption Assistance	88,344	0.6%
Rehabilitation Services – Vocational Rehabilitation Grants to States	82,347	0.5%
Block Grants for Prevention and Treatment of Substance Abuse.....	69,615	0.5%
Homeland Security Cluster.....	65,682	0.4%
Social Security Disability Insurance.....	61,815	0.4%
Aging Cluster.....	45,663	0.3%
Vocational Education - Basic Grants to States	44,344	0.3%
Help America Vote Act Requirements Payments	43,944	0.3%
Employment Services Cluster.....	40,785	0.3%
Immunization Grants	39,597	0.3%
Twenty-First Century Community Learning Centers	38,329	0.2%
HIV Care Formula Grants.....	36,660	0.2%
Centers for Disease Control & Prevention-Investigations/Technical Assistance .	35,187	0.2%
Trade Adjustment Assistance – Workers	32,701	0.2%
Special Education Grants for Infants and Families with Disabilities.....	26,207	0.2%
Reading First State Grants	<u>18,751</u>	<u>0.1%</u>
Total Major Programs	14,641,463	94.5%
Non-Major Programs	<u>857,403</u>	<u>5.5%</u>
TOTAL EXPENDITURES	<u>\$15,498,866</u>	<u>100.0%</u>
Federal Agencies Providing Funding:	Total	Major Program Expenditures
U.S. Department of Health and Human Services	\$7,666,167	\$7,460,786
U.S. Department of Agriculture	2,261,181	2,203,070
U.S. Department of Labor	2,083,922	2,071,847
U.S. Department of Education	1,783,152	1,623,697
U.S. Department of Transportation	1,152,899	1,110,622
U.S. Department of Homeland Security.....	121,698	65,682
U.S. Department of Justice.....	82,197	0
U.S. Environmental Protection Agency	71,753	0
Social Security Administration	62,228	61,815
Election Assistance Commission	43,944	43,944
All other federal agencies.....	<u>169,725</u>	<u>0</u>
	<u>\$15,498,866</u>	<u>\$14,641,463</u>
STATISTICAL INFORMATION	FY 2006	
Total Number of Programs in the Schedule of Expenditures of Federal Awards.....	354	
Number of Federal Programs Audited	52	
Total Number of State Agencies Spending Federal Funds.....	42	
Number of State Agencies Audited for Single Audit Requirements	14	

INTRODUCTION

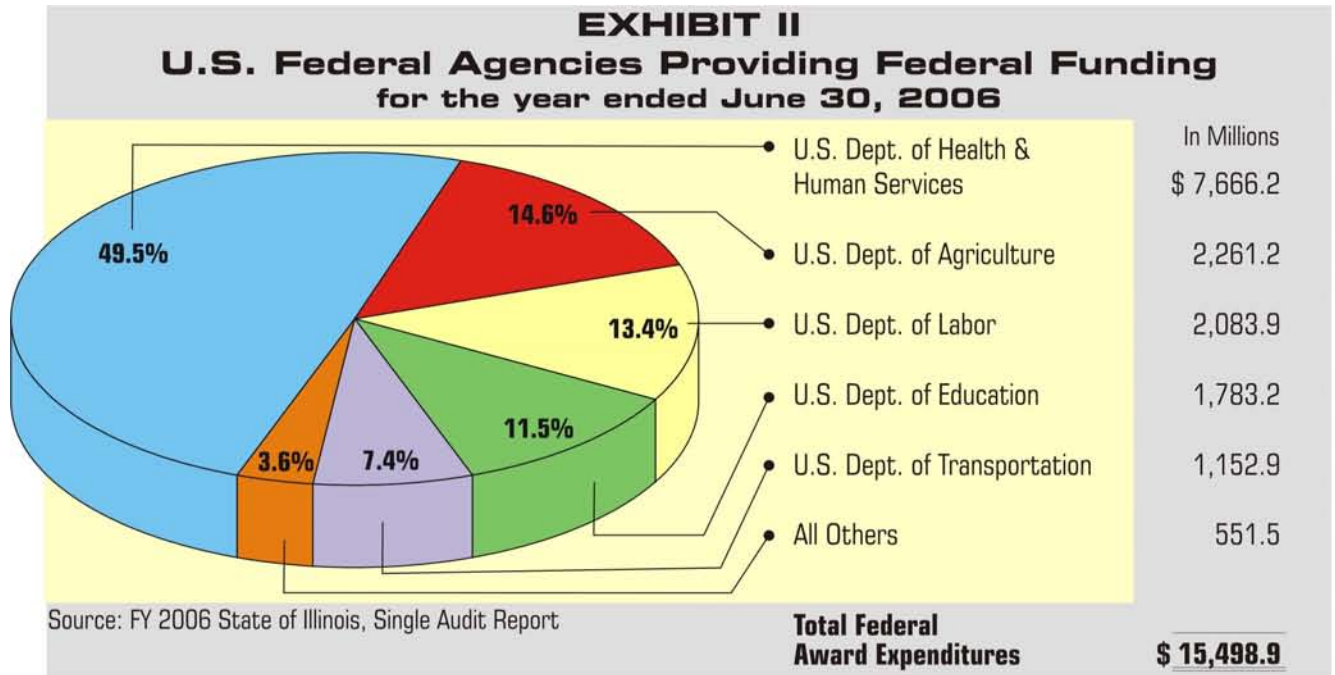
The Illinois Office of the Auditor General conducted a Statewide Single Audit of the FY 06 federal grant programs. The audit was conducted in accordance with the federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133.

The Statewide Single Audit includes all State agencies that are a part of the primary government and expend federal awards. In total, 42 State agencies expended federal financial assistance in FY 06. A separate supplemental report has been compiled by the Illinois Office of the Auditor General. This report provides summary information on federal spending by State agency. The Statewide Single Audit does not include those agencies that are defined as component units such as the State universities and finance authorities. The component units continue to have separate OMB Circular A-133 audits.

The Schedule of Expenditures of Federal Awards (SEFA) reflects total expenditures of \$15.5 billion for the year ended June 30, 2006. Overall, the State participated in 354 different federal programs, however, 10 of these programs or program clusters accounted for approximately 79.7% of the total federal award expenditures. (See Exhibit I)



The funding for the 354 programs was provided by 23 different federal agencies. Exhibit II shows that five federal agencies provided Illinois with the vast majority of federal funding in FY 06.

