

**STATE OF ILLINOIS**

Single Audit Report

For the Year Ended June 30, 2007

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

### TABLE OF CONTENTS

	<b>Page(s)</b>
Summary	1
Independent Auditors' Report on the Schedule of Expenditures of Federal Awards	2-3
Schedule of Expenditures of Federal Awards	4-11
Notes to Schedule of Expenditures of Federal Awards	12-22
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 <i>Government Auditing Standards</i>	23-24
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	25-29
Schedule of Findings and Questioned Costs	
Summary of Auditors' Results	30-32
Current Findings – <i>Government Auditing Standards</i>	33-49
Current Findings – Federal:	
Summary	50-54
IL Department of Human Services	55-87
IL Department of Revenue	88-89
IL Department of Healthcare and Family Services	90-102
IL Department of Children and Family Services	103-118
IL Department on Aging	119-124
IL Department of Public Health	125-140
IL State Board of Education	141-152
IL Community College Board	153-156
IL Student Assistance Commission	157-163
IL Department of Employment Security	164-177
IL Department of Commerce and Economic Opportunity	178-183
IL Department of Transportation	184-202
IL Emergency Management Agency	203-205
IL State Police	206-207
IL State Board of Elections	208-213
IL Department of Central Management Services	214-229
Prior year findings not repeated	230-235

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

The Comprehensive Annual Financial Report of the State of Illinois for the Year Ended June 30, 2007 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, 2007 was issued under separate cover by the Auditor General of the State of Illinois.

# STATE OF ILLINOIS

## Single Audit Report

### Summary

The compliance audit testing performed in this audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, Single Audit Act Amendments of 1996, and OMB Circular A-133.

### Auditors' Reports

The auditors' report on compliance and on internal control applicable to each major program contains scope limitations and qualifications for the following programs:

**Disclaimer:**

Immunization Grants

**Adverse:**

Reading First State Grants

**Qualifications (Noncompliance):**

Food Stamps Cluster  
Airport Improvement Program  
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  
Twenty-First Century Community Learning Centers  
Improving Teacher Quality State Grants  
Help America Vote Act Requirements Payments  
Aging Cluster  
Centers for Disease Control and Prevention – Investigations and Technical Assistance  
Temporary Assistance for Needy Families  
Foster Care – Title IV-E  
Adoption Assistance  
State Children's Insurance Program  
Medicaid Cluster  
HIV Care Formula Grants

### Summary of Audit Findings

	<u>This audit</u>	<u>Prior audit</u>
Number of audit findings:		
This audit	87	95
Repeated audit findings	59	55
Prior findings implemented or not repeated	36	46



**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, 2007. 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, 2007, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated June 20, 2008 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 20, 2008

STATE OF ILLINOIS  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2007

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
<b>U.S. Department of Agriculture</b>			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 3,232	\$ —
Conservation Reserve Program	10.069	205	—
Wetlands Reserve Program	10.072	18	—
Market Protection and Promotion	10.163	35	—
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475	5,817	—
Meat, Poultry, and Egg Products Inspection	10.477	18	—
Cooperative Extension Service	10.500	51	—
Food Donation	10.550 *	32,721	32,721
Food Stamp Cluster:			
Food Stamps	10.551 *	\$ 1,548,530	—
State Administrative Matching Grants for Food Stamp Program	10.561 *	98,232	11,671
Total Food Stamp Cluster		1,646,762	
Child Nutrition Cluster:			
School Breakfast Program	10.553 *	63,572	62,559
National School Lunch Program	10.555 *	288,639	286,914
Special Milk Program for Children	10.556 *	3,027	3,027
Summer Food Service Program for Children	10.559 *	8,959	8,638
Total Child Nutrition Cluster		364,197	
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557 *	187,330	175,118
Child and Adult Care Food Program	10.558 *	108,492	106,875
State Administrative Expenses for Child Nutrition	10.560	5,807	334
Commodity Supplemental Food Program	10.565	3,480	3,478
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	10.568	2,227	1,835
Emergency Food Assistance Program (Food Commodities)	10.569	8,876	8,876
Total Emergency Food Assistance Cluster		11,103	
WIC Farmers' Market Nutrition Program (FMNP)	10.572	390	246
Team Nutrition Grants	10.574	156	156
Senior Farmers Market Nutrition Program	10.576	878	560
Cooperative Forestry Assistance	10.664	1,489	420
Schools and Roads Cluster:			
Schools and Roads Grants to States	10.665	304	304
Total Schools and Roads Cluster		304	
Urban and Community Forestry Program	10.675	4	—
Forest Legacy Program	10.676	22	—
Forest Stewardship Program	10.678	274	—
<b>Total U.S. Department of Agriculture</b>		<b>2,372,785</b>	
<b>U.S. Department of Commerce</b>			
Interjurisdictional Fisheries Act of 1986	11.407	4	—
Coastal Zone Management Administration Awards	11.419	191	—
<b>Total U.S. Department of Commerce</b>		<b>195</b>	
<b>U.S. Department of Defense</b>			
Procurement Technical Assistance For Business Firms	12.002	574	370
Payments to States in Lieu of Real Estate Taxes	12.112	611	604
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	889	—
Military Construction, National Guard	12.400	18,416	—
National Guard Military Operations and Maintenance (O&M) Projects	12.401	12,168	—
National Guard Civilian Youth Opportunities	12.404	4,124	—
<b>Total U.S. Department of Defense</b>		<b>36,782</b>	
<b>U.S. Department of Housing and Urban Development</b>			
Community Development Block Grants/State's Program	14.228 *	25,889	25,204
Emergency Shelter Grants Program	14.231	2,507	2,404
Supportive Housing Program	14.235	357	—
Housing Opportunities for Persons with AIDS	14.241	835	610
Fair Housing Assistance Program State and Local	14.401	940	—
Section 8 Housing Choice Vouchers	14.871	529	430
Lead-Based Paint Hazard Control in Privately Owned Housing	14.900	1,030	812
<b>Total U.S. Department of Housing and Urban Development</b>		<b>32,087</b>	

STATE OF ILLINOIS  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2007

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
<b>U.S. Department of Interior</b>			
Regulation of Surface Coal Mining and Surface Effects of			
Underground Coal Mining	15.250	\$ 1,973	\$ —
Abandoned Mine Land Reclamation (AMLR) Program	15.252	7,977	345
Fish & Wildlife Cluster:			
Sport Fish Restoration	15.605	\$ 3,028	—
Wildlife Restoration	15.611	3,603	564
Total Fish & Wildlife Cluster		6,631	
Fish and Wildlife Management Assistance	15.608	22	—
Cooperative Endangered Species Conservation Fund	15.615	55	—
Clean Vessel Act	15.616	78	78
Sportfishing and Boating Safety Act	15.622	1,122	1,046
Partners for Fish and Wildlife	15.631	303	—
Landowner Incentive	15.633	321	—
State Wildlife Grants	15.634	340	35
Historic Preservation Fund Grants In Aid	15.904	952	34
Outdoor Recreation Acquisition, Development and Planning	15.916	2,321	1,596
Lincoln Library, Museum and Interpretive Center	15.XXB	229	—
Crab Orchard Agreement	15.XXC	94	—
<b>Total U.S. Department of Interior</b>		<b>22,418</b>	
<b>U.S. Department of Justice</b>			
Federal Asset Forfeiture	16.000	1,596	—
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	31	—
Juvenile Accountability Incentive Block Grants	16.523	3,516	2,859
Education and Training to End Violence Against and Abuse of Women with Disabilities	16.529	79	75
Juvenile Justice and Delinquency Prevention Allocation to States	16.540	2,268	1,842
Part E Developing, Testing and Demonstrating Promising New Programs	16.541	59	—
Missing Children's Assistance	16.543	178	—
Title V Delinquency Prevention Program	16.548	333	333
State Justice Statistics Program for Statistical Analysis Centers	16.550	40	—
National Criminal History Improvement Program (NCHIP)	16.554	2,004	—
National Institute of Justice Research, Evaluation, and Development Projects Grants	16.560	338	—
Crime Laboratory Improvement Combined Offender DNA Index System Backlog Reduction	16.564	454	—
Crime Victim Assistance	16.575	16,877	15,804
Crime Victim Compensation	16.576	10,149	—
Edward Byrne Memorial Formula Grant Program	16.579	9,320	5,360
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	543	—
Crime Victim Assistance/Discretionary Grants	16.582	1	—
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	23,525	8,219
Violence Against Women Formula Grants	16.588	4,969	4,329
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589	118	116
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	112	—
Local Law Enforcement Block Grant Program	16.592	(12)	—
Residential Substance Abuse Treatment for State Prisoners	16.593	1,884	—
Corrections Research and Evaluation and Policy Formulation	16.602	30	—
State Criminal Alien Assistance Program	16.606	6,575	—
Bulletproof Vest Partnership Program	16.607	25	—
Community Prosecution and Project Safe Neighborhoods	16.609	1,154	828
Public Safety Partnership and Community Policing Grants	16.710	2,315	—
Police Corps	16.712	9	—
Enforcing Underage Drinking Laws Program	16.727	667	481
Special Data Collections and Statistical Studies	16.734	13	—
Edward Byrne Memorial Justice Assistance Grant Program	16.738	3,414	3,338
Forensic DNA Capacity Enhancement Program	16.741	144	—
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	401	30
Forensic Casework DNA Backlog Reduction Program	16.743	601	—
Anti-Gang Initiative	16.744	128	116
Equitable Sharing of Federal Forfeitures	16.XXX	206	—
<b>Total U.S. Department of Justice</b>		<b>94,064</b>	



STATE OF ILLINOIS  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2007

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
<b>U.S. Department of Labor</b>			
Labor Force Statistics	17.002	\$ 2,925	\$ —
Compensation and Working Conditions	17.005	177	—
Employment Services Cluster:			
Employment Service/Wagner-Peyser Funded Activities	17.207 *	\$ 31,683	—
Disabled Veterans' Outreach Program (DVOP)	17.801 *	3,242	—
Local Veterans' Employment Representative Program	17.804 *	3,313	—
Total Employment Services Cluster		38,238	—
Unemployment Insurance	17.225 *	1,917,798	—
Senior Community Service Employment Program	17.235	3,172	3,004
Trade Adjustment Assistance	17.245 *	25,759	8,568
Workforce Investment Act Cluster:			
WIA Adult Program	17.258 *	39,854	36,299
WIA Youth Activities	17.259 *	42,809	38,973
WIA Dislocated Workers	17.260 *	81,201	74,800
Total Workforce Investment Act Cluster		163,864	—
WIA Pilots, Demonstrations, and Research Projects	17.261	657	377
Work Incentive Grants	17.266	756	756
Incentive Grants WIA Section 503	17.267	39	37
Temporary Labor Certification for Foreign Workers	17.273	547	—
Consultation Agreements	17.504	1,944	—
Mine Health and Safety Grants	17.600	216	—
<b>Total U.S. Department of Labor</b>		<b>2,156,092</b>	
<b>U.S. Department of Transportation</b>			
Airport Improvement Program	20.106 *	132,371	72,237
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205 *	988,207	80,049
Total Highway Planning and Construction Cluster		988,207	—
Highway Training and Education	20.215	(96)	—
Motor Carrier Safety	20.217	1	—
National Motor Carrier Safety	20.218	6,213	—
Recreational Trails Program	20.219	1,248	—
Commercial Driver License State Programs	20.232	485	—
Railroad Safety	20.301	495	495
Federal Transit Cluster:			
Federal Transit Capital Investment Grants	20.500	522	522
Total Federal Transit Cluster		522	—
Federal Transit Metropolitan Planning Grants	20.505	2,653	—
Formula Grants for Other Than Urbanized Areas	20.509	7,781	6,913
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	181	—
Public Transportation Research	20.514	57	42
State Planning and Research	20.515	446	156
Highway Safety Cluster:			
State and Community Highway Safety	20.600	9,889	6,720
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	3,448	2,932
Occupant Protection	20.602	918	851
Safety Incentive Grants for Use of Seatbelts	20.604	1,406	1,100
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	1,080	765
Safety Belt Performance Grants	20.609	5,829	—
Incentive Grant Program to Increase Motorcyclist Safety	20.612	147	75
Total Highway Safety Cluster		22,717	—
Pipeline Safety	20.700	523	—
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	638	514
Life Saver Conference	20.XXX	82	—
<b>Total U.S. Department of Transportation</b>		<b>1,164,524</b>	
<b>Equal Employment Opportunity Commission</b>			
Employment Discrimination State and Local Fair Employment Practices Agency Contracts	30.002	2,356	—
<b>Total Equal Employment Opportunity Commission</b>		<b>2,356</b>	

STATE OF ILLINOIS  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2007

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
<b>General Services Administration</b>			
Election Reform Payments	39.011	\$ 2,580	\$ 6,552
<b>Total General Services Administration</b>		<b>2,580</b>	
<b>National Endowment for the Arts</b>			
Promotion of the Arts Partnership Agreements	45.025	668	668
Promotion of the Humanities Research	45.161	57	—
Grants to States	45.310	5,492	4,055
National Leadership Grants	45.312	295	263
<b>Total National Endowment for the Arts</b>		<b>6,512</b>	
<b>U.S. Small Business Administration</b>			
Small Business Development Center	59.037	3,558	1,908
<b>Total U.S. Small Business Administration</b>		<b>3,558</b>	
<b>U.S. Department of Veteran's Affairs</b>			
Veterans State Domiciliary Care	64.014	400	—
Veterans State Nursing Home Care	64.015	19,884	—
All Volunteer Force Educational Assistance	64.124	634	—
Manteno Veterans Homeless Program	64.XXX	144	—
<b>Total U.S. Department of Veteran's Affairs</b>		<b>21,062</b>	
<b>U.S. Environmental Agency</b>			
State Indoor Radon Grants	66.032	455	192
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	692	—
Water Pollution Control State, Interstate, and Tribal Program Support	66.419	171	—
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements Section 104 (b)(3) of the Clean Water Act	66.436	24	—
Water Quality Management Planning	66.454	426	—
Capitalization Grants for Clean Water State Revolving Funds	66.458	43,075	—
Nonpoint Source Implementation Grants	66.460	9,359	—
Water Quality Cooperative Agreements	66.463	547	—
Wastewater Operator Training Grant Program (Technical Assistance)	66.467	7	—
Capitalization Grants for Drinking Water State Revolving Funds	66.468	37,244	—
Great Lakes Program	66.469	12	—
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	184	—
Beach Monitoring and Notification Program Implementation Grants	66.472	295	163
Water Protection Grants to the States	66.474	246	—
Environmental Protection Consolidated Research	66.500	276	—
Performance Partnership Grants	66.605	19,181	—
Surveys, Studies, Investigations and Special Purpose Grants	66.606	1,105	—
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	108	—
Environmental Policy and Innovation Grants	66.611	4	—
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	839	—
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	239	—
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	331	—
Pollution Prevention Grants Program	66.708	81	—
Multi-Media Capacity Building Grants for States and Tribes	66.709	105	—
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	1,227	—
State and Tribal Underground Storage Tanks Program	66.804	186	—
Leaking Underground Storage Tank Trust Fund Program	66.805	2,912	—
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	494	—
State and Tribal Response Program Grants	66.817	1,115	—
<b>Total U.S. Environmental Agency</b>		<b>120,940</b>	

**STATE OF ILLINOIS**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2007**

<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<b><u>U.S. Department of Energy</u></b>			
State Energy Program	81.041	\$ 1,584	\$ 1,068
Weatherization Assistance for Low-Income Persons	81.042	14,141	13,761
National Industrial Competitiveness through Energy, Environment, and Economics	81.105	200	200
Transport of Transuranic Wastes to the Waste Isolation Pilot Plant:			
States and Tribal Concerns, Proposed Solutions	81.106	30	—
State Energy Program Special Projects	81.119	389	312
<b>Total U.S. Department of Energy</b>		<b>16,344</b>	
<b><u>U.S. Department of Education</u></b>			
Adult Education State Grant Program	84.002	22,818	22,599
Title I Grants to Local Educational Agencies	84.010 *	519,959	516,138
Migrant Education State Grant Program	84.011	1,618	1,615
Title I Program for Neglected and Delinquent Children	84.013	1,033	—
Special Education Cluster:			
Special Education - Grants to States	84.027 *	\$ 446,196	434,039
Special Education - Preschool Grants	84.173 *	18,048	16,262
Total Special Education Cluster		464,244	
Federal Family Education Loans - Guaranty Program	84.032G *	193,028	—
Vocational Education - Basic Grants to States	84.048 *	46,314	43,550
Vocational Education National Programs	84.051	(5)	—
Leveraging Educational Assistance Partnership	84.069	3,626	—
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126 *	89,994	20,313
Rehabilitation Services Service Projects	84.128	105	105
Migrant Education Coordination Program	84.144	121	107
Rehabilitation Services Client Assistance Program	84.161	516	—
Independent Living State Grants	84.169	720	720
Paul Douglas Teacher Scholarship	84.176	(17)	—
Rehabilitation Services Independent Living Services for Older Individuals Who Are Blind	84.177	1,355	1,115
Special Education Grants for Infants and Families with Disabilities	84.181	18,086	18,086
Safe and Drug-Free Schools and Communities National Programs	84.184	(42)	—
Byrd Honors Scholarships	84.185	1,532	—
Safe and Drug-Free Schools and Communities State Grants	84.186	13,545	13,239
Supported Employment Services for Individuals with Severe Disabilities	84.187	315	315
Education for Homeless Children and Youth	84.196	2,578	2,518
Even Start State Educational Agencies	84.213	4,359	4,129
Fund for the Improvement of Education	84.215	1,081	748
Assistive Technology	84.224	995	991
Tech-Prep Education	84.243	4,347	—
Rehabilitation Training State Vocational Rehabilitation Unit In-Service Training	84.265	94	—
Twenty-First Century Community Learning Centers	84.287 *	40,554	38,334
State Grants for Innovative Programs	84.298	4,887	4,861
Education Technology State Grants	84.318	8,468	7,900
Special Education State Personnel Development	84.323	1,610	1,175
Research in Special Education	84.324	61	60
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	544	346
Advanced Placement Program	84.330	1,289	1,016
Grants to States for Incarcerated Youth Offenders	84.331	855	—
Comprehensive School Reform Demonstration	84.332	2,142	1,995
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	1,526	1,500
Teacher Quality Enhancement Grants	84.336	18	9
Transition to Teaching	84.350	315	260
Reading First State Grants	84.357 *	30,753	29,434
Rural Education	84.358	406	377
English Language Acquisition Grants	84.365	28,610	28,072
Mathematics and Science Partnerships	84.366	5,011	4,162
Improving Teacher Quality State Grants	84.367 *	113,795	112,116
Grants for State Assessments and Related Activities	84.369	16,484	3
Hurricane Education Recovery	84.938	1,966	1,966
<b>Total U.S. Department of Education</b>		<b>1,651,613</b>	