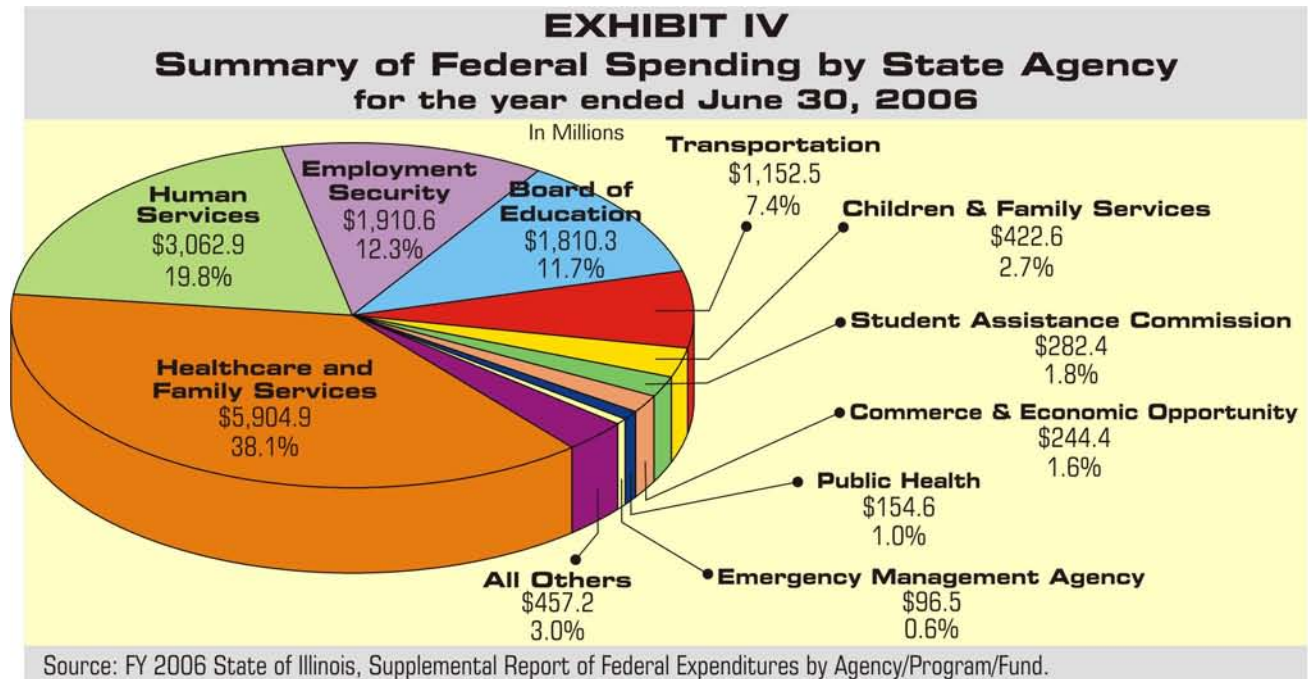


A total of 52 federal programs (or 36 programs or program clusters) were identified as major programs in FY 06. A major program was defined in accordance with Circular A-133 as any program with federal awards expended that meets certain criteria when applying the risk-based approach. Exhibit III provides a brief summary of the number of programs classified as “major” and “non-major” and related federal award expenditures.

EXHIBIT III
Classification of Federal Programs
“Major vs. Non-Major”
and Related Federal Award Expenditures
for the year ended June 30, 2006

Audit Coverage	No.	Expenditures (in millions)	%
Major Programs	52	\$14,641.5	94.5%
Non-Major Programs	302	857.4	5.5%
Total	354	\$15,498.9	100.0%

Ten State agencies accounted for approximately 97.0% of all federal dollars spent during FY 06 as depicted in Exhibit IV.



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

The auditors' report contained a scope limitation and qualifications on compliance as summarized below. The complete text of the Auditors' Report may be found on pages 24-28 of the audit.

Scope Limitation

The Illinois Department of Human Services was not able to provide adequate documentation to substantiate the base level of State funded expenditures for the Special Education – Grants for Infants and Families with Disabilities. Consequently, the auditors were unable to test the reported information. This deficiency resulted in the inability to audit the Program as required by OMB Circular A-133.

State Agency	Federal Program	Compliance Requirement	Finding Number	Page Numbers
IL Department of Human Services	Special Education – Grants for Infants and Families with Disabilities	Maintenance of Effort	06-08	56-57

Qualifications

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

State Agency	Federal Program	Compliance Requirement	Finding Number	Page Numbers
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	06-03	45-47
IL Department of Human Services	State Children’s Insurance Program	Allowable Costs/Cost Principles and Eligibility	06-03	45-47
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	06-03	45-47
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	06-04	48-49
IL Department of Human Services	Social Services Block Grant	Allowable Costs/Cost Principles and Earmarking	06-05	50-51
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Special Tests and Provisions	06-06	52-53
IL Department of Human Services	Rehabilitation Services – Vocational Rehabilitation Grants to States	Allowable Costs/Cost Principles and Eligibility	06-07	54-55
IL Department of Healthcare and Family Services	Low-Income Home Energy Assistance	Subrecipient Monitoring	06-21	86-87
IL Department of Healthcare and Family Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Special Tests and Provisions	06-22	88-89
IL Department of Children and Family Services	Foster Care - Title IV-E	Allowable Costs/Cost Principles and Eligibility	06-29	104-105
IL Department of Children and Family Services	Foster Care - Title IV-E	Allowable Costs/Cost Principles and Eligibility	06-30	106-107
IL Department of Children and Family Services	Foster Care - Title IV-E	Allowable Costs/Cost Principles and Eligibility	06-31	108-109
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	06-32	110-111
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	06-33	112-113
IL Department of Children and Family Services	Temporary Assistance for Needy Families	Subrecipient Monitoring	06-34	114-117
IL Department of Children and Family Services	Foster Care - Title IV-E	Subrecipient Monitoring	06-34	114-117

IL Department of Children and Family Services	Adoption Assistance	Subrecipient Monitoring	06-34	114-117
IL Department of Children and Family Services	Social Services Block Grant	Subrecipient Monitoring	06-34	114-117
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	06-38	123-124
IL Department of Public Health	HIV Care Formula Grants	Allowable Costs/Cost Principles and Eligibility	06-43	134-135
IL Department of Public Health	HIV Care Formula Grants	Subrecipient Monitoring	06-44	136-137
IL Department of Public Health	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Subrecipient Monitoring	06-44	136-137
IL Department of Public Health	Immunization Grants	Subrecipient Monitoring	06-45	138-139
IL Department of Public Health	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Subrecipient Monitoring	06-46	140-141
IL Department of Public Health	HIV Care Formula Grants	Subrecipient Monitoring	06-46	140-141
IL Department of Public Health	Immunization Grants	Subrecipient Monitoring	06-46	140-141
IL State Board of Education	Title One Grants to Local Educational Agencies	Allowable Costs/Cost Principles and Special Tests and Provisions	06-51	149-150
IL Student Assistance Commission	Federal Family Education Loans	Special Tests and Provisions	06-57	162-165
IL Department of Employment Security	Trade Adjustment Assistance – Workers	Allowable Costs/Cost Principles and Eligibility	06-60	170-172
IL Department of Transportation	Airport Improvement Program	Suspension and Debarment	06-70	192-193
IL Department of Transportation	Airport Improvement Program	Subrecipient Monitoring	06-71	194-195
IL Department of Transportation	Airport Improvement Program	Subrecipient Monitoring	06-72	196-198
IL Department of Transportation	Highway Planning and Construction Cluster	Subrecipient Monitoring	06-72	196-198
IL Department of Transportation	Homeland Security Cluster	Subrecipient Monitoring	06-72	196-198
IL Department of Transportation	Homeland Security Cluster	Subrecipient Monitoring	06-73	199-200
IL Emergency Management Agency	Homeland Security Cluster	Subrecipient Monitoring	06-82	217-218
IL Emergency Management Agency	Homeland Security Cluster	Subrecipient Monitoring	06-83	219-220
IL State Board of Elections	Help America Vote Act Requirements Payments	Subrecipient Monitoring	06-89	231-232
IL State Board of Elections	Help America Vote Act Requirements Payments	Subrecipient Monitoring	06-90	233-233
IL State Board of Elections	Help America Vote Act Requirements Payments	Cash Management and Subrecipient Monitoring	06-91	234-235
IL State Board of Elections	Help America Vote Act Requirements Payments	Suspension and Debarment	06-92	236-237

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

Internal Control Over Financial Reporting

We noted certain matters involving internal control over financial reporting of the Schedule of Expenditures of Federal Awards (Schedule) that were considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting of the Schedule that, in the auditors' judgment, could adversely affect the State's ability to record, process, summarize and report financial data consistent with the assertions of management. There were 3 findings reported in the single audit classified as financial reporting reportable conditions.