STATE OF ILLINOIS  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2007

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
<b>National Archives and Records Administration</b>			
National Historical Publications and Records Grants	89.003	\$ 81	\$ —
<b>Total National Archives and Records Administration</b>		<b>81</b>	
<b>Election Assistance Commission</b>			
Help America Vote Act Requirements Payments	90.401 *	33,385	27,766
<b>Total Election Assistance Commission</b>		<b>33,385</b>	
<b>U.S. Department of Health and Human Services</b>			
Public Health and Social Services Emergency Fund	93.003	9,457	7,159
State and Territorial and Technical Assistance Capacity			
Development Minority HIV/AIDS Demonstration Program	93.006	183	178
Special Programs for the Aging Title VII, Chapter 3 Programs			
for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	195	185
Special Programs for the Aging Title VII, Chapter 2 Long Term			
Care Ombudsman Services for Older Individuals	93.042	605	576
Special Programs for the Aging Title III, Part D Disease			
Prevention and Health Promotion Services	93.043	834	792
Aging Cluster:			
Special Programs for the Aging - Title III, Part B - Grants for			
Supportive Services and Senior Centers	93.044 *	\$ 17,094	16,179
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045 *	21,930	20,695
Nutrition Services Incentive Program	93.053 *	5,094	5,094
Total Aging Cluster		44,118	
Special Programs for the Aging Title IV and Title II Discretionary Projects	93.048	265	171
Alzheimer's Disease Demonstration Grants to States	93.051	241	134
National Family Caregiver Support	93.052	6,132	5,822
Food and Drug Administration Research	93.103	(1)	—
Comprehensive Community Mental Health Services for			
Children with Serious Emotional Disturbances (SED)	93.104	2,913	2,858
Maternal and Child Health Federal Consolidated Programs	93.110	201	168
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	693	201
Primary Care Services Resource Coordination and Development	93.130	302	178
Injury Prevention and Control Research and State and Community Based Programs	93.136	1,731	1,702
Projects for Assistance in Transition from Homelessness (PATH)	93.150	2,431	2,389
Health Program for Toxic Substances and Disease Registry	93.161	453	17
Grants to States for Loan Repayment Program	93.165	222	219
Childhood Lead Poisoning Prevention Projects State and Local Childhood			
Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	1,080	141
Telehealth Network Grants	93.211	100	97
Family Planning Services	93.217	8,144	6,918
Consolidated Knowledge Development and Application (KD&A) Program	93.230	589	558
Traumatic Brain Injury State Demonstration Grant Program	93.234	2	—
Abstinence Education Program	93.235	1,897	1,708
State Rural Hospital Flexibility Program	93.241	631	631
Substance Abuse and Mental Health Services Projects of			
Regional and National Significance	93.243	6,000	4,134
State Planning Grants Health Care Access for the Uninsured	93.256	298	—
Immunization Grants	93.268 *	54,627	577
Substance Abuse and Mental Health Services Access to Recovery	93.275	10,399	9,764
Centers for Disease Control and Prevention - Investigations			
and Technical Assistance	93.283 *	42,662	20,754
Small Rural Hospital Improvement Grant Program	93.301	500	500
Abandoned Infants	93.551	120	—
Promoting Safe and Stable Families	93.556	18,259	8,498
Temporary Assistance for Needy Families	93.558 *	556,726	82,305
Child Support Enforcement	93.563 *	128,591	20,493
Refugee and Entrant Assistance State Administered Programs	93.566	5,707	2,349
Low-Income Home Energy Assistance	93.568 *	138,522	135,603
Community Services Block Grant	93.569 *	30,032	28,521

**STATE OF ILLINOIS**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2007**

<b>Federal Agency/Program or Cluster</b>	<b>Federal CFDA #</b>	<b>Amounts (expressed in thousands)</b>	
		<b>Expenditures</b>	<b>Passed-through to subrecipients (Unaudited)</b>
<b>U.S. Department of Health and Human Services (continued)</b>			
Child Care Development Funds Cluster:			
Child Care and Development Block Grant	93.575 *	\$ 76,468	\$ 76,464
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596 *	120,673	120,673
Total Child Care Development Funds Cluster		\$ 197,141	
Refugee and Entrant Assistance Discretionary Grants	93.576	895	885
Refugee and Entrant Assistance Targeted Assistance Grants	93.584	940	940
State Court Improvement Program	93.586	528	379
Community Based Child Abuse Prevention Grants	93.590	1,065	—
Grants to States for Access and Visitation Programs	93.597	317	305
Chafee Education and Training Vouchers Program (ETV)	93.599	2,852	452
Head Start	93.600	3,067	2,473
Child Support Enforcement Demonstrations and Special Projects	93.601	240	—
Voting Access for Individuals with Disabilities Grants to States	93.617	174	174
Basic Center Grant	93.623	220	220
Developmental Disabilities Basic Support and Advocacy Grants	93.630	2,336	1,229
Children's Justice Grants to States	93.643	777	20
Child Welfare Services State Grants	93.645	11,274	11,274
Foster Care - Title IV-E	93.658 *	194,295	66,730
Adoption Assistance	93.659 *	89,317	13,897
Social Services Block Grant	93.667 *	109,206	36,085
Child Abuse and Neglect State Grants	93.669	1,111	—
Child Abuse and Neglect Discretionary Activities	93.670	99	—
Family Violence Prevention and Services/Grants for Battered Women's Shelters Grants to States and Indian Tribes	93.671	2,723	2,584
Chafee Foster Care Independence Program	93.674	7,573	3,485
State Children's Insurance Program	93.767 *	330,917	—
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	(73)	—
Medicaid Cluster:			
State Medicaid Fraud Control Units	93.775 *	2,935	—
State Survey and Certification of Health Care Providers and Suppliers	93.777 *	23,775	1,469
Medical Assistance Program	93.778 *	6,517,896	69,057
Total Medicaid Cluster		6,544,606	
Centers for Medicare and Medicaid Services (CMS)			
Research, Demonstrations and Evaluations	93.779	2,295	434
State Pharmaceutical Assistance Programs	93.786	228	129
Reimbursement of State Costs for Provision of Part D Drugs	93.794	(785)	—
Grants to States for Operation of Offices of Rural Health	93.913	181	136
HIV Care Formula Grants	93.917 *	39,853	6,163
Healthy Start Initiative	93.926	2,483	2,235
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	255	1
HIV Prevention Activities Health Department Based	93.940	141	—
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	4,324	2,176
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	981	115
Assistance Programs for Chronic Disease Prevention and Control	93.945	1,023	912
Trauma Care Systems Planning and Development	93.952	7	—
Block Grants for Community Mental Health Services	93.958	16,173	15,322
Block Grants for Prevention and Treatment of Substance Abuse	93.959 *	67,918	64,673
Preventive Health Services Sexually Transmitted Diseases Control Grants	93.977	2,196	426
Mental Health Disaster Assistance and Emergency Mental Health	93.982	382	—
Cooperative Agreements for State Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	922	464
Preventive Health and Health Services Block Grant	93.991	2,735	1,077
Maternal and Child Health Services Block Grant to the States	93.994	21,252	16,994
Adolescent Family Life Demonstration Projects	93.995	398	341
<b>Total U.S. Department of Health and Human Services</b>		<b>8,740,423</b>	

**STATE OF ILLINOIS**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2007**

<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<b><u>Corporation for National and Community Service</u></b>			
State Commissions	94.003	\$ 711	\$ 42
Learn and Serve America School and Community Based Programs	94.004	647	647
AmeriCorps	94.006	5,356	5,157
Planning and Program Development Grants	94.007	21	4
Training and Technical Assistance	94.009	120	87
<b>Total Corporation for National and Community Service</b>		<b>6,855</b>	
<b><u>Social Security Administration</u></b>			
Disability Insurance/SSI Cluster:			
Social Security - Disability Insurance	96.001 *	\$ 62,153	
Total Disability Insurance/SSI Cluster		62,153	—
Social Security Work Incentives Planning and Assistance Program	96.008	560	152
<b>Total Social Security Administration</b>		<b>62,713</b>	
<b><u>U.S. Department of Homeland Security</u></b>			
Urban Areas Security Initiative	97.008	27,602	27,602
Boating Safety Financial Assistance	97.012	1,959	—
Pre-Disaster Mitigation (PDM) Competitive Grants	97.017	942	920
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	181	—
Crisis Counseling	97.032	148	—
Disaster Unemployment Assistance	97.034	13	—
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036 *	32,589	31,497
Hazard Mitigation Grant	97.039	84	84
Chemical Stockpile Emergency Preparedness Program	97.040	866	347
National Dam Safety Program	97.041	93	—
Assistance to Firefighters Grant	97.044	84	—
Cooperating Technical Partners	97.045	2,222	—
Pre-Disaster Mitigation	97.047	898	—
Homeland Security Cluster:			
State Domestic Preparedness Equipment Support Program	97.004 *	2,194	109
Emergency Management Performance Grants	97.042 *	4,946	2,694
Citizen Corps	97.053 *	342	304
Homeland Security Grant Program	97.067 *	46,293	43,672
Metropolitan Medical Response System	97.071 *	215	215
Total Homeland Security Cluster		53,990	
Map Modernization Management Support	97.070	101	—
Rail and Transit Security Grant Program	97.075	2,889	2,889
Buffer Zone Protection Plan (BZPP)	97.078	2,843	2,843
Homeland Security Biowatch Program	97.091	582	—
<b>Total U.S. Department of Homeland Security</b>		<b>128,086</b>	
<b>Total expenditures of federal awards</b>		<b>\$ 16,675,455</b>	<b>\$ 3,532,788</b>

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

\*Denotes Major Program

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2007

#### (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 (the State) except for component units for the fiscal year ended June 30, 2007. The State's financial reporting entity is described in note 1B of the State's Comprehensive Annual Financial Report.

The entities listed below are Discretely Presented Component Units in the State's Comprehensive Annual Financial Report, which received federal financial assistance for the year ended June 30, 2007. 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	Northeastern Illinois University
Illinois State University	Eastern Illinois University
Northern Illinois University	Illinois Finance Authority
Chicago State University	Illinois Conservation Foundation
Western Illinois University	Illinois Housing Development Authority
Southern Illinois University	Illinois Medical District Commission
Governors State University	

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, 2007. 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).

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2007

#### *(c) Basis of Accounting*

The expenditures for each of the federal financial assistance programs are presented in the schedule of expenditures of federal awards on a modified accrual basis. The modified accrual basis of accounting incorporates an estimation approach to determine the amount of expenditures incurred if not yet billed by a vendor. Thus, those Federal programs presenting negative amounts on the schedule of expenditures of federal awards are the result of either prior year estimates being overstated or subgrantee repayments of discontinued programs.

#### **(2) Description of Major Federal Award Programs**

The following is a brief description of the major programs presented in the schedule of expenditures of federal awards:

##### **US Department of Agriculture**

###### Food Donation (CFDA No. 10.550)

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

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

The objective of these programs is to help low-income households by increasing their food purchasing ability and to provide federal financial aid to state agencies for costs incurred to operate the program.

###### Child Nutrition Cluster: School Breakfast Program (CFDA No. 10.553) / National School Lunch Program (CFDA No. 10.555) / Special Milk Program for Children (CFDA No. 10.556) / Summer Food Service Program for Children (CFDA No. 10.559)

The purpose of these programs is to assist states in providing nutritious meals to eligible children and encouraging the domestic consumption of nutritious agricultural commodities. In addition, these programs provide subsidies to encourage the consumption of fluid milk by children. 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.



## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2007

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

The objective of this program is to provide supplemental nutritious foods, nutrition education, and referrals to healthcare 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.

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

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

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

### **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 assist persons in securing employment and workforce information by providing a variety of job search assistance 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 intensive services to meet the employment needs of disabled and other eligible veterans; and to provide maximum emphasis in meeting the employment needs of those who are economically or educationally disadvantaged, including homeless veterans and veterans with barriers to employment.

The objective of the Local Veterans' Employment Representative program is to conduct outreach to employers including conducting seminars for employers, conducting job search workshops, and establishing job search groups; and to facilitate employment, training, and placement services furnished to veterans in a state under the applicable state employment service.

(Continued)

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2007

#### 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 adjustment assistance to qualified workers adversely affected by foreign trade, which will assist them to obtain suitable employment.

During fiscal year 2007, the State entered into a settlement agreement with the US Department of Labor, which required the State to fund TAA program beneficiary payments of approximately \$7.7 million by June 30, 2008. These beneficiary payments were funded during state fiscal year 2007 with non-federal sources and, as a result, have been excluded in the schedule of expenditures of federal awards.

#### 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; 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.

#### **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.

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2007

#### 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 most other public roads; to provide aid in the repair of Federal-aid roads and streets following disasters; to foster safe highway design; and to replace or rehabilitate deficient or obsolete bridges. 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 objectives of these programs are to provide grants to states to assist them in providing a free appropriate public education to all children with disabilities; and to assist states in providing a free appropriate public education to preschool disabled children aged three through five years.

##### Federal Family Education Loans – Guaranty Program (CFDA No. 84.032G)

The objective of this program is to encourage lenders to make loans to students enrolled at eligible postsecondary institutions to help pay for educational expenses. The loans are insured by the State of Illinois (Illinois Student Assistance Commission) and reinsured by the Federal government.

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

The purpose of this program is to develop more fully the academic, vocational, and technical skills of secondary and postsecondary students who elect to enroll in vocational and technical programs.

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2007

#### 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.

#### 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.

### **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.

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2007

#### **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 the Special Programs for the Aging-Title III, Part B is to encourage state agencies on aging and area agencies on aging to concentrate resources to develop and implement comprehensive coordinated community-based systems of service for older individuals via statewide planning and area planning and provision of supportive services to maximize the informal support provided to older Americans to enable them to remain in their homes and communities.

The objective of the Special Programs for the Aging-Title III, Part C is to provide grants to states to support nutrition services including nutritious meals and nutrition education for older Americans in order to maintain health, independence and quality of life.

The objective of the Nutrition Services Incentive program is to reward effective performance by states and tribes in the efficient delivery of nutritious meals to older adults through the use of cash or commodities.

#### 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, 2007

#### 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.

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

The objective of this program is to provide assistance to States and local communities, working through a network of community action agencies and other neighborhood-based organizations, for the reduction of poverty, the revitalization of low income communities, and the empowerment of low-income families and individuals in rural and urban areas to become fully self-sufficient.

#### 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 objectives of these programs are to make grants to states for child care assistance for low-income families and to develop child care programs and policies, and to promote parental choice on child care, to provide consumer education on child care, to provide child care to parents trying to achieve independence from public assistance, and to implement health, safety, licensing, and registration standards.

#### 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 provide adoption subsidy costs for the adoption of children with special needs and who meet certain eligibility tests.

#### 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.

(Continued)

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2007

#### 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.

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

The objectives of these programs are to eliminate fraud and patient abuse in the State Medicaid programs, provide financial assistance to determine that providers and suppliers of healthcare services are in compliance with Federal regulatory health and safety standards and conditions of participation, and provide payments for medical assistance on behalf of cash assistance recipients, children, pregnant women, and the aged who meet income and resource requirements.

During fiscal year 2006, the State submitted an amendment to the Medicaid State Plan to allow for the claiming of hospital access improvement payments to hospital providers. This amendment was approved by the US Department of Health and Human Services on November 28, 2006. As a result, the expenditures for the Medical Assistance Program increased significantly during fiscal year 2007 as they include reimbursement for hospital provider services incurred in both fiscal years 2006 (paid in fiscal year 2007) and 2007 (paid in fiscal year 2008) totaling \$1,198,515,000.

#### 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 healthcare 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.

## STATE OF ILLINOIS

### Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2007

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

##### Disaster Grants — Public Assistance (Presidentially Declared Disasters) (CFDA No. 97.036)

The objective of this program is to assist State and local governments in recovering from the devastating effects of disasters by providing assistance for debris removal, emergency protective measures and the repair, restoration, reconstruction or replacement of public facilities or infrastructures damaged or destroyed.

##### Homeland Security Cluster: State and Domestic Preparedness Equipment Support Program (CFDA No. 97.004) / Emergency Management Performance Grants (CFDA No. 97.042) / Citizens Corps (CFDA No. 97.053) / Homeland Security Grant Program (CFDA No. 97.067) / Metropolitan Medical Response System (CFDA No. 97.071)

The objectives of these programs are 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 and to prevent, protect against, and recover from terrorist attacks and other disasters.

#### **(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.



**STATE OF ILLINOIS**

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2007

**(4) Federal Loan Guarantees**

The original principal balance of loans guaranteed by the Illinois Student Assistance Commission (ISAC) under Federal Family Education Loans Guaranty Program (CFDA No. 84.032G) was approximately \$7,458,797,000 as of June 30, 2007. Additionally, the outstanding balance of defaulted loans held by ISAC under this program was approximately \$522,475,000 as of June 30, 2007.



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

**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, 2007, and have issued our report thereon dated June 20, 2008. 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 as a basis for designing auditing procedures for the purpose of expressing an opinion on the Schedule, 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 do not express an opinion on the effectiveness of the State's internal control over financial reporting of the Schedule.

Our consideration of internal control over financial reporting of the Schedule was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and others that we consider to be material weaknesses.



A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's schedule of expenditures of federal awards that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in findings 07-01 to 07-08, 07-10, 07-11, 07-25, 07-43, and 07-58 included in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the schedule of expenditures of federal awards will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider findings 07-10, 07-11, 07-25, and 07-58 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 20, 2008



**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 do 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.



Disclaimer

As described in finding 07-43 in the accompanying schedule of findings and questioned costs, we were unable to express, and we do not express, an opinion on the compliance of the State of Illinois with the requirements applicable to its Immunization Grants program.

Adverse

As described in the accompanying schedule of findings and questioned costs and finding 07-51 and 07-53, the State did not comply with the allowable costs/cost principles, eligibility, and subrecipient monitoring compliance requirements that are applicable to its Reading First State Grants. Compliance with such requirements is necessary, in our opinion, for the State to comply with requirements applicable to this program.

Qualifications (Noncompliance)

As identified below and described in the accompanying schedule of findings and questioned costs, the State did not comply with certain compliance requirements that are applicable to certain of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the State of Illinois to comply with requirements applicable to the identified major federal programs.

<b>State Administering Agency</b>	<b>Federal Program</b>	<b>Compliance Requirement(s)</b>	<b>Finding Number</b>
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	07-10
IL Department of Human Services	State Children’s Insurance Program	Allowable Costs/Cost Principles and Eligibility	07-10
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	07-10
IL Department of Human Services	Food Stamps Cluster	Allowable Costs/Cost Principles and Special Tests and Provisions	07-11
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	07-11
IL Department of Human Services	State Children’s Insurance Program	Allowable Costs/Cost Principles and Eligibility	07-11
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	07-11
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	07-12
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	07-13
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Special Tests and Provisions	07-14
IL Department of Human Services	Rehabilitation Services – Vocational Rehabilitation Grants to States	Allowable Costs/Cost Principles and Eligibility	07-15



<b>State Administering Agency</b>	<b>Federal Program</b>	<b>Compliance Requirement(s)</b>	<b>Finding Number</b>
IL Department of Healthcare and Family Services	State Children’s Insurance Program	Allowable Costs/Cost Principles and Eligibility	07-25
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	07-25
IL Department of Children and Family Services	Foster Care – Title IV-E	Allowable Costs/Cost Principles and Eligibility	07-32
IL Department of Children and Family Services	Foster Care – Title IV-E	Allowable Costs/Cost Principles and Eligibility	07-33
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	07-34
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	07-35
IL Department of Children and Family Services	Temporary Assistance for Needy Families	Subrecipient Monitoring	07-36
IL Department of Children and Family Services	Foster Care – Title IV-E	Subrecipient Monitoring	07-36
IL Department of Children and Family Services	Adoption Assistance	Subrecipient Monitoring	07-36
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	07-40
IL Department of Public Health	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Subrecipient Monitoring	07-44
IL Department of Public Health	HIV Care Formula Grants	Subrecipient Monitoring	07-44
IL Department of Public Health	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Subrecipient Monitoring	07-45
IL Department of Public Health	HIV Care Formula Grants	Subrecipient Monitoring	07-45
IL Department of Public Health	HIV Care Formula Grants	Allowable Costs/Cost Principles and Eligibility	07-46
IL State Board of Education	Title I Grants to Local Educational Agencies	Allowable Costs/Cost Principles and Special Tests and Provisions	07-52
IL State Board of Education	Title I Grants to Local Educational Agencies	Subrecipient Monitoring	07-53
IL State Board of Education	Special Education Cluster	Subrecipient Monitoring	07-53
IL State Board of Education	Vocational Education – Basic Grants to States	Subrecipient Monitoring	07-53



<b>State Administering Agency</b>	<b>Federal Program</b>	<b>Compliance Requirement(s)</b>	<b>Finding Number</b>
IL State Board of Education	Twenty-First Century Community Learning Centers	Subrecipient Monitoring	07-53
IL State Board of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	07-53
IL State Board of Education	Title I Grants to Local Educational Agencies	Subrecipient Monitoring	07-54
IL State Board of Education	Twenty-First Century Community Learning Centers	Subrecipient Monitoring	07-54
IL State Board of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	07-54
IL Community College Board	Vocational Education – Basic Grants to States	Subrecipient Monitoring	07-56
IL Student Assistance Commission	Federal Family Education Loans – Guaranty Program	Specials Tests and Provisions	07-58
IL Department of Transportation	Airport Improvement Program	Suspension and Debarment	07-69
IL Department of Transportation	Airport Improvement Program	Subrecipient Monitoring	07-70
IL State Board of Elections	Help America Vote Act Requirements Payments	Subrecipient Monitoring	07-81
IL State Board of Elections	Help America Vote Act Requirements Payments	Subrecipient Monitoring	07-82

In our opinion, because of the effects of the noncompliance described in the second preceding paragraph, the State did not comply in all material respects, with the requirements referred to above that are applicable to the Reading First State Grants program. Also 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 third preceding paragraph relating to the Immunization Grants program, 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, 2007. 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 as findings 07-16, 07-17, 07-18, 07-20, 07-21, 07-22, 07-24, 07-26, 07-27, 07-28, 07-29, 07-30, 07-37, 07-38, 07-39, 07-41, 07-42, 07-46, 07-47, 07-48, 07-55, 07-57, 07-59, 07-60, 07-61, 07-62, 07-66, 07-67, 07-68, 07-71, 07-72, 07-73, 07-74, 07-75, 07-78, 07-79, 07-83, 07-84, 07-85, 07-86, and 07-87.

### **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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State’s internal control over compliance.



Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 07-09 to 07-87 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider findings 07-09, 07-10, 07-11, 07-12, 07-13, 07-14, 07-15, 07-16, 07-17, 07-18, 07-19, 07-24, 07-25, 07-26, 07-27, 07-32, 07-33, 07-34, 07-35, 07-36, 07-37, 07-38, 07-40, 07-43, 07-44, 07-45, 07-51, 07-52, 07-53, 07-54, 07-55, 07-56, 07-58, 07-67, 07-69, 07-70, 07-71, 07-78, 07-81, 07-82, 07-84, 07-85, 07-86, and 07-87 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 20, 2008



**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**(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) Significant deficiencies 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) Significant deficiencies 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) Significant deficiencies in internal control over major programs: **yes**  
Material weaknesses: **yes**
- (e) The type of report issued on compliance for major programs:

**Disclaimer:**

Immunization Grants

**Adverse:**

Reading First State Grants

**Qualifications (Noncompliance):**

Food Stamps Cluster  
Airport Improvement Program  
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  
Twenty-First Century Community Learning Centers  
Improving Teacher Quality State Grants  
Help America Vote Act Requirements Payments  
Aging Cluster  
Centers for Disease Control and Prevention – Investigations and Technical Assistance  
Temporary Assistance for Needy Families  
Foster Care – Title IV-E  
Adoption Assistance  
State Children's Insurance Program  
Medicaid Cluster  
HIV Care Formula Grants

The opinions for all other major programs are unqualified.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

(f) Any audit findings which are required to be reported under section .510(a) of OMB Circular A 133: **yes**

(g) Major programs:

#### **US Department of Agriculture**

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

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

- Community Development Block Grants/State's Program

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

- Employment Services Cluster
- Unemployment Insurance
- 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
- 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
- Community Services Block Grant
- Child Care Development Funds Cluster
- Foster Care – Title IV-E

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

- Adoption Assistance
- Social Services Block Grant
- State Children's Insurance Program
- Medicaid Cluster
- HIV Care Formula Grants
- Block Grants for the Prevention and Treatment of Substance Abuse

**US Social Security Administration**

- Social Security – Disability Insurance

**US Department of Homeland Security**

- Disaster Grants – Public Assistance (Presidentially Declared Disasters)
- 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*:**

Findings related to the basic financial statements for the year ended June 30, 2007 were 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, 2007

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

<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
07-01	IL Office of the Comptroller	Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards	Significant deficiency
07-02	IL Department of Human Services	Inadequate Process for Accurate and Timely Financial Reporting	Significant deficiency
07-03	IL Department of Children and Family Services	Inadequate Process for Accurate and Timely Financial Reporting	Significant deficiency
07-04	IL Department of Public Health	Inadequate Process for Accurate and Timely Financial Reporting	Significant deficiency
07-05	IL State Board of Education	Inadequate Process for Accurate and Timely Financial Reporting	Significant deficiency
07-06	IL Department of Transportation	Inadequate Process for Accurate and Timely Financial Reporting	Significant deficiency
07-07	IL Department of Employment Security	Inadequate Process for Accurate and Timely Financial Reporting	Significant deficiency
07-08	IL Emergency Management Agency	Inadequate Process for Accurate and Timely Financial Reporting	Significant deficiency

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

<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
07-10	IL Department of Human Services	Failure to Perform Eligibility Redeterminations within Prescribed Timeframes	Material weakness
07-11	IL Department of Human Services	Failure to Properly Maintain Case File Records	Material weakness
07-25	IL Department of Human Services	Inadequate Procedures for Performing Eligibility Redeterminations	Material weakness
07-43	IL Department of Public Health	Inadequate Control and Accountability for Vaccines	Significant deficiency
07-58	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, 2007

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

**Federal Agency:** All Federal Agencies

**Finding 07-01** *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 current reporting process does not allow for the timely completion of an audit in accordance with OMB Circular A-133.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements (Comprehensive Annual Financial Report issued by the IOC), including the schedule of expenditures of federal awards and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

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

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 07-01, 06-01, 05-01, 04-01, 03-01, 02-01)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

#### **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, 2007

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

**Federal Agency:** All Federal Agencies

**Finding 07-02** *Inadequate Process for Accurate and Timely Financial Reporting*

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

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

During our review of the financial reporting process, we noted that the IDHS information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, several correcting journal entries were required to accurately state amounts reported by IDHS.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing this with IDHS officials, they stated they disagree with the finding.

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

**Recommendation:**

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

**IDHS Response:**

The Department submitted all SCO forms to the Illinois Office of the Comptroller (IOC) by the various due dates established by the IOC. The last due date was September 17, 2007 and the various SCO forms for each of the 54 GAAP packages were submitted by that date.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**Auditors' Comment:**

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



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

**Federal Agency:** All Federal Agencies

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

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

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

During our review of the financial reporting process, we noted that the DCFS information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, several correcting journal entries were required to accurately state amounts reported by DCFS.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing this with DCFS officials, they stated the Department submitted all fiscal year 2007 GAAP packages (SCO Forms) to the State Comptroller's Office within the required deadlines and, as in past years, information for SCO forms 563 and 567 were submitted in blank as the information was not available at the time the forms were due. However, a change in fiscal office personnel took place before the SEFA information was to be inserted. The information left blank on SCO forms 563 and 567, which was already included in the financial footnotes, was added to the forms after it became known they were blank and wording/caption changes for the financial statements recommended by various audit groups were requested following their reviews.

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

**Recommendation:**

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

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**DCFS Response:**

The Department accepts that the statewide process is untimely, that information may be submitted in multiple forms and may be inaccurate as the reporting is through a series of worksheets that are submitted and pulled together by another agency. DCFS strives to provide the information to the Comptroller's office within the stringent timeframes established for it. During the Comptroller review process, changes are discussed and modifications can be made to ensure the statewide process and reporting is consistent. This is part of the overall process. DCFS agrees to support efforts by the Office of the Comptroller to modernize the financial and grant reporting infrastructure and work with the Office of the Auditor General in those areas.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

**Federal Agency:** All Federal Agencies

**Finding 07-04** *Inadequate Process for Accurate and Timely Financial Reporting*

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

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

During our review of the financial reporting process, we noted that the IDPH information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, several correcting journal entries were required to accurately state amounts reported by IDPH.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing these conditions with IDPH officials, they stated that adjustments were necessary due to some lapse period estimates and revised inventory reports.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 07-04)

**Recommendation:**

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

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**IDPH Response:**

The Department concurs in the finding and recommendation. The reporting of financial information should be timely and accurate and we will continue to make every effort to meet that goal. It should be noted that the department did complete the GAAP package by the due dates set by the Comptroller's Office. However, some correcting entries and subsequent adjustments had to be made to some of the SCO forms due to the estimation process of the lapse period expenditures and the noted vaccine inventory system reports. The department will continue working with the Comptroller's Office and other state agencies to improve and enhance the accuracy of the GAAP reporting.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

**Federal Agency:** All Federal Agencies

**Finding 07-05** *Inadequate Process for Accurate and Timely Financial Reporting*

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

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

During our review of the financial reporting process, we noted that the ISBE information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, several correcting journal entries were required to accurately state amounts reported by ISBE.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing this with ISBE officials, they stated they disagree with the finding.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 07-05)

**Recommendation:**

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

**ISBE Response:**

We respectfully disagree with the finding. All SCO forms were submitted in a timely manner based on submission deadlines established by the State Comptroller's Office.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

ISBE subgrants federal funds to a large number of State agencies and universities. As part of the GAAP reporting process, ISBE provides all agencies and universities with documentation regarding federal funds subgranted to those agencies and universities by ISBE. ISBE staff continually communicate with other agency GAAP staff throughout the GAAP process to help insure accurate information is being reported to the State Comptroller.

However, the timely and accurate submission of the SCO 567/568 and SCO 563 forms is contingent upon these State agencies and universities recording and reporting their financial data to the State Comptroller accurately and in a timely manner. As noted above, ISBE complied with all submission deadlines established by the State Comptroller's Office. Transactions continued to be reported to the State Comptroller's Office by other agencies and universities after the submission deadline, resulting in adjustments to ISBE's SCO forms.

ISBE submitted completed financial statements and footnotes to the State Comptroller on November 15, 2007, in accordance with the deadline established by SAMS (27.10.10). ISBE is unaware of any adjustments that were required to these financial statements after this date.

ISBE does acknowledge that the expenditures for the Food Donation Program (10.550) were incorrectly reported for the ISBE Federal Department of Agriculture Fund (410). Expenditures on SCO 563 and Schedule of Expenditures of Federal Awards (SEFA) were understated by \$1.573 million. This understatement represents less than 1/10 of one percent (.08 percent) of total ISBE federal expenditures in the amount of \$1.822 billion for fiscal year 2007. This error also led to the understatement of the subrecipient amount on the SCO 563. The amount reported by ISBE in fiscal year 2007 and prior fiscal years was based on commodities purchased from the United States Department of Agriculture, not the amount that was distributed by ISBE to school districts. ISBE has implemented controls that will ensure that amounts are properly reported in the future. This error, however, did not result in any adjustments to the agency's financial statements.

As noted in the Agreed-Upon Procedures Report from our financial statement auditors dated November 26, 2007, there were five errors in SCO 568 totaling \$2,108. Those errors did not result in any adjustments to the agency's financial statements or the SEFA.

As a material agency, ISBE understands the importance of the accuracy of financial information, and will continue to communicate with the State Comptroller's Office and other agencies and universities GAAP staff during the GAAP reporting process to help insure accurate and timely GAAP reporting.

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

Although ISBE made significant efforts to complete its GAAP forms in a timely manner, the GAAP packages originally submitted by ISBE required adjustments to properly state amounts. We believe the Agency's financial reporting process should be modified to ensure financial information submitted to the Illinois Office of the Comptroller is both timely and accurate.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

**Federal Agency:** All Federal Agencies

**Finding 07-06** *Inadequate Process for Accurate and Timely Financial Reporting*

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

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

During our review of the financial reporting process, we noted that the IDOT information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, correcting journal entries were required to accurately state amounts reported by IDOT.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing this with IDOT officials, they state that due in part to their efforts to make the submittals more accurate, correcting journal entries were necessary.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 07-06)

**Recommendation:**

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

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**IDOT Response:**

The Department agrees with this finding. The current protocols have been in place for several decades. GAAP reporting protocols are currently being studied and enhanced as necessary.

The Department will continue to review the current process for reporting financial information and work closely with the Office of the Comptroller to improve and enhance the timing and accuracy of GAAP reporting requirements. The Department will also implement changes, as necessary, to ensure the accurate and complete submission of forms.



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

**Federal Agency:** All Federal Agencies

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

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

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

During our review of the financial reporting process, we noted that the IDES information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, correcting journal entries were required to accurately state amounts reported by IDES.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing this with IDES officials, they stated that per the Comptroller's Office (IOC), GAAP packages were due September 17, 2007 and IDES submitted theirs on time. Subsequent to submission, there were some adjustments made to GAAP in the normal course of the review process by the IOC. Per the Auditor General Office (OAG) review, there was an unreconciled difference between SEFA and the financial statements for Trust Fund expenditures related to a unique settlement agreement.

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

**Recommendation:**

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

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**IDES Response:**

IDES will continue to work with staff to improve the accuracy, reconciliations, and timeliness of its financial statements and strengthen its review process

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

**Federal Agency:** All Federal Agencies

**Finding 07-08** *Inadequate Process for Accurate and Timely Financial Reporting*

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

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

During our review of the financial reporting process, we noted that the IEMA information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, correcting journal entries were required to accurately state amounts reported by IEMA, including an adjustment to eliminate approximately \$16 million of prior year expenditures incorrectly reported on the current year SEFA.

According to OMB Circular A-133 § .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures and to ensure that audits required by this part are properly performed and submitted when due. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing this with IEMA officials, they stated that the SCO-563 Form is a complex form with many variables and requires informational input from many sources. IEMA is working to continue improving the preparer's knowledge and understanding of the SCO-563 Form and is committed to fairly stating financial information.

Failure to prepare accurate SCO forms in a timely manner prevents the State of Illinois from preparing the financial statements and SEFA and completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 07-08)

**Recommendation:**

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

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**IEMA Response:**

IEMA has begun review of current processes for review and submission of forms. The Agency will increase staff training and reviews of reports prior to being forwarded to the Office of the Comptroller. IEMA is considering contracting with a Certified Public Accounting firm to prepare the Agency's GAAP Packages.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

The findings listed below are located on pages 55 through 229.

<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
07-09	IL Department of Human Services	Inadequate Process for Monitoring Interagency Program Expenditures	Material weakness
07-10	IL Department of Human Services	Failure to Perform Eligibility Redeterminations within Prescribed Timeframes	Material noncompliance and material weakness
07-11	IL Department of Human Services	Failure to Properly Maintain Case File Records	Material noncompliance and material weakness
07-12	IL Department of Human Services	Failure to Determine Eligibility in Accordance with Program Regulations	Material noncompliance and material weakness
07-13	IL Department of Human Services	Inadequate Process for Preventing Individuals Convicted of Drug Felonies from Receiving TANF Benefits	Material noncompliance and material weakness
07-14	IL Department of Human Services	Failure to Follow and Document TANF Sanction Procedures	Material noncompliance and material weakness
07-15	IL Department of Human Services	Unallowable Expenditures Charged to the Vocational Rehabilitation Program	Material noncompliance and material weakness
07-16	IL Department of Human Services	Failure to Determine Eligibility in Accordance with Program Regulations	Noncompliance and material weakness
07-17	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
07-18	IL Department of Human Services	Failure to Advance Only the Immediate Cash Needs to Subrecipients	Noncompliance and material weakness
07-19	IL Department of Human Services	Missing Documentation in Client Eligibility Files	Material weakness
07-20	IL Department of Human Services	Failure to Obtain Documentation of Assignment of Child and Medical Support Rights	Noncompliance and significant deficiency
07-21	IL Department of Human Services	Failure to Adequately Coordinate Program Benefits	Noncompliance and significant deficiency
07-22	IL Department of Human Services	Inaccurate Interest Liability Calculations	Noncompliance and significant deficiency

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
07-23	IL Department of Human Services	Untimely Review of OMB Circular A-133 Audit Reports	Significant deficiency
07-24	IL Department of Revenue	Inadequate Process for Determining the Allowability of Earned Income Credits	Noncompliance and material weakness
07-25	IL Department of Healthcare and Family Services	Inadequate Procedures for Performing Eligibility Redeterminations	Material noncompliance and material weakness
07-26	IL Department of Healthcare and Family Services	Unallowable Costs Used to Meet the TANF Maintenance of Effort	Noncompliance and material weakness
07-27	IL Department of Healthcare and Family Services	Failure to Properly Perform Non-Custodial Parent Location Procedures	Noncompliance and material weakness
07-28	IL Department of Healthcare and Family Services	Failure to Properly Manage and Document Interstate Cases Within KIDS	Noncompliance and significant deficiency
07-29	IL Department of Healthcare and Family Services	Failure to Establish Support Orders Within Required Timeframe	Noncompliance and significant deficiency
07-30	IL Department of Healthcare and Family Services	Failure to Follow Up On Monitoring Findings	Noncompliance and significant deficiency
07-31	IL Department of Healthcare and Family Services	Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Significant deficiency
07-32	IL Department of Children and Family Services	Missing Documentation in Case Files	Material noncompliance and material weakness
07-33	IL Department of Children and Family Services	Failure To Ensure That Required Judicial Determinations Were Made	Material noncompliance and material weakness
07-34	IL Department of Children and Family Services	Missing Documentation in Adoption Assistance Eligibility Files	Material noncompliance and material weakness
07-35	IL Department of Children and Family Services	Failure to Properly Document or Execute Adoption Assistance Agreements	Material noncompliance and material weakness
07-36	IL Department of Children and Family Services	Inadequate and Untimely Fiscal Monitoring of Subrecipients	Material noncompliance and material weakness
07-37	IL Department of Children and Family Services	Inaccurate Allocation of Costs	Noncompliance and material weakness