Internal Control Over Compliance

We noted certain matters involving internal control over compliance that were considered to be reportable conditions. Reportable conditions involve matters coming to the auditors' attention relating to significant deficiencies in the design or operation of internal control over compliance that, in the auditors' judgment, could adversely affect the State's ability to administer a major federal program in accordance with the applicable requirements. Overall, 71 of the 95 findings reported in the single audit were classified as compliance reportable conditions.

Material weaknesses were also disclosed in our report. In general, a material weakness is a condition in which the design or operation of internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Overall, 41 of the 95 findings reported in the single audit were classified as both a material weakness and a reportable condition.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

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

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

State Agency	Number of Findings	Number of Repeat Findings	Page References to Findings
State Comptroller	1	1	32-33
Human Services	18	10	42-83
Revenue	1	1	84-85
Healthcare and Family Services	8	6	86-103
Children and Family Services	9	6	104-122
Aging	5	2	123-133
Public Health	8	5	134-148
State Board of Education	3	2	149-154
Community College Board	3	1	155-161
Student Assistance Commission	3	3	162-169
Employment Security	9	6	170-189
Commerce and Economic Opportunity	1	1	190-191
Transportation	12	6	192-216
Emergency Management Agency	6	5	217-228
State Police	1	0	229-230
State Board of Elections	6	0	231-242
Central Management Services	<u>1</u>	<u>0</u>	243-245
Totals	<u>95</u>	<u>55</u>	

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

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

State's process for collecting data is inadequate

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

Our review encompassed:

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

A variety of corrections were noted in the submission and finalization of the State Comptroller forms, including accuracy, due to their complex nature and manual process.

For example, during our review of the financial reporting process, we noted agencies submitted information requiring correcting journal entries identified by either the IOC or auditors to accurately state amounts reported by state agencies. These corrections occurred after the agency's submission of their GAAP packages to the IOC. Although agencies submitted their GAAP packages by the IOC scheduled due date, the IOC did not provide a final electronic database until December 7, 2006 resulting in the

Lack of accuracy in reporting results in not meeting completion due dates

completion of the SEFA in April, 2007 (approximately ten months after the State's fiscal year end).

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

As a result of the errors, deficiencies and omissions noted throughout the process used by the State in its financial reporting process, along with the inability to meet the required filing deadline of 03/31/06, the auditors identified the inadequacies as a reportable condition for all federal programs administered by the State. (Finding 06-01, pages 32-33) **This finding was first reported in the Statewide Single Audit in 2002.**

Current process and information system should be changed to enhance timeliness of SEFA completion

We recommended the IOC review the current process and information system for compiling the SEFA and consider changes that will allow for completion of the State's OMB Circular A-133 audit within the required timeframe. Such a review should include consideration of implementing a statewide grant accounting system.

State Comptroller to consult with Governor's Office of Management and Budget for solution

The State Comptroller's Office agrees that the State does not currently have an adequate process in place to permit the timely preparation of the SEFA. The Comptroller is to continue advising and supporting the Governor's Office of Management and Budget in establishing and implementing monitoring procedures for agencies' reporting of federal award financial information, including the possible implementation of a statewide grant accounting system.

FAILURE TO PERFORM REDETERMINATIONS OF ELIGIBILITY WITHIN PRESCRIBED TIMEFRAMES

The Department of Human Services (DHS) is not performing eligibility re-determinations in accordance with timeframes required by the respective State Plans for the Temporary Assistance for Needy Families (TANF), State Children's Health Insurance Program (SCHIP), and Medicaid programs.

DHS delinquent in performing recipient eligibility re-determinations

During our test work of required eligibility criteria, we noted the State was delinquent (overdue) in performing the eligibility re-determinations of individuals for the three programs during June 2006 as follows:

TANF	1,733 of 39,064 cases	4.4%
SCHIP	18,516 of 525,468 cases	3.5%
Medicaid	16,818 of 378,583 cases	4.4%

Failure to properly perform eligibility re-determination procedures in accordance with State Plans may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding 06-03, pages 45-47) **This finding was first reported in the Statewide Single Audit in 2003.**

Auditor qualification due to untimely eligibility re-determinations

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

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

DHS officials agreed with our recommendations. They are to review their current process for performing eligibility re-determinations and consider any changes to ensure all re-determinations are made within timelines prescribed by federal guidelines. (For previous agency response, see Digest Footnote #1)

DHS accepts the auditor recommendation

INADEQUATE PROCESS FOR PREVENTING CONVICTED FELONS TO RECEIVE TANF BENEFITS

The Department of Human Services (DHS) does not have an adequate procedure 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.

Class 1 or X felony drug conviction prohibits receipt of TANF benefits

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

State Plan. One of the criteria is that individuals convicted of a Class 1 or Class X felony is prohibited from receiving TANF benefits.

During our test work over the TANF program, we selected 50 TANF beneficiary files and noted one TANF beneficiary was paid \$4,752 and had previously been convicted of a Class 1 or Class X felony.

In accordance with federal regulations, 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 are ineligible to receive TANF. Additionally, IDHS policy requires crossmatches to be completed to determine whether applicants have been convicted of a Class 1 or Class X drug felonies (Finding 06-04, pages 48-49)

As a result of DHS's failure to ensure convicted drug felons did not receive benefits in accordance with the State Plan, the auditors qualified their report on the TANF program.

We recommended DHS 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.

DHS officials agreed with the finding and will remind all staff of the TANF requirements related to Class 1 or X felons. The Department indicated that they will seek to recover the overpayments through all means authorized by statute.

UNALLOWABLE COSTS CHARGED TO THE TITLE XX PROGRAM

The Department of Human Services (DHS) used unallowable expenditures to meet the earmarking requirement for the Social Services Block Grant (Title XX) program. As a result, the auditors question \$1.0 million in expenditures.

During the State fiscal year ended June 30, 2006, DHS transferred approximately \$33.3 million from the TANF program to the Title XX program. The transferred funds

Convicted drug felon received \$4,752 in TANF benefits

Auditor qualification because drug felons are not eligible for TANF benefits

DHS accepts the auditor recommendation

Auditors question \$1 million in expenditures

State converts \$33.3 of TANF funds for Title XX uses

are to be used only for programs and services to children whose income is less than 200% of the official poverty guidelines.

Audit identified expenditures not meeting TANF eligibility criteria

During our testwork over 65 Home Services program expenditures, we noted 5 expenditures totaling \$831 were for services provided to beneficiaries who did not meet the earmarking poverty level criteria. Based on DHS' further investigation, they determined that the query they were using increased the family size by one individual. As a result, ineligible beneficiaries were included resulting in a total of \$1,016,313 being improperly used to meet the earmarking requirement. (Finding 06-05, pages 50-51)

Auditors qualified opinion due to earmarked expenditures not eligible for TANF criteria

As a result of DHS including the ineligible beneficiaries in the earmarking requirement, the auditors qualified their report on the Title XX program.

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

DHS corrected the audit issue but indicate they disagree with finding

DHS officials disagreed with the finding. The error was corrected by follow-up action once the auditors informed management.