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
07-38	IL Department of Children and Family Services	Failure to Ensure Timely Preparation of Initial Case Plans	Noncompliance and material weakness
07-39	IL Department of Children and Family Services	Failure to Ensure That Adoption Assistance Recertifications Are Performed On A Timely Basis	Noncompliance and significant deficiency
07-40	IL Department on Aging	Inadequate On-Site Monitoring of Subrecipients	Material noncompliance and material weakness
07-41	IL Department on Aging	Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports	Noncompliance and significant deficiency
07-42	IL Department on Aging	Inadequate Cash Management Procedures for Subrecipients	Noncompliance and significant deficiency
07-43	IL Department of Public Health	Inadequate Control and Accountability for Vaccines	Disclaimer and material weakness
07-44	IL Department of Public Health	Inadequate On-Site Monitoring of Subrecipients	Material noncompliance and material weakness
07-45	IL Department of Public Health	Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Material noncompliance and material weakness
07-46	IL Department of Public Health	Inadequate Process for Determining Client Eligibility	Material noncompliance and material weakness
07-47	IL Department of Public Health	Insufficient Federal Award Information Provided to Subrecipients	Noncompliance and significant deficiency
07-48	IL Department of Public Health	Failure to Investigate Provider Complaints within Required Timeframes	Noncompliance and significant deficiency
07-49	IL Department of Public Health	Inadequate Cash Management Procedures for Subrecipients	Significant deficiency
07-50	IL Department of Public Health	Inadequate Process for Monitoring Interagency Program Expenditures	Significant deficiency
07-51	IL State Board of Education	Improper Allocation of Subrecipient Funding under the Terms of the Reading First State Grants State Plan	Material noncompliance (adverse opinion) and material weakness
07-52	IL State Board of Education	Failure to Sanction Non-Comparable Local Education Agency (LEA)	Material noncompliance and material weakness
07-53	IL State Board of Education	Inadequate On-Site Fiscal Monitoring of Subrecipients	Material noncompliance and material weakness
07-54	IL State Board of Education	Inadequate On-Site Programmatic Monitoring of Subrecipients	Material noncompliance and material weakness

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
07-55	IL State Board of Education	Inaccurate Reporting of State Matching Expenditures	Noncompliance and material weakness
07-56	IL Community College Board	Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Material noncompliance and material weakness
07-57	IL Community College Board	Inadequate Documentation of On-Site Monitoring of Subrecipients	Noncompliance and significant deficiency
07-58	IL Student Assistance Commission	Processing and Submission of Re-insurance Claims	Material noncompliance and material weakness
07-59	IL Student Assistance Commission	Untimely Deposits into the Federal Fund	Noncompliance and significant deficiency
07-60	IL Student Assistance Commission	Inadequate Process for Assignment of Defaulted Loans	Noncompliance and significant deficiency
07-61	IL Department of Employment Security	Inaccurate Benefit Payments and Missing Documentation in Client Eligibility Files	Noncompliance and significant deficiency
07-62	IL Department of Employment Security	Incomplete Documentation in Client Eligibility Files	Noncompliance and significant deficiency
07-63	IL Department of Employment Security	Inadequate Documentation of Policies and Procedures, Resolution of Exceptions, and Supervisory Review of the Claim Exception and Monitoring Reports	Significant deficiency
07-64	IL Department of Employment Security	Undocumented Review of Performance Reports	Significant deficiency
07-65	IL Department of Employment Security	Inadequate Controls over Information Systems	Significant deficiency
07-66	IL Department of Employment Security	Inaccurate ATAA Special Reports	Noncompliance and significant deficiency
07-67	IL Department of Commerce and Economic Opportunity	Inaccurate Performance and Evaluation Report	Noncompliance and material weakness
07-68	IL Department of Commerce and Economic Opportunity	Inadequate On-Site Monitoring of Subrecipients	Noncompliance and significant deficiency
07-69	IL Department of Transportation	Failure to Obtain Suspension and Debarment Certifications from Subrecipients	Material noncompliance and material weakness
07-70	IL Department of Transportation	Inadequate On-Site Monitoring of Subrecipients	Material noncompliance and material weakness
07-71	IL Department of Transportation	Inadequate On-Site Monitoring of Subrecipients	Noncompliance and material weakness



**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

<b>Finding No.</b>	<b>State Agency</b>	<b>Finding Title</b>	<b>Finding Type</b>
07-72	IL Department of Transportation	Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports	Noncompliance and significant deficiency
07-73	IL Department of Transportation	Failure to Notify Subrecipients of Federal Funding	Noncompliance and significant deficiency
07-74	IL Department of Transportation	Failure to Follow Sampling and Testing Program	Noncompliance and significant deficiency
07-75	IL Department of Transportation	Failure to Draw Funds Only for Immediate Cash Needs	Noncompliance and significant deficiency
07-76	IL Department of Transportation	Inadequate Cash Management Procedures	Significant deficiency
07-77	IL Department of Transportation	Inadequate Controls over Information Systems	Significant deficiency
07-78	IL Emergency Management Agency	Inadequate Cash Management Procedures	Noncompliance and material weakness
07-79	IL Emergency Management Agency	Insufficient Federal Award Information Provided to Subrecipients	Noncompliance and significant deficiency
07-80	IL State Police	Failure to Draw Funds Only for Immediate Cash Needs	Significant deficiency
07-81	IL State Board of Elections	Inadequate Monitoring of Subrecipients	Material noncompliance and material weakness
07-82	IL State Board of Elections	Failure to Obtain and Review Subrecipient OMB Circular A-133 Audit Reports	Material noncompliance and material weakness
07-83	IL State Board of Elections	Failure to Meet HAVA Matching Requirement	Noncompliance and significant deficiency
07-84	IL Department of Central Management Services	Inadequate Process for Monitoring Internal Service Fund Balances	Noncompliance and material weakness
07-85	IL Department of Central Management Services	Inadequate Supporting Documentation for Payroll Costs	Noncompliance and material weakness
07-86	IL Department of Central Management Services	Unallowable Costs Recorded in Internal Service Funds	Noncompliance and material weakness
07-87	IL Department of Central Management Services	Inadequate Process for Billing Costs to Users	Noncompliance and material weakness

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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

**CFDA # and Program Expenditures:** 93.558 (\$556,726,000)  
 93.575/93.596 (\$197,141,000)  
 93.667 (\$109,206,000)

**Award Numbers:** G-0601ILTANF/G-0702ILTANF (93.558)  
 (CFDA number) G-0601ILCCDF/G-0701ILCCDF (93.575/93.596)  
 G-0601ILSOSR/G-0601ILSOS2/G00701ILSOSR (93.667)

**Questioned Costs:** None

**Finding 07-09** *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), and Social Services Block Grant (Title XX) programs.

Federal and state expenditures under the TANF, Child Care, and Title XX programs are comprised of programs operated by various state agencies. As the state agency responsible for administering these programs, IDHS has executed interagency agreements with each of the state agencies expending federal and/or state program funds. The interagency agreements require periodic reporting of a summary of the agency's "allowable" expenditures to IDHS for preparation of the financial reports required for each program. As the state agencies expending program funds do not determine under which program IDHS reports their expenditures, IDHS is responsible for establishing procedures to ensure the expenditures reported by the expending state agencies meet the applicable federal requirements.

During the year ended June 30, 2007, IDHS used expenditures from other agencies to claim reimbursement for or satisfy maintenance of effort (MOE) requirements for the TANF, Child Care, and Title XX programs as follows:

<b>Program</b>	<b>Expending State Agency</b>	<b>Expenditures Claimed</b>	<b>Total Expenditures</b>
Federal TANF	Department of Children and Family Services (DCFS)	\$209,366,197	\$556,726,000
Federal TANF	Illinois Student Assistance Commission (ISAC)	\$50,777,163	\$556,726,000
Federal TANF	Illinois Department of Revenue (IDOR)	\$12,258,327	\$556,726,000
Federal TANF	Department of Healthcare and Family Services (DHFS)	\$2,400,561	\$556,726,000
TANF MOE	Department of Healthcare and Family Services (DHFS)	\$46,588,543	\$445,577,000

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

Program	Expending State Agency	Expenditures Claimed	Total Expenditures
TANF MOE	Illinois State Board of Education (ISBE)	\$57,638,197	\$445,577,000
TANF MOE	Illinois Community College Board (ICCB)	(\$1,247,043)	\$445,577,000
Child Care MOE	Department of Children and Family Services (DCFS)	\$22,159,133	\$133,636,000
Title XX	Department of Children and Family Services (DCFS)	\$2,947,711	\$109,206,000

To implement corrective action for a prior year finding, IDHS began to perform the following procedures during the year ended June 30, 2007 to monitor other State agencies expending program funds reported by IDHS:

- Interagency agreements were reviewed and updated (where necessary) to ensure all state programs claimed under or used to meet the MOE requirement of one of IDHS' federal programs were subject to an interagency agreement.
- Program questionnaires were developed and distributed to each of the state agencies to assist in documenting the nature of the expenditures provided to IDHS and the internal controls established to ensure compliance with the applicable federal regulations.
- Quarterly certification reports were collected from each of the state agencies to support amounts reported in the federal reports required for each federal program.
- Expenditure details were obtained from each of the state agencies and were reconciled to the quarterly certifications.

However, during our testwork over the documentation of the monitoring procedures discussed above, we noted the following deficiencies:

- IDHS is not performing a detailed review of any costs claimed from expenditures reported by other State agencies.
- The interagency agreements with DHFS and DCFS are vague in nature and simply require the state agency to follow the applicable rules, regulations, and policies of the applicable federal program and provide all data, documents, reports, and information necessary for IDHS to manage the applicable federal programs. However, the specific federal regulations and requirements of the State Plan are not identified in the agreements. Additionally, the interagency agreement with DCFS does not cover expenditures claimed under Title XX.
- The questionnaires provided to IDHS by each of the state agencies did not include documentation of all areas applicable to the expenditures reported. Specifically, the questionnaire for DCFS did not discuss the controls or processes related to the Emergency Assistance Program claimed under the federal TANF program or the procedures in place for identifying adjustments included in the expenditure detail supporting amounts reported for each of the federal programs identified above. The questionnaire for ISBE indicated most of the compliance requirements were not applicable since the expenditures ISBE provides are used to meet the MOE requirement; however, several of the requirements including those pertaining to the allowability of costs are applicable and should have been documented. In addition, questionnaires were not on file for ICCB, IDOR, or ISAC as of the date of our testwork.
- Child Care certification reports were not provided by DCFS on a quarterly basis as required by the interagency agreement; rather an annual certification was provided at the end of the State's fiscal year.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

In each of the past five years, we have identified several instances of noncompliance and unallowable costs claimed from expenditures reported by other State agencies, which is indicative that adequate internal control does not exist over the claiming of these expenditures and adequate monitoring of the other State agencies has not been performed. During the current fiscal year ended June 30, 2007, we identified the following instances of non-compliance in our testing of interagency expenditures which are reported as separate findings in this report for each of the respective agencies:

- Federal TANF expenditures provided by IDOR included amounts that did not qualify as allowable expenditures under the TANF regulations;
- TANF MOE expenditures provided by DHFS included expenditures to beneficiaries that were not eligible under TANF MOE regulations;
- TANF MOE expenditures provided by ISBE were also reported to the U.S. Department of Agriculture as matching expenditures for the Child Nutrition Cluster; and
- Expenditures provided by DCFS under all programs identified above included expenditures to subrecipients for which DCFS has not established adequate monitoring procedures. In addition, significant increases in the administrative costs for these programs could not be adequately explained by DHS or DCFS personnel during our testwork.

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 a continual process of reviewing controls over interagency expenditures was started in fiscal year 2006 and improvements are being made when needs are identified.

Failure to properly monitor interagency expenditures may result in claiming of expenditures that are inconsistent with the objectives of the federal program. (Finding Code 07-09, 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.

#### **IDHS Response:**

Agree. The Department believes our current controls are adequate but we will continue to improve our control system over interagency expenditures.

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

As discussed above, we do not believe IDHS' current controls over interagency expenditures are adequate.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$556,726,000)  
 93.767 (\$330,917,000)  
 93.775/93.777/93.778 (\$6,544,606,000)

**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 07-10** 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 2007:

Program/Month	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
<b>TANF</b>			
July	1,733	38,493	4.50%
August	1,759	38,096	4.62%
September	1,777	37,593	4.73%
October	1,773	37,490	4.73%
November	1,785	37,168	4.80%
December	1,929	36,997	5.21%
January	1,849	36,704	5.04%
February	1,639	35,714	4.59%
March	1,619	35,118	4.61%
April	1,493	33,905	4.40%
May	1,487	33,031	4.50%
June	1,563	32,127	4.87%

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

Program/Month	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
<b>SCHIP</b>			
July	18,516	527,243	3.51%
August	17,503	530,878	3.30%
September	17,569	535,796	3.28%
October	17,640	542,362	3.25%
November	17,270	548,037	3.15%
December	18,057	553,382	3.26%
January	16,969	557,797	3.04%
February	16,419	560,941	2.93%
March	16,629	566,827	2.93%
April	15,661	570,634	2.74%
May	15,060	581,102	2.59%
June	15,149	590,227	2.57%
<b>Medicaid</b>			
July	16,818	409,712	4.10%
August	16,684	410,260	4.07%
September	16,894	411,158	4.11%
October	17,452	412,002	4.24%
November	17,656	413,155	4.27%
December	30,295	414,233	7.31%
January	17,674	414,454	4.26%
February	17,507	413,960	4.23%
March	18,628	414,870	4.49%
April	18,697	414,689	4.51%
May	17,896	415,344	4.31%
June	16,801	416,145	4.04%

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 one TANF, three SCHIP, and one 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 2007, 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 this is a repeat finding from past audit periods. IDHS has reviewed and facilitated change in the State Plan to reflect the Federal expectations regarding redeterminations. In fiscal year 2007, IDHS was over 96% current on case redeterminations.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 07-10, 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:**

Disagree. The Department disagrees with the recommendation. The Department is in compliance with federal regulations which require states to make every effort to complete redeterminations timely and accurately. Federal guidelines remain silent as to a percentage of timely redeterminations required. We continue to make redetermination currency a priority. In fiscal year 2007, IDHS was over 96% current on case redeterminations. Currently, in fiscal year 2008, IDHS exhibits a currency rate of over 97%.

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

As stated above, federal regulations require eligibility redeterminations to be completed in accordance with the State Plan for each of the federal programs identified in the finding. The State Plans in effect for the year under audit require eligibility redeterminations to be completed for all beneficiaries on an annual basis. While IDHS has made progress in improving the number of untimely redeterminations over the past five years, full compliance has not been achieved. As of the date of our report, the State Plans for these programs have not been amended to permit annual eligibility redeterminations to be completed for less than all (100%) of program beneficiaries.

# STATE OF ILLINOIS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**State Agency:** Illinois Department of Human Services (IDHS)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Food Stamps Cluster  
Temporary Assistance for Needy Families  
State Children's Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 10.551/10.561 (\$1,646,762,000)  
93.558 (\$556,726,000)  
93.767 (\$330,917,000)  
93.775/93.777/93.778 (\$6,544,606,000)

**Award Numbers:** 2IL400098/2IL420120 (10.551/10.561)  
(CFDA Number) G-0601ILTANF/G-0702ILTANF (93.558)  
5-0605IL5021/5-0705L5021/5-0705ILR21/5-0705ILNIRA/  
5-0705ILULTRA (93.767)  
5-0605IL5048/05-0507IL5048 (93.775/93.777)  
5-0605IL5028/05-0507IL5028 (93.778)

**Questioned Costs:** Cannot be determined

**Finding 07-11** *Failure to Properly Maintain and Control Case File Records*

IDHS does not have appropriate controls over case file records maintained at its local offices for beneficiaries of the Food Stamps Cluster (Food Stamps), Temporary Assistance for Needy Families (TANF), State Children's Insurance Program (SCHIP), and Medicaid Cluster (Medicaid) programs.

IDHS is the state agency responsible for performing eligibility determinations for the federal public welfare assistance programs. IDHS has established a series of local offices throughout the State at which eligibility determinations and redeterminations are performed and documented. The eligibility intake processes for each of the programs identified above requires case workers to obtain and review supporting documentation including signed benefits applications, copies of source documents reviewed in verifying information reported by applicants, and other information. Although most of this information is entered into the electronic case record, IDHS also maintains manual paper files which include the source documents required to determine eligibility for its federal programs.

During our testwork, we noted the procedures in place to maintain and control beneficiary case file records do not provide adequate safeguards against the potential for the loss of such records. Specifically, in our review of 125 case files at six separate local offices, we noted the areas in which case files are maintained were generally disorganized and case files were stacked on or around file cabinets. We also noted case files were generally available to all DHS personnel and that formal procedures have not been developed for checking case files in and out of the file rooms or for tracking their locations.



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

Additionally, during our testwork over 225 case files selected in our testwork relative to the TANF, SCHIP, and Medicaid programs, we noted several delays in receiving case files due to the fact that case files had been transferred between local offices as the result of clients moving between service areas. We also noted one TANF case record could not be located for our testing. Upon further investigation, IDHS management informed us that the local office at which the case record was believed to be located had experienced a flood and the contents of the office had been moved to a new location. We inquired of IDHS as to whether an inventory had been taken of the case file records after the flood and/or the move to ensure all case files had been accounted for before and after the move. We were informed that formal inventory procedures were not performed. In connection with the selection of an additional 75 case files from the local office discussed in the previous exception, there were two additional case files that could not be located for our review.

Payments made on the behalf of beneficiaries of the Food Stamps, TANF, SCHIP, and Medicaid programs were approximately \$1,550,233,000, \$63,805,000, and \$312,600,000, and \$5,656,959,000, respectively, during the year ended June 30, 2007.

In accordance with 42 USC 1397bb, 42 CFR 435.10, and the OMB Circular A-133 Compliance Supplement, dated March 2007, the State is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plans for the Medicaid and SCHIP programs.

In discussing these conditions with IDHS officials, they stated this finding is due to human filing error.

Failure to properly maintain and control beneficiary case file records may result in the loss of source documentation necessary to establish beneficiary eligibility and in unallowable costs being charged to the federal programs. (Finding Code 07-11)

#### **Recommendation:**

We recommend IDHS review its current process for maintaining and controlling beneficiary case records and consider the changes necessary to ensure case file documentation is maintained accordance with federal regulations and the State Plans for each affected program.

#### **IDHS Response:**

Agree. The Department accepts the recommendation. We acknowledge that of 350 case files requested, there were two files that could not be located during the fiscal year 2007 audit. IDHS agrees to reiterate to all staff the importance of documentation maintenance in case files and to ensure all documentation is combined into the case record.

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

As stated above, IDHS does not have appropriate controls over case files. The fact that "only" 2 out of 350 cases tested could not ultimately be found does not change the emphasis of the finding that procedures in place to maintain and control beneficiary case file records do not provide adequate safeguards against the potential for the loss of such records. Our audit noted that areas in which case files are maintained were disorganized and that formal procedures have not been developed for checking case files in and out of the file rooms or for tracking their locations.

# STATE OF ILLINOIS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**State Agency:** Illinois Department of Human Services (IDHS)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Medicaid Cluster  
**CFDA # and Program Expenditures:** 93.775/93.777/93.778 (\$6,544,606,000)  
**Award Numbers:** 5-0605IL5048/05-0507IL5048 (93.775/93.777)  
(CFDA Numbers) 5-0605IL5028/05-0507IL5028 (93.778)  
**Questioned Costs:** \$6,018

**Finding 07-12** *Failure to Determine Eligibility in Accordance with Program Regulations*

IDHS did not determine the eligibility of beneficiaries under the Medicaid Cluster in accordance with federal regulations.

During our testwork of Medicaid Cluster beneficiary payments, we selected a sample of 125 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits. We noted one case in our sample for which IDHS had not properly considered all assets reported by the beneficiary in the determination of eligibility. Specifically, IDHS did not consider a \$25,000 life insurance policy in its computation of the beneficiary's eligibility for Medicaid program benefits. Upon further review of this case, IDHS determined that the individual should have been required to have an asset spend down amount of \$7,596 which was required to have been spent prior to receiving Medicaid benefits. Medical assistance payments made on the behalf this beneficiary were \$6,018 during the year ended June 30, 2007.

Payments made on the behalf of beneficiaries of the Medicaid program during the year ended June 30, 2007 were \$5,656,959,000.

In accordance with 42 CFR 435.10, and the OMB Circular A-133 Compliance Supplement, dated March 2007, the State is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plan for the Medicaid program.

In discussing these conditions with IDHS officials, they stated this finding can be attributed to caseworker oversight.

Failure to properly perform eligibility determinations may result in expenditures being made on the behalf of ineligible beneficiaries, which are unallowable costs. (Finding Code 07-12)

**Recommendation:**

We recommend IDHS review its current process for performing eligibility determinations and consider the changes necessary to ensure all eligibility determinations are performed in accordance with federal regulations and the Medicaid State Plan.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

#### **IDHS Response:**

Agree. The Department accepts the recommendation. We acknowledge that one out of 125 (0.8%) case files reviewed, had a life insurance policy that was not properly considered in the eligibility determination. This error was an isolated incident that has since been rectified. This incident does not indicate a lack of internal control in our eligibility determination process. The Department agrees to continue to review processes for performing accurate eligibility determinations. IDHS will also seek to recover any overpayments identified through all means authorized by statute.

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

As discussed above, IDHS does not have appropriate controls over eligibility determinations. The fact that “only” one out of 125 cases tested was erroneously determined eligible does not change the emphasis of the finding that procedures in place to perform eligibility determinations and redeterminations do not provide adequate assurance that material noncompliance will not occur.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$556,726,000)  
**Award Numbers:** G-0601ILTANF/G-0702ILTANF  
**Questioned Costs:** Cannot be determined

**Finding 07-13** *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, 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, Illinois State Police, or other mechanisms.

In accordance with 42 USC 602(a)(1)(B)(iii) and the OMB Circular A-133 Compliance Supplement, dated March 2007, 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. 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 performing crossmatches of data with other state agencies to ensure only eligible beneficiaries receive benefits.

In discussing these conditions with IDHS officials, they stated this is a repeat finding from fiscal year 2006, which was attributed to caseworker oversight. There was a single case in 2006 that, because of the beneficiary's previous Class 1 felony conviction, had been improperly determined eligible for TANF.

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 07-13, 06-04)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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:**

Agree. The Department accepts the recommendation. This is a repeat finding from State fiscal year 2006, which was attributed to caseworker oversight. There were no recipients identified in this audit (State fiscal year 2007) that were improperly found eligible for TANF. The Department is reviewing our process of verifying the presence of a class 1 or X felony based on the federal regulations.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$556,726,000)  
**Award Numbers:** G-0601ILTANF/G-0702ILTANF  
**Questioned Costs:** \$4,881

**Finding 07-14** *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 five 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 \$2,321.
- In two 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 6 to 144 days. Benefits paid to these individuals during the period of noncompliance were \$2,560.

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 prior to October of 2007, some delays in the evaluation process could 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 was manual. The HFS, Division of Child Support Enforcement (DCSE) completed and sent Notice of Failure to Cooperate to IDHS, where it was sorted several times before dissemination to the caseworker responsible for beginning the reconciliation process. This process led to inefficiencies in the delivery of the 1611s. Additionally, inconsistencies in the documentation and application of sanction policy have been noted in a few cases.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 07-14, 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:**

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

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$89,994,000)  
**Award Numbers:** H126A050018A/H126A060018/H126A070018  
**Questioned Costs:** \$3,815

**Finding 07-15** 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 (beneficiary payments selected in our sample were \$129,840). We noted payments were made for services that were not approved in the beneficiary's current IPE in two of the cases tested. Payments made during the year ended June 30, 2007 for unapproved services related to these beneficiaries totaled \$3,815. Payments made to beneficiaries of the Vocational Rehabilitation program totaled \$17,575,000 during the year ended June 30, 2007.

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 rehabilitation 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) 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.



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 07-15, 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:**

Agree. The Department accepts the recommendation. The expenditures are valid 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 IPE. The Division of Rehabilitation Services will further reinforce the need for completing all aspects of the paperwork to document the appropriateness of the authorizations issued for each case.

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

As stated above, expenditures are not allowable or "valid" under the Vocational Rehabilitation program if they are not for services documented and approved in the IPE.

# STATE OF ILLINOIS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$89,994,000)  
**Award Numbers:** H126A050018A/H126A060018/H126A070018  
**Questioned Costs:** None

**Finding 07-16** *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 IDHS did not determine eligibility within the required 60 day timeframe in 11 of the case files tested. No payments were made during year ended June 30, 2007 for services related to these beneficiaries prior to the completion of the eligibility determinations, except those necessary to confirm the beneficiary’s disability. Payments made to beneficiaries of the Vocational Rehabilitation program totaled \$17,575,000 during the year ended June 30, 2007.

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 07-16, 06-11, 05-22, 04-25)

**Recommendation:**

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

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**IDHS Response:**

Agree. The Department accepts the recommendation. The Division of Rehabilitation Services (DRS) will further reinforce the needs to complete the certification of eligibility or document the request for extension in completing the certification.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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:** Rehabilitation Services – Vocational Rehabilitation Grants to States  
Child Care Development Fund Cluster

**CFDA # and Program Expenditures:** 84.126 (\$89,994,000)  
93.575/93.596 (\$197,141,000)

**Award Numbers:** H126A050018/H126A060018/H126A070018 (84.126)  
(CFDA number) G07601ILCCDF/G-0701ILCCDF (93.575)

**Questioned Costs:** None

**Finding 07-17** *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 Rehabilitation Services – Vocational Rehabilitation Grants to States (Vocational Rehabilitation) and Child Care Development Fund Cluster (Child Care) 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 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 30 subrecipients of the Vocational Rehabilitation program, we noted two subrecipients (expending \$626,540) for which on-site program reviews have not been performed within the last three years. In addition, during our testwork over 30 subrecipients of the Child Care program, we noted the following exceptions:

- Ten subrecipients did not receive timely notification (within 60 days) of the results of the on-site review. Delays in reporting review findings to these subrecipients ranged from 65 to 96 days after the on-site review procedures were conducted.
- Six subrecipients did not submit corrective action plans within 60 days of receiving the results of the on-site review. The number of days late the corrective actions were submitted ranged from 3 to 80 days. Adequate follow up procedures were not performed by reviewers to obtain the corrective action plans.

Subrecipient expenditures for the Vocational Rehabilitation and Child Care programs were \$20,313,000 and \$197,137,000, respectively, during the year ended June 30, 2007.

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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

In discussing these conditions with IDHS officials, they stated the Vocational Rehabilitation program onsite reviews were missed as result of a change in project officers, and were overdue by less than a month from their scheduled due dates. The Child Care program onsite review discrepancies were caused by failure of the provider to respond on a timely basis and/or failure to create and type the final monitoring report on a timely basis..

Failure to adequately monitor subrecipients, including notifying subrecipients of findings and obtaining 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 07-17, 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:**

Agree. The Department accepts the recommendation. 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.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$89,994,000)  
**Award Numbers:** H126A050018A/H126A060018/H126A070018  
**Questioned Costs:** \$24,650

**Finding 07-18** *Failure to Advance Only the Immediate Cash Needs to Subrecipients*

IDHS provided funds to subrecipients of the Rehabilitation Services – Vocational Rehabilitation Grants to States (Vocational Rehabilitation) program in excess of their immediate cash needs during the year ended June 30, 2007.

We reviewed 30 payments to Vocational Rehabilitation subrecipients totaling \$11,126,850. We noted three payments tested totaling \$94,342 represented advances of the entire grant award at the beginning of the award period. Upon further review, we noted these subrecipients had not expended the entire grant award amount and were required to remit unspent funds totaling \$24,650 to IDHS. As of the date of our testwork, IDHS had not received or sought reimbursement of these amounts. Total payments to subrecipients of the Vocational Rehabilitation program were \$20,313,000 for the year ended June 30, 2007.

When funds are provided in advance of expenditure, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. Specifically, 34 CFR 80.37 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 IDHS officials, they stated the Division of Rehabilitation Services entered into an advance payment system to address cash flow needs of vendors when delays in payments were preventing vendors from receiving money they had earned in a timely fashion.

Providing subrecipients funding advances of greater than 30 days results in additional costs of financing for the U.S. Treasury. (Finding Code 07-18)

**Recommendation:**

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

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**IDHS Response:**

Agree. The Department accepts the recommendation. The Division of Rehabilitation Services (DRS) will strive to ensure that vendors receive no more than 30 days advance funding. DRS will also issue payments based on actual billings, preventing the vendor from being over paid. DRS has already received reimbursements of these amounts in January 2008.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$556,726,000)  
93.767 (\$330,917,000)  
93.775/93.777/93.778 (\$6,544,606,000)

**Award Numbers:** G-0601ILTANF/G-0702ILTANF (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 07-19** 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 one SCHIP case file, IDHS could not locate adequate documentation supporting income verification procedures were performed. In lieu of collecting copies of pay stubs to verify income, the caseworker completed a form documenting the information reviewed; however, hours worked information required on the form was not completed and the form was not signed by the caseworker or the beneficiary.
- In one TANF case file, IDHS could not locate the completed Responsibilities and Services Plan signed by the client in the case file.
- In one Medicaid case file, the initial application for benefits signed by the individual indicated the beneficiary had reportable assets and verifiable income; however, subsequent eligibility redeterminations did not include procedures to verify changes in these assets or income due to the fact the individual was determined to be disabled and receiving social security benefits. IDHS could not locate case file documentation considered in determining whether these amounts had changed subsequent to the initial eligibility determination.

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.



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

In accordance with 42 USC 602(a)(1)(B)(iii), 42 CFR 431.10, and the OMB Circular A-133 Compliance Supplement, dated March 2007, 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 this is a repeat finding caused by human filing errors.

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 07-19, 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:**

Agree. The Department accepts the recommendation. IDHS agrees to reiterate to all staff the importance of documentation maintenance in case files and to ensure all documentation is combined into the case record.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$556,726,000)  
93.775/93.777/93.778 (\$6,544,606,000)

**Award Numbers:** G-0601ILTANF/G-0702ILTANF (93.558)  
(CFDA Number) 05-0605IL5048/05-0505IL5048 (93.775/93.777)  
05-0605IL5028/05-0505IL5028 (93.778)

**Questioned Costs:** Cannot be determined

**Finding 07-20** *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:

- Two Medicaid beneficiary files did not contain an acknowledgement of assigning medical support payments to the State. Upon further investigation, it was determined that these beneficiaries are long-term care beneficiaries who 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 and long-term facilities 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. Medical payments made on behalf of the two Medicaid beneficiaries selected for our testwork during the year ended June 30, 2007 were \$53,620.
- Two Medicaid beneficiary files (one of which was also a TANF beneficiary) did not contain a signed acknowledgement of assigning child or medical 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

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

signed by the beneficiary. Medical payments made on behalf of the two Medicaid beneficiaries identified for our testwork during the year ended June 30, 2007 were \$63,889.

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 support rights language was not used. The finding was also written due to a case that had signatures on the application other than the specific assignment of rights page.

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 07-20, 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:**

Agree. The Department accepts the recommendation. Written communication will be sent to all staff ensuring awareness of the child support assignment of rights requirements. The Assignment of Rights language has been added to Form 2905, application for TANF cash benefits, ensuring that any recipients who did not sign over their rights at initial application will do so prior to approval for cash.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$556,726,000)  
**Award Numbers:** G-0601ILTANF/G-0702ILTANF  
**Questioned Costs:** None

**Finding 07-21** *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, 2007, IDHS claimed approximately \$1 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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 07-21, 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:**

This is a prior year audit finding that has already been implemented. No discrepancies have been noted in this fiscal year 2007 audit. DHS TANF Scholarship program managers have clarified reimbursable expenses consistently to all providers.

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

As stated above, there was not adequate guidance provided by IDHS, resulting in subrecipients being allowed to exercise significant judgment relative to the types of scholarships awarded. The emphasis of this finding is that IDHS did not have adequate controls over the administration of these program expenditures to ensure consistency.

# STATE OF ILLINOIS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$89,994,000)  
93.959 (\$67,918,000)  
96.001 (\$62,153,000)

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

**Questioned Costs:** \$31,602

**Finding 07-22** *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, 2006 interest calculation (submitted in fiscal year 2007), 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 understated by \$10,624, \$228, and \$20,750 for the Vocational Rehabilitation, SAPT, and SSDI programs, respectively.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 they disagree with the finding.

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 07-22, 06-14)

#### **Recommendation:**

We recommend IDHS recalculate the interest liability for the year ended June 30, 2006 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. The Department appropriately revised and submitted the interest liability calculation.

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

The TSA requires interest to be calculated based upon the clearance times specified in Exhibit II of the TSA. IDHS officials stated that the clearance patterns included in the TSA are inaccurate and that clearance patterns used in the interest calculations more accurately reflect clearance time. 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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

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

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

**CFDA # and Program Expenditures:** 10.557 (\$187,330,000)  
84.126 (\$89,994,000)  
93.558 (\$556,726,000)  
93.575/93.596 (\$197,141,000)  
93.667 (\$109,206,000)  
93.959 (\$67,918,000)

**Award Numbers:** 2006W100342/2006W100642/2007W100342/  
(CFDA number) 2007W100642/20071WI500342 (10.557)  
H126A050018/H126A060018/H126A070018 (84.126)  
G-0601ILTANF/G-0702ILTANF (93.558)  
G07601ILCCDF/G-0701ILCCDF (93.575)  
G-0601ILSOSR/G-0601ILSOSP/G-0701ILSOSR (93.667)  
06B1ILSAPT/07B1ILSAPT (93.959)

**Questioned Costs:** None

**Finding 07-23** *Untimely Review of OMB Circular A-133 Audit Reports*

IDHS did not review OMB Circular A-133 audit reports received from its subrecipients for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Rehabilitation Services – Vocational Rehabilitation Grants to States (Vocational Rehabilitation), Temporary Assistance for Needy Families (TANF), Child Care 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.

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 115 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:



**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

<b>Desk Review Period</b>	<b>Number of Subrecipients</b>
61-90 days after receipt	10
91-120 days after receipt	18
121-150 days after receipt	32
151-180 days after receipt	19
180 + days after receipt	18

In addition, we noted seven reports for which reviews were not completed as of the date our testwork. Each of these reports had been received in excess of 60 days prior to our testwork. Of the 18 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, 2007 were as follows:

<b>Program</b>	<b>Total Fiscal Year 2007 Subrecipient Expenditures</b>	<b>Total Fiscal Year 2007 Program Expenditures</b>	<b>%</b>
WIC	\$175,118,000	\$187,330,000	93.5%
Vocational Rehabilitation	\$20,313,000	\$89,994,000	22.6%
TANF	\$82,287,000	\$556,726,000	14.8%
Child Care	\$197,137,000	\$197,141,000	99.9%
Title XX	\$36,085,000	\$109,206,000	33.0%
SAPT	\$64,673,000	\$67,918,000	95.2%

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

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 07-23, 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.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**IDHS Response:**

Agree. IDHS Management will evaluate staffing levels in the Office of Contract Administration Audit Review Section. Reports with findings are prioritized for review before reports without findings in order to meet a reasonable timeframe.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$556,726,000)  
**Award Numbers:** G-0501ILTANF/G-0602ILTANF  
**Questioned Costs:** \$82

**Finding 07-24** *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 (totaling \$4,749) 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 one earned income tax credit claimed had not been disbursed to the taxpayer as a hold had been placed on the disbursement. Earned income tax credit amounts claimed for this taxpayer totaled \$82 during the year ended June 30, 2007. Earned income tax credits claimed under the TANF program were \$13,959,647 during the year ended June 30, 2007.

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 an edit successfully stopped the amount being transmitted to the Comptroller's Office for issuance of a refund. However, a similar edit was not in place to exclude this payment from being included in the amount claimed for TANF purposes. IDOR officials also stated that they performed a query of their information systems to identify the number and amounts claimed that did not represent refunds and identified expenditures. This query identified undisbursed expenditures totaling \$225,314 were claimed to the TANF program from the inception of the program in 2003. Of this amount, the expenditures claimed during the year ended June 30, 2007 totaled \$89,181. IDOR was unable to provide the detailed transactions comprising these amounts for our testwork.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

Failure to establish effective procedures to ensure expenditures claimed under federal programs meet allowability requirements results in unallowable costs. (Finding Code 07-24, 06-20, 05-31)

#### **Recommendation:**

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

#### **IDOR Response:**

In the finding, the auditors assert that one earned income tax credit claimed had not been disbursed to the taxpayer as a hold had been place on the disbursement. Earned income tax credit amounts claimed for this taxpayer totaled \$82 during the year ended June 30, 2007.

The auditors recommended that “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 reports to IDHS.”

The Department of Revenue has responded to this finding by adding an edit prior to requesting TANF reimbursement only for the refundable earned income credit amounts that are sent to the Comptroller’s Office for issuance of a refund to recipient.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 Insurance Program  
Medicaid Cluster

**CFDA # and Program Expenditures:** 93.767 (\$330,917,000)  
93.775/93.777/93.778 (\$6,544,606,000)

**Award Numbers:** 5-0605IL5021/5-0705L5021/5-0705ILR21/5-0705ILNIRA/  
(CFDA Number) 5-0705ILULTRA (93.767)  
5-0605IL5048/05-0507IL5048 (93.775/93.777)  
5-0605IL5028/05-0507IL5028 (93.778)

**Questioned Costs:** Cannot be determined

**Finding 07-25** *Inadequate Procedures for Performing Eligibility Redeterminations*

Eligibility redetermination procedures implemented by DHFS for the Medicaid Cluster (Medicaid) and State Children's Insurance Program (SCHIP) are not adequate.

Effective in February 2006, DHFS revised its procedures for performing eligibility redeterminations for children receiving services under the Medicaid and SCHIP programs. As part of the passive redetermination procedures, a renewal form which contains key eligibility criteria is sent through the mail to the beneficiary. The beneficiary (or the beneficiary's guardian) is required to review the renewal form and report any changes to eligibility information; however, in the event there are no changes to the information and there are only children on the case, a response is not required.

Upon further review of the passive redetermination process, we noted neither DHFS, nor the Illinois Department of Human Services (IDHS) which performs eligibility determinations for these programs, maintains a formal record of the cases subject to passive redetermination procedures. As a result, we were unable to quantify the number of cases subject to the passive redetermination policy.

Payments made on the behalf of beneficiaries of the Medicaid and SCHIP programs were \$5,656,959,000 and \$312,600,000 during the year ended June 30, 2007.

In accordance with 42 USC 1397bb, 42 CFR 435.10, and the *OMB Circular A-133 Compliance Supplement*, dated March 2007, the State is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plans for the Medicaid and SCHIP programs. The current State Plans require redeterminations of eligibility for all recipients on an annual basis. Additionally, 42 CFR 435.916(b) requires the State to have procedures designed to ensure that recipients make timely and accurate reports of any change in circumstances that may affect their eligibility.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

In discussing these conditions with DHFS officials, they stated that the Department follows the guidance received from the Federal Centers for Medicare and Medicaid Services (CMS) described in the report entitled “Continuing the Progress: Enrolling and Retaining Low-Income Families and Children in Healthcare Coverage” for the Medicaid Program, and the Federal Agency Website entitled “FirstStep” for SCHIP.

Failure to implement appropriate 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 07-25)

#### **Recommendation:**

We recommend DHFS review its current process for performing eligibility redeterminations and consider changes necessary to ensure redeterminations are performed in accordance with federal regulations and the State Plans for each affected program.