Auditors' comment

In an auditors' comment we noted that it was unclear why DHS disagreed with the finding. DHS subsequently revised the computer program to accurately reflect the TANF requirements solely as a result of our audit procedure, and the amounts used to support federal cash draws were required to be adjusted as of 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.

FAILURE TO FOLLOW AND DOCUMENT TANF SANCTION PROCEDURES

The Department of Human Services (DHS) did not enforce sanctions required by the State Plan for individuals receiving benefits under the Temporary Assistance for Needy Families (TANF) program who did not cooperate with child support enforcement efforts.

Non-cooperating child support clients violate regulations

As a condition of receiving cash assistance under the TANF program, beneficiaries are required to assist the

DHS must sanction TANF recipients if beneficiary fails to assist in paternity establishment

State in establishing paternity or establishing, modifying, or enforcing child support orders by providing information to the Department of Healthcare and Family Services (HFS) to help identify and locate non-custodial parents. In the event a TANF beneficiary fails to assist HFS without good cause, DHS is required to reduce or deny his/her 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 HFS for non-cooperation without good cause. We noted the following exceptions:

- (1) In three cases, DHS did not sanction beneficiaries for non-cooperation and no evidence was in the case files documenting that good cause existed for non-cooperation. Benefit payments paid to these individuals during the year were \$2,307.
- (2) In five cases, DHS did not evaluate beneficiaries for non-cooperation within required timeframes. There was no evidence in these case files documenting the reasons for these delays. Delays in evaluating cases ranged from 24 to 43 days. Benefit payments paid to these individuals during the year were \$2,668.
- (3) In four cases, DHS 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. DHS and HFS were unable to determine whether the delays in sanctioning were caused by untimely referrals by HFS or untimely case evaluation by DHS. Benefits paid to these individuals during the year were \$5,008.

Case files were either not properly documented as to “good cause” or action was untimely

Federal regulations requires the State take appropriate action by deducting an amount equal to at least 25% of the family’s assistance payment or denying any assistance under the program. (Finding 06-06, pages 52-53) **This finding was first reported in the Statewide Single Audit in 2003.**

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

Auditor qualification for failure to enforce sanctions

We recommended DHS review its current process for sanctioning beneficiaries not cooperating with the State’s child support enforcement efforts and consider changes

necessary to ensure benefits are reduced or denied in accordance with the State's Plan.

DHS agrees with finding

DHS officials agreed with the finding. DHS also indicated that they will seek to recover any overpayments identified through all means authorized by statute. (For previous agency response, see Digest Footnote #2)

UNALLOWABLE EXPENDITURES CHARGED TO THE VOCATIONAL REHABILITATION PROGRAM

The Department of Human Services (DHS) made unallowable expenditures on behalf of eligible beneficiaries of the Rehabilitation Services – Vocational Rehabilitation Grants to States (Voc Rehab) program.

The Voc Rehab program is designed to provide services to certain individuals who have physical or mental impairments that impede them in attaining employment. Services provided to the individuals vary and are designed specifically for each beneficiary based upon the facts and circumstances. Most services are considered allowable if they assist the individual in attaining his/her employment goal and are documented in the Individualized Plan for Employment file.

During our testwork, 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:

- In three cases, invoices could not be located to support expenditures made on behalf of beneficiaries. As a result, adequate documentation does not exist to support the allowability of the expenditures. Payments made during the year for these beneficiaries totaled \$3,470.
- In one case, payments were made for services not approved in the current Individualized Plan for Employment. Payments made during the year for services to these beneficiaries totaled \$2,297.
- In two cases, invoice vouchers were not approved by the counselor prior to payment. Payments made during the year for services provided on these vouchers totaled \$1,669.

Federal regulations require an IPE be signed by both the eligible individual and a vocational counselor and must

Auditor questions program costs totaling \$7,806

Client files lack adequate documentation to support allowability of costs

Auditor qualification for unallowed costs

include certain specified criteria. (Finding 06-07, Pages 54-55)

As a result of DHS's failure to properly determine the allowability of costs in accordance with program regulation, the auditors qualified their report on the Vocational Rehabilitation program.

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

DHS accepts auditor recommendation

DHS officials agreed with the finding and recommendation, and indicated they have developed a Quality Assurance process to monitor allowability of payments. Also, DHS will remind field staff the importance of fully documenting and completing proper case notes.

INADEQUATE DOCUMENTATION OF THE MAINTENANCE OF EFFORT FOR THE EARLY INTERVENTION PROGRAM

The Department of Human Services (DHS) 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 (Early Intervention) for the year ended June 30, 2006.

Federal program requires State funds be earmarked to receive federal funds

As a condition of receiving federal funding under the Part C program, the federal regulations require the total amount of State and local funds budgeted for the Early Intervention services to be equal to the total amount of State and local funds actually expended for the program in the most recent preceding fiscal year for which information is available.

Prior year maintenance of effort not provided by DHS in support of current year program

During our prior year audit of the Part C program, DHS 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 of \$2,578,528 for FY2006 were sufficient to meet the maintenance of effort

requirement. (Finding 06-08, pages 56-57)

Audit scope limitation issued because DHS did not provide population of State expenditures

As a result of DHS's failure to maintain the population of State earmarked expenditures, the auditors issued a scope limitation on the Special Education – Grants for Infants and Families with Disabilities (Part C) program

We recommended DHS 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 program regulations.

DHS officials disagree with finding but could not provide total population of earmarked costs

DHS officials disagreed with the finding and recommendation and stated they have a process to identify and account for expenditures to meet the maintenance of effort requirements.

Auditors' comment

In an auditors' comment we noted that due to the disclaimer of opinion issued in connection with the FY2005 Early Intervention program audit, we were unable to determine whether DHS has met its maintenance of effort requirement as the amount of prior year State funded expenditures could not be audited.

FAILURE TO ENFORCE SANCTIONS OVER TANF RECIPIENTS

Failure to sanction for non-cooperation

The Department of Healthcare and Family Services (HFS) 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 Department of Human Services to enforce sanctions

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

We reviewed a selection of 50 TANF cases that should have been referred to DHS by HSF for non-cooperation in establishing paternity. The case file was reviewed to

Referral of non-cooperation not timely provided and “good cause” not documented in case files

ensure that the case was referred to DHS and proper action was taken to either sanction or solicit cooperation with respect to paternity establishment. In the 50 cases we reviewed, we noted:

- in three cases, HFS did not refer non-cooperative beneficiaries to DHS in a timely manner. Benefits paid to these individuals during FY2006 were \$8,474.
- in four cases, DHS did not sanction beneficiaries for non-cooperation or document good cause existed for non-cooperation with HFS. HFS and DHS were unable to determine whether the delays in sanctioning were caused by untimely referrals by HFS or untimely case evaluation by DHS. Benefits paid to these individuals during FY2006 were \$5,008.

Federal regulations requires the State take appropriate action by deducting an amount equal to at least 25% of the family’s assistance payment or denying any assistance under the program. (Finding 06-22, pages 88-89) **This finding was first reported in the Statewide Single Audit in 2004.**

Failure to make timely notification results in auditor qualification on TANF

As a result of HFS’s failure to make timely notification of non-cooperation with Child Support Enforcement efforts in accordance with the State Plan, the auditors qualified their report on the TANF program.

We recommended HFS implement control procedures to ensure that all TANF recipients who are non-cooperative in establishing paternity are referred to DHS for proper sanctioning.