#### **DHFS Response:**

The Department disagrees with this finding. Federal CMS policy as described on page 16 of the report identified previously states the following:

“Use Pre-printed Renewal Form. States may send the family or individual a pre-printed form showing current information from State files concerning circumstances that could change (e.g., income), and ask the family or individual to indicate whether the information has changed. States can take at least two approaches with pre-printed forms. A state can send the form and instruct the family or individual not to send anything back if the information is accurate; some states call this option “passive renewal.”

This same process is allowed for SCHIP as documented in the Federal Agency Website, FirstStep, at [http://www.cms.hhs.gov/apps/firststep/print/schip-elig\\_pf.html](http://www.cms.hhs.gov/apps/firststep/print/schip-elig_pf.html).

The Department believes that the current passive or administrative renewal process is fully compliant with federal guidance. However, the Department will review the possibilities for revising our data systems to identify cases that are redetermined using this policy to better support quality control review activity.

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

As stated above, the current State Plans require redeterminations of eligibility for all recipients on an annual basis and 42 CFR 435.916(b) requires the State to have procedures designed to ensure that recipients make timely and accurate reports of any change in circumstances that may affect their eligibility. During our audit, DHFS officials stated that the passive redetermination process is not used for expenditures under the “All Kids” program, a State funded health insurance program similar to Medicaid and SCHIP, due to concerns that beneficiaries may not report changes in key eligibility factors in a timely manner. We believe those same concerns would be applicable to the federally funded programs. As a result, we do not believe the passive redetermination process meets the eligibility redetermination requirements of the Medicaid and SCHIP programs.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**State Agency:** Illinois Department of Health 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 (\$556,726,000)

**Award Numbers:** G-0601ILTANF/G-0701ILTANF

**Questioned Costs:** None

**Finding 07-26** *Unallowable Costs Used to Meet the TANF Maintenance of Effort*

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

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

During our audit, we noted the state LIHEAP expenditures reported by DHFS as expenditures qualifying for the TANF MOE requirement included payments to beneficiaries who did not meet the definition of a family in the TANF regulations. Specifically, we identified one beneficiary payment in our testwork of 30 payments which was paid on behalf of a single individual. Upon further investigation, it was determined that the query performed to identify LIHEAP expenditures was not properly designed to select beneficiary payments for households with more than one member. As a result of the error identified in our testing, DHFS reperformed the query of state LIHEAP expenditures and identified additional errors of the same nature approximating \$20,000 (including the error identified in our original sample) which were used to meet the TANF MOE requirement during the year ending June 30, 2007.

According to 45 CFR 263.2(b)(2), the benefits or services used to meet the maintenance of effort count only if they have been provided to or on behalf of eligible families which must include a child living with a custodial parent or other adult caretaker relative (or consist of a pregnant individual). 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 the expenditures used to meet the TANF MOE requirement are consistent with the applicable allowable cost criteria.

In discussing these conditions with DHFS officials, they stated that the quarterly reports for the TANF MOE claim were based on criteria provided by the Department of Human Services.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

Failure to ensure MOE expenditures meet the applicable allowable cost criteria may prevent the State from meeting the TANF MOE requirement and may result in a disallowance of costs. (Finding Code 07-26)

**Recommendation:**

We recommend DHFS review the process and procedures in place to identify LIHEAP expenditures to be used to meet the TANF MOE requirement and implement changes necessary to ensure only allowable costs are reported to IDHS.

**DHFS Response:**

The Department accepts the finding. The Department has made the necessary changes to the TANF MOE report to ensure consistency with CFR 263.2 (b)(2).



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$128,591,000)

**Award Numbers:** 0604IL4004/0704IL4004

**Questioned Costs:** None

**Finding 07-27** *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:

- Six cases (10%) in which interviews with custodial parents were not scheduled for timeframes ranging from 24 days to 215 days after the referral or application had been received.
- One case (2%) in which there was no progress in the case for 110 days due to an error made by an employee.

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 clients are entered into a scheduling queue in compliance with the 20-day timeframe and are automatically chosen for the first available appointment in that region. They further stated that per confirmation with the Program Specialist in Region 5, Federal Office of Child Support Enforcement (OCSE), their processing is in compliance with 45 CFR 303.2(b) Federal Requirement.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 07-27, 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. In three of the error cases noted in the first dot point, the client was put into a scheduling queue, within the 20-calendar day timeframe, to be scheduled for the next available appointment with that office. By entering these clients into the queue, they are automatically scheduled for the next available appointment. The Department has confirmed with OCSE that these cases are in compliance with the Federal requirements and therefore, no further action is deemed necessary.

The Department agrees that the four other cases cited were delayed in obtaining information from the clients. The Department will remind staff to document any action taken to prevent further delays in processing a case.

#### **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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$128,591,000)

**Award Numbers:** 0604IL4004/0704IL4004

**Questioned Costs:** None

**Finding 07-28** *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.

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;
- notify the initiating state when the case is closed.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

During our test work of 30 initiating and 30 responding cases (total of 60 cases), we noted two initiating cases (3%) were 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 delays in referring these cases were 36 days after the required federal timeframe for one of the cases and the second case was never referred to the responding state.

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 that reminders have been sent out to staff to document all actions taken on any case they are working to show the progression of a 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 07-28, 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.

#### **DHFS Response:**

The Department agrees with the finding and is engaged in ongoing continuous process improvement efforts focused on additional improvements in the area of interstate case processing.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$128,591,000)

**Award Numbers:** 0604IL4004/0704IL4004

**Questioned Costs:** None

**Finding 07-29** *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 one case in which DHFS never initiated support order procedures or documented unsuccessful attempts to serve process.

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

In discussing these conditions with DHFS officials, they stated that they agreed the case had not progressed to the next step as it should have done.

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 07-29, 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.

**DHFS Response:**

The Department agrees with the finding. A referral was sent to KIDS staff to research and make recommendations on this timing issue in order to alleviate this from occurring in the future.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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  
Low-Income Home Energy Assistance Program

**CFDA # and Program Expenditures:** 93.558 (\$556,726,000)  
93.568 (\$138,522,000)

**Award Numbers:** G-0601ILTANF/G-0701ILTANF (93.558)  
G-06B2ILLIEA/G-07B2ILLIEA (93.568)

**Questioned Costs:** None

**Finding 07-30** 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 \$135,603,000 in LIHEAP funding to Local Administering Agencies (LAAs) during the year ended June 30, 2007 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 one fiscal on-site review performed during the year, for which the Office of Energy Assistance reported findings, but did not obtain or require the subrecipient to submit a corrective action plan. The amount passed through to this subrecipient was \$2,953,633 for the year ended June 30, 2007.

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 that although policies were in place requiring corrective action plans be submitted in response to monitoring findings, the process did not include a tracking mechanism.

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 07-30, 06-27)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**Recommendation:**

We recommend DHFS establish procedures to require all subrecipients who receive findings during a fiscal on-site 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 accepts the finding. During fiscal year 2007, the Office of Energy Assistance developed procedures to require all subrecipients to submit a corrective action plan for all findings noted during fiscal monitoring visits. These procedures were implemented during fiscal year 2008. A tracking spreadsheet is also maintained that tracks the responses required and due dates for those responses. The Office of Energy Assistance will follow up on any responses not received by the due date.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$138,522,000)

**Award Numbers:** G-06B2ILLIEA/G-07B2ILLIEA

**Questioned Costs:** None

**Finding 07-31** *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, and adverse) and issuing management decisions on findings reported within required timeframes.

During our testwork over eleven subrecipients of the LIHEAP program with expenditures of \$93,758,351 during the year ended June 30, 2007, we noted there were three subrecipients, who expended \$69,338,165 during the year ended June 30, 2007, for which OMB Circular A-133 audit report were not received within nine months of the end of the subrecipient's fiscal year. In addition, these subrecipient files did not contain evidence that follow up procedures had been performed by DHFS to obtain the late audit reports. Delays in receiving these audit reports ranged from 24 to 154 days.

Subrecipient expenditures under the LIHEAP program for the year ended June 30, 2007 were \$135,603,000.

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 2007, a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

In discussing these conditions with DHFS officials, they stated the transfer of the LIHEAP program staff from the Illinois Department of Commerce and Economic Opportunity to the Department's predecessor, Illinois Department of Public Aid, occurred in fiscal year 2005 and did not include the transfer of the staff responsible for monitoring and performance of the A-133 reviews. The three cases noted pertained to fiscal year 2005 and fiscal year 2006 single audits collected and reviewed in the current period, and therefore, required the Department to institute procedures to ensure receipt and review of the single audits.

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 07-31, 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. Beginning in fiscal year 2008, the Department utilizes tools to monitor the nine-month submittal deadline of LIHEAP subrecipient audit reports and has incorporated such procedures into the A-133 process to comply with OMB Circular A-133 guidelines.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$194,295,000)

**Award Numbers:** 0701IL1401/0601IL1401/0501IL1407

**Questioned Costs:** \$22,491

**Finding 07-32** Missing Documentation in Case 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 criteria 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 two cases, 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 \$15,880 during the year ended June 30, 2007.
- 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 \$4,151 during the year ended June 30, 2007.
- In one case, the subsidy agreement was signed (1/8/98) later than the date of appointing guardian (12/11/97). DCFS claimed foster care payments on behalf of this child totaling \$2,460 during the year ended June 30, 2007.

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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 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 18<sup>th</sup> 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 07-32, 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 copies of birth certificates, orders appointing private guardianship, and other required documents are retained for all children. If, after further investigation by the Department and if obtaining a replacement copy of a birth certificate or the appointing order, the issues remain, the Department will make the appropriate claiming adjustments for actual amounts claimed for the beneficiary payments questioned by the auditor.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$194,295,000)

**Award Numbers:** 0701IL1401/0601IL1401/0501IL1401

**Questioned Costs:** \$2,214

**Finding 07-33** *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 in one case, the court order removing the child from the home did not contain language 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 this child totaling \$2,214 during the year ended June 30, 2007.

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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

In discussing these conditions with DCFS officials, they state the situation identified 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 those 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 07-33, 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 continue to 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 beneficiary payments for the case questioned by the auditor.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$89,317,000)

**Award Numbers:** 0701IL1407/0601IL1407/0501IL1407

**Questioned Costs:** \$23,112

**Finding 07-34** *Missing Documentation in Adoption Assistance 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 six 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 \$17,983 during the year ended June 30, 2007.
- 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 \$7,435 during the year ended June 30, 2007. However, two of the cases have already been included in the first bullet, so only \$2,460 is additional questioned costs.
- In three 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 \$7,435 during the year ended June 30, 2007. However, two of the cases have already been included in the previous bullets and only \$2,669 is additional questioned costs.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 issues exist in these files due to the fact that private agencies and DCFS adoption staff has the responsibility to provide all of the required documents to the Post Adoption Unit at the point of adoption finalization. If documents are missing at that time, there is little influence that the Post Adoption Unit can have to make the agencies produce the documents since they do not oversee their work. At the same time, the Post Adoption Unit has great pressure to open the adoption assistance case so the adopted child can continue to receive a subsidy. If they cannot obtain the documents at the point of finalization, it is very difficult to go back years later and try to retrieve them.

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 07-34, 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 has established an inter-divisional committee that has developed new checklists that have been distributed to the private sector, DCFS staff, and post adoption staff. The Post Adoption Unit staff now will not accept new materials or open new adoption assistance cases until all of the materials on the checklist are included and delivered to the Unit.

For outstanding issues on files from the past, the staff will work to obtain the missing documents from various sources. If, after further investigation by the Department and if after obtaining a replacement copy of birth certificates or the appointing orders, 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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$89,317,000)

**Award Numbers:** 0701IL1407/0601IL1407/ 0501IL1407

**Questioned Costs:** None

**Finding 07-35** *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 in one case, the adoption assistance agreement was signed by the DCFS worker later than the Adoption Decree. DCFS claimed adoption assistance subsidy payments on behalf of this child totaling \$2,307. This amount is also included as questioned costs related to Finding 07-34, "Missing Documentation in Adoption Assistance Eligibility Files" and will not be reported as questioned costs in 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, 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 amount identified for the case appears to be a data entry error entered some years ago or may have been entered based on incomplete documents at the time of entry.

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 07-35, 06-33)



**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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:**

The Department agrees and will be conducting a review of its procedures for entering adoption agreement amounts and a review of the selected case. The Department will investigate the circumstances around the reported error.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$556,726,000)  
93.658 (\$194,295,000)  
93.659 (\$89,317,000)  
93.667 (\$109,206,000)

**Award Numbers:** G-0601ILTANF/G-0702ILTANF (93.558)  
(CFDA Number) 0701IL140/ 0601IL1401/0501IL1401 (93.658)  
0601IL1407/ 0601IL1407/0501IL1407 (93.659)  
G-0601ILSOSR/G-0601ILSOS2/G00701ILSOSR (93.667)

**Questioned Costs:** None

**Finding 07-36** *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 189 subrecipients, we noted that on-site fiscal and administrative monitoring procedures have never been performed for 46 subrecipients. Upon further discussion with management, we noted that on-site monitoring procedures have only been performed for 15 of 189 total subrecipients of the Temporary Assistance for Needy Families, Foster Care Title IV-E, Adoption Assistance, and Social Services Block Grant programs during the year ended June 30, 2007. Additionally, we noted fiscal and administrative monitoring procedures did not adequately address all direct and material compliance requirements.

Per OMB Circular A-133 Compliance Supplement, dated March 2007, 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 programs in place that conduct on-site visits at provider locations. The number of on-site reviews identified in the finding is only those conducted by the Office of Field Audits (OFA) and a great portion of their time is spent reviewing audit reports required from all subrecipient/providers receiving \$150,000 or more from DCFS and those subrecipient/providers submitting A-133 audit reports, which contain reports issued by their CPA's. Those subrecipients selected for OFA field visits are generated from the desk reviews completed in the prior year that have notable negative issues. OFA 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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 07-36, 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 on-Site fiscal and administrative reviews include procedures over all compliance requirements that are considered direct and material to the Foster Care program. Additionally, we recommend DCFS evaluate the current staffing of the fiscal monitoring department to ensure resources are adequate. DCFS should formally document its policy relating to the frequency of on-site monitoring for federal programs.

#### **DCFS Response:**

The Department agrees that on-site fiscal and administrative reviews should include procedures that consider all compliance requirements direct and material to the programs funded by the Department and to ensure compliance with contract program plan requirements established for the services approved and being obtained for children. The Department has developed and implemented procedures to address A-133 Findings noted in the sub recipients' OMB Circular A-133 reports. Additional follow up is conducted for each financial finding, programmatic findings are referred to the appropriate division for follow up, and a Decision Memo is issued.

The Office of Field Audits is one unit within the Division of Monitoring with responsibilities that include both "desk reviews" of the all Provider submitted financial and A-133 audit reports as well as conducting on-site visits and/or audits of selected providers. The Department's Agency Performance Team Monitoring unit was established in order to strengthen the Department's effectiveness in monitoring the provision of quality services by its contractual private agencies (substitute care providers). The APT Division is part of the broader Division of Monitoring and is responsible for providing oversight, information gathering, continuous quality improvement and resource development to private agencies. Beginning in fiscal year 2007, DCFS began implementing the use of the APT review protocols on DCFS cases on a quarterly basis. Contract Monitoring (of non-substitute care providers) is carried out by the Contract Unit in the Division of Budget and Finance. That Unit uses various review tools and scheduled visits with providers that include a series of items that must be evaluated for program and financial compliance with the contract and program plan specific for the provider.

The Department is also in the process of hiring three additional auditors to ensure resources are adequate for financial monitoring.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

**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 (\$556,726,000)  
93.658 (\$194,295,000)  
93.659 (\$89,317,000)  
93.667 (\$109,206,000)

**Award Numbers:** G-0601ILTANF/G-0702ILTANF (93.558)  
(CFDA Number) 0701IL140/ 0601IL1401/0501IL1401 (93.658)  
0601IL1407/ 0601IL1407/0501IL1407 (93.659)  
G-0601ILSOSR/G-0601ILSOS2/G00701ILSOSR (93.667)

**Questioned Costs:** None

**Finding 07-37** *Inaccurate Allocation of Costs*

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

DCFS administers several federal and state programs to protect and serve the welfare of the State’s children. In administering each of these programs, DCFS incurs significant expenditures, which are directly and indirectly attributable to the administration of its programs. In order to allocate costs to the programs to which they are attributable, DCFS has submitted a Public Assistance Cost Allocation Plan (PACAP) to the USDHHS describing its overall organizational structure, the federal programs it administers, and the methodologies it has developed to allocate administrative expenditures to its federal programs. The PACAP is submitted to USDHHS periodically for review and approval of the allocation methodologies used by DCFS. DCFS has developed the methodologies for allocating costs to its programs, which DCFS believes best represent the actual costs associated with the program.

During our review of costs allocated to federal programs during the quarter ended March 31, 2007, we noted the following errors in the application of allocation methodologies:

- The allocation method used for the Office of the Guardian was not consistent with the methodology defined in the PACAP. Costs pools to be allocated based on an eligibility distribution among qualifying federal programs were instead applied directly to the Foster Care or Adoption Assistance programs. Section III-A of the PACAP calls for distributing costs to Title IV-E Foster Care, IV-E Adoption Assistance, TANF, and/or state funds based on eligibility ratios of those receiving services under each program. This first allocation step was not performed, resulting in the federal programs being allocated more than their proportionate share of costs.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

- Incorrect Random Moment Survey (RMS) statistics were applied for Private Agencies (POS). In accordance with Section VII of the PACAP. DCFS utilizes the RMS system to identify an employee's specific programs and activities within social service programs, as well as allocate allowable direct costs for the Subsidized Guardianship (SG) and Alcohol and Other Drug Abuse (AODA) waivers. With respect to the private agency RMS results, the percentages applied to the cost pools and ultimately claimed were not support by the results of the RMS survey for the quarter.

After identification of this error during our audit, the March 31, 2007 quarterly allocation was re-run with the appropriate allocation methodology which resulted in an adjustment to the federal claim for the quarter ended June 30, 2007. Accordingly, we have reported no questioned costs related to this finding.

According to 45 CFR part 95.517, a State must claim costs associated with a program in accordance with its approved cost allocation plan. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

In discussing these conditions with DCFS officials, they stated that the error primarily resulted from not running a new mainframe computer application, Title IV-E Development system (TFEDS) in parallel with the old manual claim computation process to ensure that the costs calculated by TFEDS would be the same as those calculated manually due to the time and effort needed for the manual computation.

Failure to accurately allocate costs in accordance with the PACAP may result in disallowances of costs. (Finding Code 07-37)

#### **Recommendation:**

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

#### **DCFS Response:**

The Department agrees with the recommendation and has corrected the procedures and process followed in the third quarter when the error occurred. New computer applications are not to be implemented in the manner followed. The amounts claimed incorrectly with the March 2007 claim were corrected at the time the June 2007 claim was submitted by submitting a corrected March 2007 claim.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$11,274,000)

**Award Numbers:** G-0701IL1400/G-0601IL1400

**Questioned Costs:** None

**Finding 07-38** *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 nine of the initial case plans were completed within a range of seven to 261 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 changes and 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 07-38, 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.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**DCFS Response:**

The Department agrees and continues to stress the importance of adequate and timely documentation for child case files. Based on the fundamentals of good social work practice, requirements of the Council of Accreditation, and Federal Review Outcomes, Illinois has 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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$89,317,000)

**Award Numbers:** 0701IL1407/0601IL1407/0501IL1407

**Questioned Costs:** Cannot be determined

**Finding 07-39** *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 40 beneficiaries receiving recurring subsidy payments under the adoption assistance program, we noted 13 instances in which DCFS could not locate a recertification form submitted by the adoptive parent within the most recent two year period.