HFS officials disagree

HFS officials disagreed with the finding. HFS stated that the required documents are generated and provided to DHS for handling. The three cases identified as not being referred in the finding was the result of a temporary suspension of non-cooperation notices due to re-engineering of the child support processes.

Auditors’ comment

In an auditors’ comment we noted that due to the manual nature of HFS’ process for reporting the non-cooperation of TANF beneficiaries with child support enforcement efforts, HFS was not able to provide documentation supporting that referrals by HFS were made on a timely basis.(For previous agency response, see Digest Footnote #3)

MISSING DOCUMENTATION IN ELIGIBILITY FILES FOR ADOPTION ASSISTANCE AND FOSTER CARE PROGRAMS

The Department of Children and Family Services (DCFS) could not locate case file documentation supporting eligibility determinations for beneficiaries of the Adoption Assistance and Foster Care Title IV-E programs.

The Adoption Assistance program provides funds to States for adoption assistance agreements with parents who adopt eligible children with special needs; whereas, the Foster Care Title IV-E program provides funds based on certain financial and non-financial criteria e.g. the child meets the criteria of the prior Aid to Families with Dependent Children (AFDC).

During our testwork of 50 case files for eligibility requirements and allowability for each of the programs, we noted the following:

Adoption Assistance

- 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 placement would be in the child's best interest. DCFS claimed on behalf of these children \$18,110 during FY2006.
- in three cases, DCFS could not locate the birth certificate evidencing the child met the age requirements. DCFS claimed on behalf of these children \$9,446 during FY2006.
- in seven cases, DCFS could not locate the petition to terminate, or surrender of parental rights. DCFS claimed on behalf of these children \$8,464 during FY2006.
- in one case, DCFS could not locate the summary document which documents the special needs factors that were a condition of the eligibility determination. DCFS claimed on behalf of this child \$419 during FY2006.

Foster Care Title IV-E

- in one case, DCFS could not locate the child's birth certificate evidencing the child met the age requirements. DCFS claimed on behalf of this child \$12,000 during FY2006.
- in one case, DCFS could not locate the child's "Order Appointing Private Guardian." DCFS claimed on behalf of this child \$2,669 during FY2006.

Client files missing certain documentation

Client files missing certain documentation

Federal regulations of the Adoption Assistance program 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. Also, benefits are discontinued when the child reaches the age of 18 years unless the child has a physical or mental handicap which permits coverage until reaching the age of 21. (Finding 06-29, pages 104-105)

Federal regulations of the Foster Care Title IV-E are predicated on certain eligibility criteria of the former AFDC program such as a child under the age of 18 years may not be denied AFDC, regardless of whether she attends school or makes satisfactory grades. (Finding 06-32, pages 110-111).

Audit qualification due to missing eligibility documentation

As a result of DCFS' missing eligibility documentation, the auditors qualified their report for the Adoption Assistance and Foster Care Title IV-E programs.

We recommended DCFS review its procedures for retaining and documenting how beneficiaries have met eligibility requirements and implement changes necessary to ensure judicial determinations, relevant court orders, birth certificates, and adequate documentation of special needs exists for all children for whom adoption subsidy payments, nonrecurring cost expenditure and/or benefit claims are made.

DCFS officials agreed with the findings and stated that they will review procedures for obtaining and retaining documents. DCFS indicated that they would be obtaining the missing documents noted in the above findings. If documentation is not available or obtainable, the Department will make appropriate claiming adjustments.

Agency officials agreed with finding

FAILURE TO ENSURE THAT REQUIRED JUDICIAL DETERMINATIONS WERE MADE

The Department of Children and Family Services (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. 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 beneficiaries totaling \$3,829 during the year ended June 30, 2006. (Finding 06-30, pages 106-107)

As a result of DCFS failing to ensure that appropriate judicial determinations are made, the auditors qualified their report on the Foster Care Title IV-E program.

We recommended 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 officials agreed with the finding and stated they will review procedures for obtaining and documenting whether judicial determinations have been made and make necessary changes, where needed, to ensure determinations are made within the required timelines and that required language is included in the agreements. Also, DCFS will make the appropriate claiming adjustments for actual amounts included in claims relating to the beneficiary

DCFS failed to ensure required judicial determinations were performed or timely performed

Auditor qualification due to failure to ensure judicial determinations

DCFS accepts the auditor recommendation

payments questioned by the auditors.

FAILURE TO ENSURE FOSTER CARE PERMANENCY HEARINGS ARE PERFORMED WITHIN REQUIRED TIME FRAMES

DCFS late in completing “permanency plans” for foster children

The Department of Children and Family Services (DCFS) did not ensure that foster care permanency hearings were performed within the federally required timeframes.

During the review of 50 Foster Care Title IV-E program files, the auditors noted:

- in three cases, permanency hearings were not performed within the required. The delay in performing the permanency hearings ranged from 45 to 486 days after the required timeframe. This delay rendered these beneficiaries ineligible until the permanency hearings were conducted. DCFS claimed reimbursement for these cases for a total of \$7,408.
- in two cases, DCFS could not provide the necessary documentation to substantiate that the permanency hearing was performed. DCFS claimed reimbursement for these cases for a total of \$1,049.

Ineligible costs

Also, DCFS does not have a process in place to ensure permanency hearings were completed within required timeframes nor do they have a list of beneficiaries where permanency hearings are not completed.

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

In order to obtain reimbursement for foster care maintenance costs, DCFS must obtain a judicial determination that it has made reasonable efforts to finalize the permanency plan that is to be in effect within 12 months from the time a child enters foster care status. Also, each foster child must have an annual renewal of the permanency plan thereafter. (Finding 06-31, pages 108-

109) This finding was first reported in the Statewide Single Audit in 2002.

Auditor qualification for failure to ensure timely permanency hearings

As a result of DCFS' failure to ensure timely permanency hearings of each child placed in foster care, the auditors qualified their report on the Foster Care Title IV-E program.

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

DCFS accepts auditor recommendation

DCFS officials accepted the recommendation and stated they have developed and implemented a procedure for identifying and notifying foster and adoptive caretakers of permanency hearings and reviews. The Department will make the appropriate claiming adjustments for actual amounts identified by the auditor. In a follow-up note, DCFS participated in a joint eligibility review with the Administration for Children and Families. Since this review found less than five errors, DCFS was found to be in substantial compliance. (For previous agency response, see Digest Footnote #4)

FAILURE TO PROPERLY DOCUMENT OR EXECUTE ADOPTION ASSISTANCE AGREEMENTS

Payments made that were not properly supported by agreements

The Department of Children and Family Services (DCFS) made recurring and nonrecurring Adoption Assistance program benefit payments that were not properly supported by agreements.

The Adoption Assistance program provides benefits to parents who adopt eligible children with special needs. An agreement is required for this program which specifies the nature and amount of monthly assistance as well as any nonrecurring expenses that will be reimbursed to the parents. This agreement is to be finalized prior to the adoption.

During the auditors testwork of 50 case files for compliance with eligibility requirements and allowability of related benefits, we noted:

- in two cases the amount of the payment made on behalf of the children were in excess of the amount

Auditors testwork identifies ineligible costs

specified in the agreement. The excess amount claimed for reimbursement for 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 payment was not specified in the agreement. DCFS claimed subsidy assistance 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 assistance expenses of \$419 on behalf of a child for whom an agreement had not been executed.