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 that several efforts to improve and streamline this process have been made, however, adequate systems and staff support had not been available until recently to follow up on missing recertification requests.

Failure to complete the necessary eligibility recertification could result in payments to ineligible beneficiaries, which are unallowable costs. (Finding Code 07-39, 06-36)



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

#### **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. The project is currently in a three month implementation phase. In fiscal year 2008, the planning and development of the means to centralize the recertification process in Springfield under the Division of Budget and Finance, Technical Support Unit was completed. This shift required the hiring of two additional data input staff. The first recertification letters were mailed from Springfield location in May 2008 and within three months, the entire process will be based in the new Springfield location. The new process provides for the sending and tracking of first and second notices. Families that do not respond to either of these notices and require another third form of outreach will be sent to the regional post adoption staff for follow-up.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**State Agency:** Illinois Department on Aging (IDOA)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Aging Cluster  
**CFDA # and Program Expenditures:** 93.044/93.045/93.053 (\$44,118,000)  
**Award Numbers:** 07AAILT3SP/06AAILT3SP/07AAILNSIP/06AAILNSIP  
**Questioned Costs:** None  
**Finding 07-40** *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. Additionally, IDOA began performing on-site programmatic monitoring procedures on the Advisory Councils for each area agency during fiscal year 2007; however, no on-site monitoring procedures were performed on the area agencies on aging. The Advisory Councils were established to advise the area agencies on matters relating to the development and administration of the area plans, but are not responsible for the direct administration of the program benefits.

During our testwork of eight subrecipients of the Aging Cluster with total expenditures of \$30,156,000, we noted no on-site monitoring procedures had been performed on the area agencies on aging since 1998. Total awards passed through to area agencies on aging were approximately \$41,968,000 during the year-ended June 30, 2007.

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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 07-40, 06-38, 05-52, 04-38, 03-36)

#### **Recommendation:**

We recommend IDOA perform periodic on-site reviews of the area agencies on aging 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:**

Department program staff monitored the area agencies on aging (AAA) in fiscal year 2007. The focus of the on-site reviews was to confirm that each AAA had fulfilled its statutory responsibility to establish an Advisory Council. The purpose of these Councils is to provide input on all aspects of the AAA's operations; in particular, "to advise continuously the area agency on aging on all matters relating to the development of the area plan, the administration of the plan and operations conducted under the plan." During fiscal year 2008, the Department performed an on-site fiscal review at the Lincolnland AAA. A final report was sent to that agency. During fiscal year 2009, the Department plans to conduct additional on-site programmatic and fiscal reviews in order to achieve compliance with OMB Circular A-133 \_\_\_.400(d)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**State Agency:** Illinois Department on Aging (IDOA)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Aging Cluster  
**CFDA # and Program Expenditures:** 93.044/93.045/93.053 (\$44,118,000)  
**Award Numbers:** 07AAILT3SP/06AAILT3SP/07AAILNSIP/06AAILNSIP  
**Questioned Costs:** None

**Finding 07-41** *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 \$30,156,000, 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.
- 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 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 \$41,968,000 during the year ended June 30, 2007.

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 2007, a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

In discussing these conditions with IDOA officials, stated that an attempt had been made to implement new procedures based on the audit finding from fiscal year 2006 and that since that time, additional staff has been hired to focus on this requirement.

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 07-41, 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.
- The supervisory review of the desk review 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:**

Additional staff have been added to the fiscal department and their responsibilities included creating a tracking report to monitor the receipt of the OMB Circular A-133 reports and to keep it up to date; adding a supervisory review signature line on the desk review checklist schedule to confirm when the secondary review was completed; reconciling expenditures reported by the subrecipients to the schedule of federal awards submitted in their OMB Circular A-133 audit reports. These procedures were fully operational by fiscal year 2008 and we expect these finding to be resolved in the next audit engagement.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**State Agency:** Illinois Department on Aging (IDOA)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Aging Cluster  
**CFDA # and Program Expenditures:** 93.044/93.045/93.053 (\$44,118,000)  
**Award Numbers:** 07AAILT3SP/06AAILT3SP/07AAILNSIP/06AAILNSIP  
**Questioned Costs:** None

**Finding 07-42** *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 1/12<sup>th</sup> 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, 2006, we noted the subrecipients remitted approximately \$203,000 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 that development work began on new cash management procedures during fiscal year 2007 to address this particular finding from the previous audit period.

Providing subrecipients funding advances of greater than 30 days results in additional costs of financing for the US Treasury. (Finding Code 07-42, 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.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**IDOA Response:**

New funding procedures were released to the area agencies on aging (AAA) on December 11, 2007. The new procedures require the AAAs to include existing and in-transit balances in their monthly cash requests calculations. Each request is reviewed by fiscal staff to substantiate the need for additional advance funding. The next step of the monitoring process will be to work with the AAAs to develop cash budgets to better plan their 30 cash requirements

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$54,627,000)

**Award Numbers:** H/2CCH522568-04-01

**Questioned Costs:** None

**Finding 07-43** *Inadequate Control and Accountability for Vaccines*

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

IDPH receives the majority of its federal Immunization Grants program funding in the form of vaccines which are distributed to medical providers (subrecipients) throughout the State. In addition to the federal Immunization Grants program, IDPH operates a state funded vaccine program to provide vaccines to individuals who are not eligible for vaccination under the federal program. The vaccines for both the federally funded program and the state funded program are accounted for using the Center for Disease Control and Prevention's Vaccine Management software (VACMAN). During our testwork, we noted IDPH does not distinguish between federally funded and state funded vaccines when recording disbursements in VACMAN. As a result, IDPH was not able to identify the amount of the federally funded vaccines disbursed during the year or the amount of federally funded vaccines on hand as of June 30, 2007.

During our testwork, we were not able to obtain a complete population of federal expenditures to verify vaccines were used for activities allowed under the Immunization Grants program or that subrecipients were monitored for compliance with the applicable program regulations. In addition, we noted IDPH had not properly notified subrecipients of the amount of federally funded vaccines disbursed during the year. Accordingly, we are unable to conclude on IDPH's compliance with regulations applicable to the Immunization Grants program.

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. 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 the problems with the federally required software which were used for the inventory reports resulted in these auditing difficulties.

Failure to properly control and account for vaccines may result in improper usage by ineligible recipients. (Finding Code 07-43, 06-47)



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

#### **Recommendation:**

We recommend IDPH review its process for identifying vaccines disbursed under its federal Immunization Grants program and implement the changes necessary to ensure federal vaccine disbursements are identified and accounted for in accordance with the applicable program regulations.

#### **IDPH Response:**

The department concurs in the finding and recommendation. When the department places vaccine orders with the Centers for Diseases Control and Prevention using their mandatory VACMAN system, federal and state vaccine purchases are independently tracked in the VACMAN data base. However, problems were discovered last year with certain VACMAN reporting features and CDC was made aware of the software problem. To be more specific, VACMAN did not have the capability to accurately report vaccines received and vaccines distributed when a vaccine lot number was purchased with more than one funding source. As a result, the VACMAN inventory reports were difficult to track. As back-up to VACMAN, the department has routinely maintained daily inventory tracking sheets that are reconciled each day with the actual physical inventory at the department warehouse. The tracking sheets were maintained on paper, and therefore, at the time of the audit, were not compiled into a convenient and easy to audit reporting system. These inventory tracking sheets have since been data-entered into a master MS Excel spreadsheet to assist with audit inventory inquiries.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$42,662,000)  
93.917 (\$39,853,000)

**Award Numbers:** Various (93.283)  
(CFDA number) 6X07HA00013-16-03/2X07HA00013-17-00 (93.917)

**Questioned Costs:** None

**Finding 07-44** *Inadequate On-Site Monitoring of Subrecipients*

IDPH is not adequately performing on-site monitoring of subrecipients receiving federal awards under the Centers for Disease Control and Prevention – Investigations and Technical Assistance (CDC Investigations and Technical Assistance) and HIV Care Formula Grants (HIV) programs.

IDPH monitors the subrecipients of the CDC Investigations and Technical Assistance 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 CDC Investigations and Technical Assistance), and (4) periodic communication of program requirements. During our testwork of 30 subrecipients of the CDC Investigations and Technical Assistance program expending \$6,078,000 and fourteen subrecipients of the HIV program expending \$7,260,000, we noted the following exceptions:

- Five of the HIV subrecipients had not been subject to on-site monitoring procedures in 2006 or 2007 as required by IDPH procedures.
- Eight of the CDC Investigations and Technical Assistance program subrecipients were not subject to regular on-site programmatic review. Upon further investigation, we noted only awards for public health preparedness and response grants have been subject to on-site monitoring procedures. Total awards passed through to subrecipients of the CDC Investigations and Technical Assistance program that were not subject to on-site programmatic reviews were \$7,188,000 during the year ended June 30, 2007.

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 CDC Investigations and Technical Assistance and HIV programs.

Total subrecipient expenditures for the CDC Investigations and Technical Assistance and HIV programs were \$20,754,000 and \$6,163,000, respectively, during the year ended June 30, 2007.

In accordance with the OMB Circular A-133 Compliance Supplement, dated March 2007, 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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

In discussing these conditions with IDPH officials, they stated that staffing issues have precluded all necessary reviews from being completed.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement. (Finding Code 07-44, 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 CDC Investigations and Technical Assistance 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. Procedures have been drafted for on-site reviews of non-local health department grantees of bioterrorism funding. These procedures will include an administrative review for compliance with the grant and a review of all items purchased with the grant funds. The site review will include fiscal and programmatic review. The HIV/AIDS Section of the Office of Health Protection has, during the past program year, experienced multiple voluntary staff reductions that greatly diminished the department's ability to meet this audit recommendation. The department is, nevertheless, committed to hiring additional staff resources in order to fulfill the federal grant oversight function. IDPH is also planning to issue an RFP in calendar year 2008 to secure contractual assistance in reviewing subrecipient fiscal and administrative capabilities within the HIV programs.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$42,662,000)  
93.917 (\$39,853,000)

**Award Numbers:** Various (93.283)  
(CFDA number) 6X07HA00013-16-03/2X07HA00013-17-00 (93.917)

**Questioned Costs:** None

**Finding 07-45** *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 (CDC Investigations and Technical Assistance), and HIV Care Formula Grants (HIV) programs have complied with OMB Circular A-133 audit requirements.

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

During our testwork over 30 subrecipients of the Immunization Grants program, 30 subrecipients of the CDC Investigations and Technical Assistance program, and fourteen subrecipients of the HIV program, we noted the following:

- There were fifteen subrecipients of the CDC Investigations and Technical Assistance program and one subrecipient of the HIV program for which OMB Circular A-133 audit reports were not received. In addition, one HIV program subrecipient A-133 report was received and reviewed fourteen months after the subrecipient's fiscal year end. Subrecipient files did not contain any evidence that follow up procedures were performed by IDPH to obtain missing reports.
- Eight CDC Investigations and Technical Assistance subrecipient reports 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.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

Additionally, a standard checklist was not used to document the review of subrecipient A-133 reports to determine whether (1) the audit reports met the audit requirements of OMB Circular A-133, federal funds reported in the schedule of expenditures of federal awards reconcile to IDPH records to ensure subrecipients properly included amounts in the SEFA, Type A programs were audited at least every three years.

Subrecipient expenditures under the federal programs for the year ended June 30, 2007 were as follows:

<b>Program</b>	<b>Total Fiscal Year 2007 Subrecipient Expenditures</b>	<b>Total Fiscal Year 2007 Program Expenditures</b>	<b>%</b>
CDC Investigations and Technical Assistance Program	\$20,754,000	42,662,000	48.6%
HIV	6,163,000	39,853,000	15.5%

According to OMB Circular A-133 § .400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 Compliance Supplement, dated March 2007, 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 staff turnover have limited their ability to get all required reports reviewed.

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 07-45, 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 an A-133 desk review checklist which includes procedures to determine whether the audit reports meet the audit requirements of OMB Circular A-133, federal funds reported in the schedule of expenditures of federal awards reconcile to IDPH records, and Type A programs are audited at least once every three years.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**IDPH Response:**

The department concurs in the finding and recommendation. The Division of Accounting Services has a control process in place which has helped ensured the receipt of required A-133 audit reports. For reports that have not been received within the federal required time frame, the subrecipient is notified in writing to submit their A-133 or to submit to the department in writing that the subrecipient is below the threshold and are not required to have an A-133 Single Audit completed. Reports are being reviewed for proper documentation and if related findings to the department are found, the audit is referred to the appropriate program office for follow-up with the subrecipient.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$39,853,000)  
**Award Numbers:** 6X07HA00013-16-03/2X07HA00013-17-00  
**Questioned Costs:** Cannot be determined

**Finding 07-46** *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. IDPH also requires individuals who report little or no income to provide third party statements of support (generally from a family member or a homeless shelter) to corroborate the individual's lack of income. Additionally, IDPH confirms with the Illinois Department of Healthcare and Family Services that the beneficiary is not receiving benefits under Medicaid.

During our testwork of benefits provided to HIV beneficiaries, we selected 30 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits. We noted in 8 cases 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 additional 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.

In discussing these conditions with IDPH officials, they stated that sound public health policy dictates presumptive eligibility for ADAP.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 07-46, 06-43, 05-54, 04-40)

#### **Recommendation:**

We recommend IDPH implement 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 but has expressed to the auditors their position on this matter. The department maintains that it is good, essential public health policy to allow temporary or presumptive ADAP eligibility in order to ensure continuity of care and to provide access to drugs that are essential to minimizing the development of drug resistance and disease transmission. Therefore, IDPH allows enrollment of HIV diagnosed clients into ADAP with only self declaration of income, or in some cases, with written attestation from a related third party that a client has no income. Self declaration of income, or attestation of no income, is the same income verification standard as is required by the Illinois State Medicaid agency when performing Medicaid eligibility determinations for low-income clients.

At the initial determination of ADAP eligibility, IDPH staffers check 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 subsequently re-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, the Illinois ADAP is able to back-bill Medicaid for services provided during the eligibility period, thus recouping any cost for services provided during that time.

As a result of this finding and subsequent discussions, the department will revise ADAP eligibility standards related to Medicaid eligibility. Specifically, the department shall revise agency policy to state that a prospective ADAP client must not be Medicaid enrolled rather than Medicaid eligible as a condition of ADAP eligibility. Again, the department maintains that it is in the best health interests of prospective clients to provide presumptive ADAP coverage without first requiring a client to wait for Medicaid program eligibility determination which could be for an extended period of time.



**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$54,627,000)  
**Award Numbers:** H/2CCH522568-04-01  
**Questioned Costs:** None

**Finding 07-47** Insufficient Federal Award Information Provided to Subrecipients

IDPH did not provide 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 any omissions were an oversight and will be corrected.

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 07-47, 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 in the finding and recommendation. The department will ensure that each vaccine shipment includes the appropriate CFDA title and number on the enclosed invoice. The value of the product as calculated from the existing federal contract will be also included on the invoice. In addition, any other subrecipient grant award notices shall have the required federal award information included.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**State Agency:** Illinois Department of Public Health (IDPH)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Medicaid Cluster  
**CFDA # and Program Expenditures:** 93.775/93.777/93.778 (\$6,544,606,000)  
**Award Numbers:** 5-0605IL5048/05-0507IL5048 (93.775/93.777)  
(CFDA Number) 5-0605IL5028/05-0507IL5028 (93.778)  
**Questioned Costs:** None

**Finding 07-48** *Failure to Investigate Provider Complaints within Required Timeframes*

IDPH did not investigate complaints received relative to providers of the Medicaid Cluster within required timeframes.

The Office of Health Care within IDPH is responsible for receiving and investigating complaints received against providers of the Medicaid Cluster. State laws require the Office of Health Care to investigate complaints within 30 days of receipt unless the complaint alleges abuse or neglect. Complaints of abuse or neglect are required to be investigated within 7 days of receipt. As the timeframes for complaint investigations included in the State's laws are more stringent than those included in the federal Medicaid regulations, the State timeframes are required to be followed.

During our testwork over 30 complaints filed against Medicaid providers during the year ended June 30, 2007, we identified six complaints that were not investigated within the timeframes required by the State's law. The delays in investigating these complaints ranged from 7 to 52 days in excess of required timeframes.

According to Section 5010 of The Centers for Medicare and Medicaid Services (CMS) State Operations Manual, each state is expected to have written policies and procedures to ensure that the appropriate response is taken for each complaint received against providers. Among other things, these policies and procedures are required to include timelines for investigating complaints which are as least a stringent as those included in federal regulations. Section 300.3310 of the Illinois Administrative Code (Title 77 Chapter 1(c)) requires complaints to be investigated within 30 days of receipt unless the complaint alleges abuse or neglect. Complaints of abuse or neglect are required to be investigated within 7 days of receipt.

In discussing these conditions with IDPH officials, they stated that isolated staff turnover in one of the department's regions caused some timeframes to be exceeded.

Failure to investigate complaints against Medicaid providers within required timeframes may prevent the State from identifying and correcting health and safety violations and from protecting the welfare of Medicaid beneficiaries. (Finding Code 07-48)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**Recommendation:**

We recommend IDPH review its current process for investigating complaints received against Medicaid providers and consider changes necessary to ensure all complaints are investigated within the timeframes required by State law.

**IDPH Response:**

The department concurs in the finding and recommendation. All complaints conducted outside of the required timeframes were completed, just not in the required timeframe. The reason for the lateness in conducting the noted complaint investigations was that of a staffing shortage. Most of the late complaints were in the Bellwood Region and there was a larger than expected turnover of survey staff which significantly affected the survey schedule. We are currently using out of Region survey staff to catch up on complaints and will continue to do this until the Bellwood Regional Office surveyor vacancies can be filled. In calendar year 2007, the department did receive and investigate over 5,700 complaints.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**State Agency:** Illinois Department of Public Health (IDPH)  
**Federal Agency:** US Department of Health and Human Services (USDHHS)  
**Program Name:** Centers for Disease Control and Prevention – Investigations and Technical Assistance  
**CFDA # and Program Expenditures:** 93.283 (\$42,662,000)  
**Award Numbers:** Various  
**Questioned Costs:** None

**Finding 07-49** *Inadequate Cash Management Procedures for Subrecipients*

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

During our testwork over cash management procedures for subrecipients, we noted IDPH did not monitor the cash position of grants under the CDC – Investigation and Technical Assistance program which were awarded for the purpose of addressing asthma from a public health perspective. Additionally, the payment terms for these awards (grants) stated the subrecipient would be provided grant funding through an annual or quarterly payment. Upon request during our audit, IDPH reconciled the cash disbursements made to subrecipient which demonstrated these subrecipients received more than 30 days cash advance. Total payments to subrecipients of grants under the CDC – Investigation and Technical Assistance program which were awarded for the purpose of addressing asthma from a public health perspective were \$282,000 during the ended June 30, 2007.

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 controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include analysis of subrecipient’s cash position prior to advancing program funds.

In discussing these conditions with IDPH officials, they stated this oversight was a one time situation due to the timing of the grants.