In two cases, the agreement was not signed by both adopting parents. In one of these two cases, the subsidy payment was made to the parent who did not sign the agreement. DCFS claimed subsidy payments on behalf of these children totaling \$5,338 during FY2006.

Federal regulations require the agreement for subsidy payments (recurring) must contain information concerning the nature and amount of the payments to be provided, be signed, and in effect prior to the adoption decree being final. Nonrecurring expenses of an adoption shall be determined through an agreement between the adopting parent(s) and DCFS. The agreement is to be signed and in effect prior to the adoption decree being final. (Finding 06-33, pages 112-113)

Auditors qualified program due to ineligible costs

As a result of DCFS paying for costs that were not evidenced in Adoption Assistance agreements, the auditors reported a qualification for the Adoption Assistance program.

We recommended DCFS review its procedures for documenting and executing adoption agreements and implement changes necessary to ensure the agreements contain the required elements and properly executed.

DCFS agrees with finding

DCFS agreed with the finding and stated that they would be conducting a review of its procedures for entering adoption agreement amounts. Also, the Department will make the appropriate claiming adjustments for actual amounts identified by the auditor if no additional information is found

INADEQUATE PROCESS FOR DETERMINING CLIENT ELIGIBILITY

Changes needed in process of documenting HIV eligibility criteria

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

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

Eligibility support missing from files

During our testwork of benefits provided to 50 HIV beneficiaries eligibility files, we noted that in five cases, the case file did not contain documentation supporting a diagnosis of the HIV disease.

Additionally, in 13 of the 50 cases, the beneficiary's application indicated the beneficiary had no income; and since DPH confirmed the individual was not receiving Medicaid benefits, a determination of Medicaid eligibility was not performed. As a result, no income verification procedures were performed to verify the income reported was accurate. Failure to adequately establish a beneficiary's eligibility may result in expenditures being made to or on behalf of ineligible beneficiaries, which are unallowable costs. (Finding 06-43, pages 134-135) **This finding was first reported in the Statewide Single Audit in 2004.**

Auditor qualification for failure to have proper supporting documentation and resource verification

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

Grants program.

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

DPH accepts finding and recommendation

DPH officials agreed with the finding and provided examples why there are occasions in which complete documentation is not available. DPH is checking the Medicaid database for eligibility of each applicant prior to approval of services and authorization for each refill. DPH has implemented a requirement of obtaining a signed affidavit if the client cannot provide required proof of income. (For previous agency response, see Digest Footnote #7)

FAILURE TO SANCTION NON-COMPARABLE LOCAL EDUCATION AGENCY (LEA)

The State Board of Education (SBE) failed to sanction a LEA that did not meet the requirement under the Title One Grants to Local Educational Agencies (Title One) program.

SBE fails to sanction LEA

LEAs must provide educational services for schools receiving Title One funds that are comparable to those that are not receiving Title One funds within the same school district (“comparability of services”).

Based on information provided by a US Department of Education (USDE) audit and procedures performed during our audit, we noted one LEA was not in compliance with the comparability of services requirement. Specifically, this LEA has 33 schools that receive Title One funds that provide educational services(based on a teacher to pupil and an expenditure to pupil ratios) that are less than schools not receiving Title One funding. Although SBE was aware of the noncompliance, they did not cite the LEA for failure to meet the comparability of services requirement. This LEA received an allocation of approximately \$282 million in Title One program funds during FY2006. Of this amount, the 33 schools that did not meet the comparability of services requirement received approximately \$6.8 million.

Noncomplying LEA provided \$282 million in federal funds

Federal regulations state that the State Educational Agency (SBE) is ultimately responsible for ensuring that all

subrecipients remain in compliance with the comparability of services requirements. (Finding 06-51, pages 149-150)

Auditor qualifies federal program due to failure to sanction LEA

As a result of SBE not sanctioning the LEA for the comparability of service requirements, the auditors qualified the Title One Grants to Local Educational Agencies program.

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

SBE agrees with finding

SBE agreed with the finding and is waiting for guidance from the USDE in determining what sanction would be appropriate to impose.

PROCESSING AND SUBMISSION OF RE-INSURANCE CLAIMS

The Illinois Student Assistance Commission (ISAC) did not comply with regulations regarding the submission and processing of reinsurance claims.

ISAC's interpretation of FFELP regulations questioned by federal officials

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

ISAC has not changed its process

The report stated that ISAC's claims review process is not adequate and is limited, and thus, does not comply with the regulations to fulfill their administrative responsibility. During the year ended June 30, 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 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.

ISAC believes potential non-compliance issues have been mitigated

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 filing. (Finding 06-57, pages 162-165) **This finding was first reported in the Statewide Single Audit in 2003.**

Auditor qualification due to non-compliance with program regulations

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

We recommended ISAC consult with the USDE to interpret the federal laws and regulations relating to the processing and submission of claims and make any necessary changes to conform to those requirements including determining whether the new post-claim review process established during FY2006 meets the requirements of USDE.

ISAC accepts the auditor finding and recommendation

ISAC officials agreed with the recommendation and stated they will continue consultation with the USDE relative to the interpretation of federal laws and regulations relating to the processing and submission of reinsurance claims. Further, ISAC has an appeal pending with the USDE challenging the accuracy of the data on which the finding is based. Based on the outcome of this appeal and any subsequent discussions, ISAC will modify their claims process, as appropriate.

Also, during FY2006, ISAC initiated an internal project designed to establish a post-claim review process meeting the requirements of USDE as outlined in a letter of December 19, 2005. ISAC is also part of the student loan industry-wide work group presently formulating agreed

approaches to the post-claim review process, as requested by the USDE. (For previous agency response, see Digest Footnote #9)

INADEQUATE ADMINISTRATION AND COORDINATION OF PROGRAM RESPONSIBILITIES, INELIGIBLE BENEFIT PAYMENTS AND MISSING DOCUMENTATION

Benefit payments made to ineligible individuals and documents missing

The Department of Employment Security (DES) and the Department of Commerce and Economic Opportunity failed to adequately administer and coordinate the Trade Adjustment Assistance – Workers (TAA) program. Also, DES paid benefit payments to ineligible beneficiaries, and was unable to locate case file documentation supporting client eligibility determinations for the TAA program.

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

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

Auditor questions program costs of \$426,524

- In thirty-two cases, the waiver form for training was either incomplete or lacked required documentation. TRA benefits paid to these individuals were \$312,844.
- In seven cases, the worker’s enrollment date did not occur within the established deadlines. The TRA

benefits improperly paid to these individuals were \$18,000.

- In two cases, DCEO and DES were unable to locate the training agreements. Benefits paid to these individuals were \$31,798.
- In one case, DCEO and DES did not properly approve and/or date the vocational and training plan. Benefits paid to this individual were \$21,982.
- In twenty cases, DCEO and DES 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.

Failure to follow eligibility requirements and maintain source documentation for eligibility determinations results in unallowable costs and ineligible benefit payments. Additionally, failure to properly approve documents supporting the eligibility determinations could result in federal funds being awarded to ineligible beneficiaries. (Finding 06-60, pages 170-172) **This finding was first reported in the Statewide Single Audit in 2004.**

Inadequate documentation results in audit qualification on TAA program

As a result of DES's failure to administer and coordinate with DCEO the TAA program responsibilities to include following eligibility requirements, maintaining adequate and properly approved documentation as noted above, the auditors qualified their report on the Trade Adjustment Assistance – Workers program.

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

DES agrees and in process of resolution

DES agreed. DES officials noted that both DES and DCEO have worked in good faith with the U.S. Department of Labor (USDOL) to ensure future TRA benefit payments are handled in accordance with USDOL's directions. A

settlement was reached covering this issue and all 50 of the beneficiaries tested were related to claims initiated during the period covered by the settlement. (For previous agency response, see Digest Footnote #10)

FAILURE TO OBTAIN SUSPENSION AND DEBARMENT CERTIFICATIONS FROM SUBRECIPIENTS

The Department of Transportation (DOT) did not obtain required certifications that subrecipients were not suspended or debarred from participation in Federal assistance programs for the Airport Improvement Program.

DOT failed to verify contractor “suspension or debarment” status when contract is issued

During our review of 28 subrecipients of the Airport Improvement Program, we noted DOT did not include a suspension and debarment certification in its subrecipient agreements. As a result, DOT did not receive certifications that the subrecipients of the Airport Improvement Program were not suspended or debarred from participation in Federal assistance programs. Additionally, DOT 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, DOT passed through approximately \$47,622,000 to 34 subrecipients of the Airport Improvement Program. (Finding 06-70, pages 192-193)

As a result of not verifying that subrecipients have not been debarred or suspended from participating in Federal assistance programs, the auditors qualified their opinion for the Airport Improvement Program.

Auditor qualification due to failure to verify federal “debarment or suspension” status

We recommended DOT 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.

DOT accepts the finding and recommendation

Department officials agreed with the finding and stated they have added the appropriate language to its Agency and Participation Agreement which is signed by the subrecipient as well as the Director of the Division of Aeronautics.

FAILURE TO NOTIFY SUBRECIPIENTS OF FEDERAL FUNDING

The State Board of Elections (SBOE) did not provide subrecipients of the Help America Vote Act Requirements Payments (HAVA) program with required federal award information.

SBOE failed to provide critical information to HAVA subrecipients

The SBOE failed to communicate certain required federal program award information to subrecipients of the HAVA program.

During our testwork of 30 HAVA subrecipients, we noted that the SBOE did not communicate certain required information such as the Catalog of Federal Domestic Assistance (CFDA) number, award name and number, and award year of the HAVA program.

Federal regulations require a pass-through entity, such as SBOE, to identify federal awards 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. (Finding 06-90, page 233)

Due to lack of communication, auditors qualified the HAVA program

As a result of SBOE not communicating its requirements as a pass-through entity to subrecipients, the auditors qualified the HAVA program.

We recommended SBOE notify all subrecipients in writing of the CFDA title and number, program regulations, and audit requirements.

SBOE officials accept finding and recommendation

SBOE officials agreed with the finding and stated, in January, 2007, contacted its current subrecipients providing a list of each federal grant and CFDA number. This information will be included on the Acceptance Agreements of future grants.

FAILURE TO ADVANCE ONLY THE IMMEDIATE CASH NEEDS TO SUBRECIPIENTS

The State Board of Elections (SBOE) provided funds to subrecipients of Help America Vote Act Requirements Payments (HAVA) program in excess of their immediate cash needs.

SBOE makes decision that subrecipients could not afford equipment without cash advance

At the beginning of the HAVA program, SBOE 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 federal funds. Also, at the onset of the program, SBOE staff available to prepare the grants and distribute the funds to 110 jurisdictions was limited, so the monitoring of subrecipients to a cash advance of 30 days was not performed.

Agreements advanced entire amount for 23 of SBOE subrecipients

During our review of 30 subrecipient agreements of the HAVA program, we noted the payment terms of 23 contracts stated the full amount of the grant award would be disbursed upon 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 the 23 subrecipients. We also noted that eleven of the 23 subrecipients had not fully disbursed the cash advances within the 30 day period. The advances made to these eleven subrecipients (totaling \$19,214,852) were not fully disbursed until 45 to 133 days after they had been received by the subrecipient.

Eleven subrecipients receiving cash advances

Federal regulations require pass-through entities to monitor cash advances to subrecipients to ensure advances are for immediate cash needs only. Based on discussion with Federal agencies, we have interpreted “immediate cash needs” as 30 days or less of advance funding. (Finding 06-91, pages 234-235)

Auditors qualified HAVA program due to cash management practices

As a result of SBOE’s failing to restrict subrecipients to immediate cash needs only, the auditors qualified the Help America Vote Act Requirements Payments program.

We recommended SBOE review its advance funding policies and techniques for subrecipients and implement a monitoring process to ensure payment of no more than 30 days of advanced funding.

SBOE agreed with the recommendation

SBOE officials agreed with the finding and stated they now require all jurisdictions to submit a vendor invoice and expenditure sheet when requesting HAVA funds. Also, SBOE has revised the subrecipient Acceptance Agreement that includes return of excess advanced funds with interest.

FAILURE TO OBTAIN SUSPENSION AND DEBARMENT CERTIFICATIONS FROM SUBRECIPIENTS

SBOE failed to verify contractor “suspension or debarment” status when agreement is issued

The State Board of Elections (SBOE) did not obtain required certifications that subrecipients were not suspended or debarred from participation in Federal assistance programs for the 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 its subrecipients. During the year ended June 30, 2006, SBOE passed through approximately \$43,944,000 to subrecipients of the HAVA program. (Finding 06-92, pages 236-237)

Auditor qualification due to failure to verify federal “debarment or suspension” status

As a result of not verifying that subrecipients have not been debarred or suspended from participating in Federal assistance programs, the auditors qualified their opinion for the HAVA program.

We recommended 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 accepts the finding and recommendation

SBOE officials agreed with the finding and stated they will include the requirement for checking the Excluded Parties List System in the subrecipient Acceptance Agreement. Also, upon receipt of payment request from the subrecipient, SBOE staff will ensure a suspended or debarred vendor is not on the payment list.

ISSUES INVOLVING MULTIPLE STATE AGENCIES

INADEQUATE MONITORING OF SUBRECIPIENT OMB CIRCULAR A-133 AUDIT REPORTS

We noted weaknesses in reviews of subrecipient audit reports for the following agencies:

Multiple subrecipient monitoring deficiencies were noted

Agency	Program	Finding
Healthcare & Family Services (HFS)	Low Income Energy Assistance	06-21 pages 86-87
Children & Family Services (DCFS)	TANF Foster Care Title IV-E Adoption Assistance Social Services Block Grant	06-34 pages 114-116
Public Health (DPH)	Immunization Grants Centers for Disease Control & Prevention Investigations and Technical Assistance (Bioterrorism) HIV Care Formula Grants	06-46 pages 140-141
Transportation (DOT)	Airport Improvement Highway Planning and Const.	06-72 pages 196-198
Emergency Management (EMA)	Homeland Security Cluster	06-83 pages 219-220

Pass through entities are required to monitor their subrecipients expending more than \$500,000 in federal awards during their fiscal year to include the submission of OMB Circular A-133 reports upon completion of an audit. Program staff for each of the agencies 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 their records; and (3) Type A programs are being audited at least every three years. Additionally, program staff is responsible for evaluating the type of audit opinion issued (i.e. unqualified, qualified, and adverse) and issuing management decisions on findings reported within required timeframes. **This finding was first reported for DCFS and DOT in the 2000 and 2002 Statewide Single Audits, respectively.**

Auditor qualification pertaining to subrecipient monitoring

As a result of the agencies' failure to adequately monitor subrecipients, the auditors qualified their report for the 11 federal programs listed in the above table.

We recommended all five agencies establish procedures to ensure all subrecipients receiving federal awards have audits performed in accordance with OMB Circular A-133. In addition, we made other specific recommendations for each of the five agencies.

All agencies accept auditor recommendation

HFS, DCFS, DPH, DOT, and EMA officials accepted our findings and recommendations. (For previous DCFS and DOT responses, see Digest footnote #5 and #11, respectively).

INADEQUATE ON-SITE MONITORING OF SUBRECIPIENTS

We noted weaknesses in on-site monitoring of subrecipients for the following agencies:

Lack of on-site monitoring of subrecipients

Agency	Program	Finding
Aging (DOA)	Aging Cluster	06-38 pages 123-124
Public Health (DPA)	Centers for Disease Control & Prevention Investigations and Technical Assistance (Bioterrorism) HIV Care Formula Grants Immunization Grants	06-44 pages 136-137 06-45 Pages 138-139
Transportation (DOT)	Airport Improvement Homeland Security Cluster	06-71 pages 194-195 06-73 Pages 199-200
Emergency Management (EMA)	Homeland Security Cluster	06-82 pages 217-218
State Board of Elections (SBOE)	Help America Vote Act Requirements Payments	06-89 Pages 231-232

These agencies pass-through federal funding to subrecipients for the purpose(s) established by federal regulations. As pass-through entities, these agencies monitor subrecipients primarily by reviewing grant applications, receiving periodic financial and programmatic reports, reviewing invoices, establishing policies and procedures, providing training and guidance, performing informal evaluations (on-site reviews) and receiving OMB Circular A-133 audit reports.

According to federal regulations, a pass-through entity is required to monitor the activities of subrecipients as

necessary to ensure that federal awards are used for authorized purposes in compliance with laws and regulations. Also, effective internal controls should include ensuring documentation of on-site review procedures adequately supports procedures performed and the results obtained. **This finding for DOA and DPH was first reported in the Statewide Single Audit in 2003 and 2004, respectively.**

Auditor qualification pertaining to subrecipient monitoring

As a result of these agencies' failure to adequately monitor subrecipients, the auditors qualified their report for 6 programs listed in the above table.

We recommended the agencies: (1) develop formal policies and procedures, (2) perform periodic on-site reviews which include reviewing financial and programmatic records, observation of operations, and/or processes, and (3) evaluate current monitoring staffing to ensure adequacy to complete monitoring within prescribed timeframes to ensure subrecipients are administering the federal programs in accordance with the applicable laws and regulations.

DOA, DPH and EMA accepts finding; however, DOT and SBOE disagree

DOA, DPH and EMA accepted the findings and recommendations; whereas, DOT and SBOE disagreed with the findings.

DOT Response

DOT officials stated that the Federal Aviation Administration (FAA) accepts the Department's method and procedure of collecting subrecipient certifications before federal Airport Improvement funds are disbursed. DOT officials stated that, similar to the State and Federal fuel tax money to these subrecipients, the Department has a system in place to monitor the Homeland Security Cluster.

Auditors' comment

In an auditor's comment we stated OMB Circular A-133 requires that monitoring activities normally occur throughout the year and may take various forms, such as reporting, site visits, and regular contact. We believe that periodic on-site reviews are necessary to adequately monitor subrecipients of the Airport Improvement program. Further, DOT could not provide documentation the FAA has accepted their methods for monitoring subrecipients or concluded they are adequate.

SBOE Response

SBOE officials stated that, although they are receptive to performing on-site visits of subrecipients, lack

of staff does not allow the performance of an extensive on-site visits and their existing monitoring activities have allowed SBOE to achieve a “reasonable assurance” level. (For previous DOA and DPH responses, see Digest footnotes #6 and #8, respectively.)

Auditors’ comment

In an auditor’s comment we stated, HAVA grants are primarily for the purchase of voting equipment. Subrecipients should be subject to on-site reviews to ensure effective internal controls have been established and implemented to purchase and safeguard HAVA funded procurements. SBOE officials should work with USEAC to determine whether current level of monitoring is adequate.

OTHER FINDINGS

The remaining findings pertain to other compliance and internal control matters. We will follow up on the status of corrective action on all findings in our next Statewide Single Audit for the year ended June 30, 2007.

AUDITORS’ OPINION

The auditors state the Schedule of Expenditures of Federal Awards for the State of Illinois as of and for the year ended June 30, 2006 is presented fairly in all material respects.



WILLIAM G. HOLLAND, Auditor General

WGH:SES:pp

SPECIAL ASSISTANT AUDITORS

KPMG LLP was our special assistant auditor for this audit.

DIGEST FOOTNOTES

Previous responses by the Department of Human Services

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

2005: Recommendation accepted. The Department is to review the process

for performing eligibility determinations and make changes that would ensure improvement in rates.

#2 Failure to Follow and Document TANF Sanction Procedures

2005: Recommendation not accepted. The Department was very cautious in sanctioning during the amnesty period awaiting a new intake model which has now been implemented.

Previous responses by the Department of Healthcare and Family Services

#3 Failure to Enforce Sanctions over TANF Recipients

2005: Recommendation not accepted. The Department's delayed referral of cases impacted until a proper determination could be made following implementing a new model.

Previous responses by Department of Children and Family Services

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

2005: Recommendation accepted. The Department has developed and implemented a procedure for identifying and notifying foster and adoptive caretakers of hearings and reviews for permanency hearings.

#5 Inadequate and Untimely Monitoring of Subrecipients

2005: Recommendation accepted. The Department has developed and implemented a procedure to track the receipt of reports and follow-up on all audits not received within required timeframe

Previous responses by Department on Aging

#6 Inadequate On-Site Monitoring of Subrecipients

2005: Recommendation accepted. The Department has inquired other State Units of Aging as to frequency of on-site reviews, types of documents examined, and obtain copies of review instruments. The Department has adopted a 3 year on-site area review cycle.

Previous responses by the Department of Public Health

#7 Inadequate Process for Determining Client Eligibility

2005: Recommendation accepted. The Department had implemented changes identified in FY2004 Single Audit the retention of additional documentation. The items identified were items left over from the prior year process.

#8 Inadequate Monitoring of Subrecipients

2005: Recommendation accepted. In FY2006, the Bioterrorism Program staff began including the fiscal and administrative on-site reviews for the Department. Also, the Department will be doing some cross training of existing staff to assist in monitoring activities.

Previous responses by the Illinois Student Assistance Commission

#9 Processing and Submission of Re-insurance Claims

2005: ISAC has appealed the finding identified by USDE-OIG and are actively engaged in discussions within the guaranty agency community concerning the interpretation of regulations related to the processing and submission of re-insurance claim. ISAC has initiated a post-claim review process meeting the requirements of the USDE.

Previous responses by the Department of Employment Security

#10 Inadequate Administration and Coordination of Program Responsibilities, Inadequate Case File Documentation and Payment of Benefits to Ineligible Beneficiaries

2005: Partially disagree. DES and DCEO have been working with US Department of Labor to resolve current problem payments. Since a portion of the activity is now the responsibility of DCEO, the problem is partly their responsibility.

Previous responses by the Department of Transportation

#11 Inadequate Monitoring of Subrecipient OMB Circular A-133

2005: Recommendation accepted. The Department now sends out bi-monthly notices to subrecipients requesting submission of their A-133 audit reports or certify that they did not receive adequate federal funds requiring a Single Audit. The Audit Section will be monitoring and tracking the single audit reports for the Department.