Providing subrecipients funding advances of greater than 30 days results in additional costs of financing for the U.S. Treasury. (Finding Code 07-49)

**Recommendation:**

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

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**IDPH Response:**

The department concurs with the finding and recommendation. It was an oversight to advance funding for a number of small World Asthma Day grants. This oversight has been corrected and we are no longer advancing funds from this federal grant.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$39,853,000)  
**Award Numbers:** 6X07HA00013-16-03/2X07HA00013-17-00  
**Questioned Costs:** None

**Finding 07-50** *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, 2007, 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 that they believed that other agency expenditures for HIV/AIDS program were proper and allowable.

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 07-50, 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.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**IDPH Response:**

The department concurs in the finding and recommendation. In subsequent project years, the department does not anticipate that state HIV/AIDS program expenditures made on behalf of DCFS or any other state agency will be claimed as certified state Maintenance of Effort (MOE) expenditures. All future MOE requirements will be met using only IDPH certified expenditures due to increasing state funding in support of HIV/AIDS activities.

# STATE OF ILLINOIS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

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

**Program Name:** Reading First State Grants

**CFDA # and Program Expenditures:** 84.357 (\$30,753,000)

**Award Numbers:** S357A040014/S357A050014/S357A060014

**Questioned Costs:** Cannot be determined

**Finding 07-51** *Improper Allocation of Subrecipient Funding under the Terms of the Reading First State Grants State Plan*

ISBE did not properly allocate federal funds to subrecipients of the Reading First State Grants (Reading First) program during the year ended June 30, 2007.

The Reading First program, which began in fiscal year 2003, is awarded by ISBE to eligible subrecipients for a three year period. The Consolidated State Plan (State Plan) for the Reading First program requires that allocation to subrecipients be based on a declining amount of one-third in each of the second and third years. For example, if a subrecipient was awarded \$150,000 in year 1, they should be awarded \$100,000 in year 2 and \$50,000 in year 3. Funding in years 4 through 6 should be based on the year 3 amount and is dependent upon adequate annual progress goals and upon the basis of need as demonstrated by the subrecipient. Based on the declining funding model, it was the intent of the State plan to initially award Reading First funds to 175 schools in fiscal year 2003 and subsequently add approximately 58 new schools in fiscal year 2004 and 78 new schools in fiscal year 2005.

During our audit, we noted ISBE has not been allocating Reading First funds using a declining funding model as required by the State Plan. Specifically, ISBE has been awarding a consistent amount to each subrecipient as received in the first year of the grant (which is fiscal year 2003 for most subrecipients). Additionally, ISBE has not added new subrecipients each year as required by the State Plan due to the lack of availability from not using a declining funding model. We noted there were 0, 0, 10, and 0 new subrecipients (districts) during the years ended June 30, 2004, 2005, 2006, and 2007, respectively.

ISBE passed through a total of \$29,434,000 to 29 subrecipients (districts) of the Reading First State Grants program during the year ended June 30, 2007.

20 USC 6311 requires ISBE to prepare a Consolidated State Plan. The State Plan is submitted to the USDE in response to its Request for Applications for the Reading First State Grants program. The State Plan describes the Illinois Reading First State Grants Plan for improving reading instruction, including an analysis of current reading initiatives and identified gaps, rationale for using scientifically based reading research as the basis for improving K-3<sup>rd</sup> reading instruction, ISBE's definition of subgrant eligibility, selection criteria for awarding subgrants, the process for awarding subgrants and ISBE's professional development plan.



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

According to the State Plan approved in fiscal year 2002, "Illinois will fund successful applications in the first three years of Reading First State Grants. The funding plan will result in over 300 schools receiving funding, at various levels, during this time frame. During Year 1, it is anticipated that 175 schools in eligible districts each will receive on average \$150,000 in Reading First State Grants funds. During Year 2, the funding level will be reduced by a third. In Year 3, the funding level will be further reduced by another third. Funding for years four through six will depend upon meeting adequate yearly progress goals and upon the basis of new for further capacity building and program maintenance. In all cases, the minimum subgrant requirement, as stated above will be met."

The State Plan also states "New schools will be added during the next two years of Reading First State Grants funding. It is anticipated that 58 additional schools will receive on average \$150,000 during Year Two. Funding to eligible districts for these schools will be reduced by the same increments as stated above (i.e., \$100,000 on average in year two of funding and \$50,000 on average in years 3-6, provided they are meeting their performance goals). Approximately 78 more schools will be added in Year Three and will follow the same funding pattern for the subsequent two years."

In discussing these conditions with Agency Officials, they stated that numerous issues have surrounded the Reading First program at both the Federal and State level since its inception. Since the initial development of the Reading First State Plan, there has been significant turnover in Agency staff and management responsible for this program. A review of communications between the Agency and the USDE during their review and approval of the State Plan indicates they had issues with the declining funding model presented in the Plan. Although documentation cannot be produced, it is believed that the funding model presented in the initial plan was modified with ED approval, and the modified funding model implemented. The declining funding model was never used for funding the Reading First program.

Failure to award and allocate federal funds to subrecipients in accordance with the State Plan results in unallowable costs being claimed under the Reading First State Grants program. (Finding Code 07-51)

#### **Recommendation:**

We recommend ISBE allocate funding to subrecipients in accordance with the methodologies in the approved State Plan.

#### **ISBE Response:**

The Agency concurs that the funding model used to allocate Reading First funds is not in agreement with the funding model put forward in the State's original Reading First State Plan. The Agency is working with the USDE regarding the difference in the funding model presented in the State Plan and the funding model implemented and currently in use to distribute Reading First funds. The Agency is seeking USDE's approval of an amendment to the State Plan to reflect the funding model in use.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

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

**Program Name:** Title I Grants to Local Educational Agencies

**CFDA # and Program Expenditures:** 84.010 (\$519,959,000)

**Award Numbers:** S010A040013/S010A050013/S010A060013

**Questioned Costs:** None

**Finding 07-52** *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 I Grants to Local Education Agencies (Title I) program.

LEAs must provide educational services for schools receiving Title I funds that are comparable (equal) to those that are not receiving Title I funds within the same school district ("comparability of services"). Based on information provided from a USDE audit and procedures performed during our audit in fiscal year 2006, we noted one LEA which is not in compliance with the comparability of services requirement. Specifically, this LEA appears to have 16 schools receiving Title I funds that are providing educational services (based on both a teacher to pupil ratio and expenditure to pupil ratio) that are less than schools not receiving Title I 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 I program during the year ended June 30, 2007. Of this amount, the 16 schools that did not meet the comparability of services requirement received approximately \$3,041,000 during the year ended June 30, 2007.

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 Agency officials, they stated that this issue was first raised in the USDE Office of the Inspector General Report on Comparability issued June 7, 2007. This report states that "Determinations of corrective action to be taken, including the recovery of funds, will be made by the appropriate Department of Education officials, in accordance with the General Education Provisions Act." ISBE must wait to receive the USDE determination of corrective action in order to sanction the LEA.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 I funds and 2) unallowable costs. (Finding Code 07-52, 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. The Agency is awaiting the determination by the USDE Office of Elementary & Secondary Education of the appropriate corrective action to be taken to sanction the LEA. Upon receipt of this determination, the Agency will implement the corrective action.

# STATE OF ILLINOIS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

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

**Program Name:** Title I Grants to Local Educational Agencies  
Special Education Cluster  
Vocational Education – Basic Grants to States  
Twenty-First Century Community Learning Centers  
Reading First State Grants  
Improving Teacher Quality State Grants

**CFDA # and Program Expenditures:** 84.010 (\$519,959,000)  
84.027 / 84.173 (\$464,244,000)  
84.048 (\$46,314,000)  
84.287 (\$40,554,000)  
84.357 (\$30,753,000)  
84.367 (\$113,795,000)

**Award Numbers:** S010A040013/S010A050013/S010A060013 (84.010)  
(CFDA Number) H027A040072/H027A050072/H027A060072 (84.027)  
H173A040101/H173A050101/H173A060101 (84.173)  
V048A040013/V048A050013/V048A060013 (84.048)  
S287C040013/S287C050013/S287C060013 (84.287)  
S357A040014/S357A050014/S357A060014 (85.357)  
S367A040012/S367A050012/S367A060012 (84.367)

**Questioned Costs:** None

**Finding 07-53** *Inadequate On-Site Fiscal Monitoring of Subrecipients*

ISBE is not adequately performing on-site fiscal monitoring reviews of subrecipients of the Title I Grants to Local Educational Agencies, Special Education Cluster, Vocational Education – Basic Grants to States, Twenty-First Century Community Learning Centers, Reading First State Grants, and Improving Teacher Quality State Grants programs (collectively referred to as the Education programs).

ISBE selects subrecipients of the Education programs to perform on-site fiscal and administrative monitoring procedures using a risk based approach. Specifically, ISBE places each subrecipient receiving funding into a risk level (low, medium, and high) category that dictates the year (annual, every 2 year, and every 3 year) in which ISBE would perform on-site fiscal and administrative monitoring procedures. These risk assessments are based on the funding level received by the entity, the financial status, the improvement status, any past audit findings, and the type of entity.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

During our audit procedures, we selected a sample of 30 subrecipients from each of the Education programs and noted the following number of subrecipients that were selected for an on-site fiscal and administrative review based on the criteria above for which an actual review was not performed:

<b>Program</b>	<b>Number of Subrecipients Scheduled, but not Reviewed</b>
Title I Grants to Local Education Agencies	22
Special Education Cluster	14
Vocational Education – Basic Grants to States	14
Twenty-First Century Community Learning Centers	13
Reading First State Grants State Grants	25
Improving Teacher Quality State Grants	21

Overall, ISBE scheduled 735 subrecipients across all programs to perform on-site fiscal and administrative monitoring procedures during the year ended June 30, 2007, but failed to perform the monitoring procedures for 462 subrecipients.

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

In discussing these conditions with Agency Officials, they stated that when the initial three-year monitoring plan was established, External Assurance had a staff of approximately 30 personnel. Approximately 16 External Assurance staff were available to perform fiscal year 2007 monitoring. This reduction in staffing levels prevented the entire monitoring plan from being accomplished for fiscal year 2007.

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 07-53)

**Recommendation:**

We recommend ISBE evaluate the current staffing of the external assurance department to ensure resources are allocated to perform this function. We also recommend ISBE re-evaluate its selection method for determining which subrecipients to perform on-site reviews.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**ISBE Response:**

The Agency agrees that not all scheduled on-site monitoring visits in the fiscal year 2007 monitoring plan occurred. Nearly 2,800 entities receive funding from the State Board of Education for various State and Federal programs and are subject to monitoring by the Agency's Division of External Assurance. The Agency is working to fill External Assurance vacancies and is seeking additional staff for the External Assurance monitoring function. In developing the multi-year monitoring plan for fiscal years beginning in fiscal year 2009, External Assurance will review and take into account staff availability. In addition, the methodology used for selection of school districts for monitoring will be reviewed and revised to ensure that the monitoring plan provides sufficient coverage of the School District population over time. Modifications to the methodology could include the defining of risk categories and the time between monitoring cycles for low-risk subrecipients.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

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

**Program Name:** Title I Grants to Local Educational Agencies  
Twenty-First Century Community Learning Centers  
Improving Teacher Quality State Grants

**CFDA # and Program Expenditures:** 84.010 (\$519,959,000)  
84.287 (\$40,554,000)  
84.367 (\$113,795,000)

**Award Numbers:** S010A040013/S010A050013/S010A060013 (84.010)  
(CFDA Number) S287C040013/S287C050013/S287C060013 (84.287)  
S367A040012/S367A050012/S367A060012 (84.367)

**Questioned Costs:** None

**Finding 07-54** *Inadequate On-Site Programmatic Monitoring of Subrecipients*

ISBE is not adequately performing on-site programmatic monitoring reviews of subrecipients of the Title I Grants to Local Educational Agencies, Twenty-First Century Community Learning Centers, and Improving Teacher Quality State Grants programs.

On-site programmatic reviews for subrecipients of the Title I Grants to Local Educational Agencies, Twenty-First Century Community Learning Centers, and Improving Teacher Quality State Grants programs are performed by the external assurance department of ISBE in conjunction with the fiscal and administrative reviews. ISBE selects subrecipients in these programs to perform on-site monitoring using a method which combines elements of both cyclical and risk-based approaches. This approach is designed to result in all subrecipients being reviewed on an annual, every 2 year or every 3 year cycle, and all programs being reviewed at least once every six years.

Specifically, ISBE places each subrecipient receiving funding into a risk level (low, medium, and high) category that dictates the year (annual, every 2 year, and every 3 year) in which ISBE would perform on-site monitoring procedures. These risk assessments are based on the funding level received by the entity, the financial status, the improvement status, any past audit findings, and the type of entity.

Additionally, ISBE officials stated that risk assessments for each program are performed based on the nature of the program (i.e. certain programs are considered higher risk), prior A-133 Findings, and information received from internal and external sources. Based on this analysis, each program is placed into a risk level category (low, medium, ad high) that dictates the year (annual, every 3 year, every 6 year) in which ISBE would perform on-site monitoring procedures over the specific program.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

Overall, ISBE scheduled 735 subrecipients across all programs to perform on-site monitoring procedures during the year ended June 30, 2007, but failed to perform the monitoring procedures for 462 subrecipients. As a result, ISBE's is not performing adequate on-site programmatic monitoring procedures to ensure that each program administered by a subrecipient is reviewed for compliance with programmatic requirements within a reasonable period of time (i.e. at least once every 6 years as required by ISBE's policies). ISBE performed on-site programmatic monitoring procedures for subrecipients during the year ended June 30, 2007 as follows:

<b>Program</b>	<b>Total Number of Subrecipients Reviewed</b>	<b>Percentage of Subrecipients Reviewed</b>	<b>Total Subrecipient Expenditures</b>	<b>Percentage of Subrecipient Expenditures Reviewed</b>
Title I Grants to Local Educational Agencies	151	18%	\$516,138,000	14%
Twenty-First Century Community Learning Centers	14	19%	\$38,334,000	20%
Improving Teacher Quality State Grants	175	19%	\$112,116,000	19%

Additionally, we also noted ISBE's monitoring instruments (programs) used for on-site reviews of subrecipients do not include procedures for the compliance requirements of 1) access to federal funds for new or significantly expanded charter schools and 2) identifying schools and LEA's needing improvement.

In addition, the USDE performed a review of ISBE's administration of the Title I Grants to Local Education Agencies and Improving Teacher Quality State Grants programs. During this review, USDE identified several instances of noncompliance with program regulations at the subrecipient level which have been attributed to deficiencies in ISBE's monitoring procedures for subrecipients of these programs.

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 Agency Officials, they stated that when the initial three-year monitoring plan was established, External Assurance had a staff of approximately 30 personnel. Approximately 16 External Assurance staff were available to perform fiscal year 2007 monitoring. This reduction in staffing levels prevented the entire monitoring plan from being accomplished for fiscal year 2007.

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 07-54)



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

#### **Recommendation:**

We recommend ISBE evaluate the current staffing of the external assurance department to ensure resources are allocated to perform this function. We also recommend ISBE include update its monitoring instruments (programs) to ensure that the subrecipients' compliance with certain program requirements is properly monitored and documented.

#### **ISBE Response:**

The Agency agrees that not all scheduled on-site monitoring visits in the fiscal year 2007 monitoring plan occurred. Nearly 2,800 entities receive funding from the State Board of Education for various State and Federal programs and are subject to monitoring by the Agency's Division of External Assurance. The Agency is working to fill External Assurance vacancies and is seeking additional staff for the External Assurance monitoring function. In developing the multi-year monitoring plan for fiscal years beginning in fiscal year 2009, External Assurance will review and take into account staff availability. In addition, the methodology used for selection of school districts for monitoring will be reviewed and revised to ensure that the monitoring plan provides sufficient coverage of the School District population and program coverage over time. Modifications to the methodology could include the defining of risk categories and the time between monitoring cycles for low-risk subrecipients.

The Agency would like to note that the front-end of the grant process for these programs is set up to ensure subrecipient compliance with Federal requirements which are incorporated into the grant application review and approval process. In addition, the Agency division responsible for these programs has contracted out monitoring of Twenty First Century Community Learning Center grant recipients beginning in fiscal year 2008.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

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

**Program Name:** Child Nutrition Cluster  
Temporary Assistance for Needy Families

**CFDA # and Program Expenditures:** 10.553/10.555/10.556/10.559 (\$364,197,000)  
93.558 (\$556,726,000)

**Award Numbers:** 2005IN109942/2006IN109942/2007IN109942 (CFDA #)  
G-0601ILTANF/G-0702ILTANF (93.558)

**Questioned Costs:** None

**Finding 07-55** *Inaccurate Reporting of State Matching Expenditures*

ISBE did not accurately report state matching expenditures in the Annual Report of State Revenue Matching (FNS-13) for the year ended June 30, 2007.

The FNS 13 report is used to report to the USDA the State revenues to be counted toward meeting the State matching requirement for the Child Nutrition Cluster (CNC) program. During our testwork of the FNS-13 report for the year ended June 30, 2007, we noted ISBE inaccurately reported matching expenditures of \$21,000,000 instead of actual expenditures of \$11,415,000. The difference occurred because ISBE inadvertently included \$9,600,000 in nutrition expenditures that were used to meet the maintenance of effort requirements for the Temporary Assistance for Need Families program also with the matching expenditures for the CNC program. TANF and CNC regulations prohibit the use of the same expenditures under multiple federal programs. After identification of the error and exclusion of the \$9,600,000 from the CNC matching expenditures, it was noted that ISBE was still in compliance with the matching requirement for the CNC program for the year ended June 30, 2007.

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

In discussing these conditions with Agency officials, they stated that the Agency has provided eligible state matching expenditures for the federal Temporary Assistance for Needy Families (TANF) program for the Illinois Department Human Services since 2003. Due to an internal communication issue, ISBE's matching expenditures of \$9,584,928.36 reported for the Temporary Assistance for Needy Families program were not deducted from the matching expenditures reported under the Illinois Free Lunch and Breakfast program ending 2007.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

Failure to ensure the same expenditures are not used to meet the requirements of multiple federal programs could result in unallowable costs. (Finding Code 07-55)

**Recommendation:**

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

**ISBE Response:**

The Agency concurs that the matching expenditures were inaccurately reported. The Agency has documented and communicated its procedures in determining and reporting the amount of matching funds reported by ISBE for the TANF and Illinois Free Lunch and Breakfast programs.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$46,314,000)  
**Award Numbers:** V048A040013/V048A050013/V048A060013  
**Questioned Costs:** None

**Finding 07-56** *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.

In fiscal year 2007, we selected 30 subrecipients of the Vocational Education – Basic Grants to States program and noted the following:

- There were five subrecipients in which ICCB did not obtain certifications that the subrecipients received less than \$500,000 in federal awards and as such, no desk review was performed.
- There was one subrecipient for which the desk review checklist was not dated. As a result, the timeliness of the review could not be determined.
- There was one subrecipient 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 was \$15,664,000 during the year ended June 30, 2007.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 2007, 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. 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 that they were reviewing the audit reports but did not have a formal process or document that is used by staff.

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 07-56, 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.

#### **ICCB Response:**

The ICCB agrees with the finding and will implement the auditors' recommendations.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$46,314,000)  
**Award Numbers:** V048A040013/V048A050013/V048A060013  
**Questioned Costs:** None

**Finding 07-57** *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 was \$15,664,000 during the year ended June 30, 2007.

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 stated that they believed that the monitoring document and subrecipient reviews being performed by the ICCB staff were adequate.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 07-57, 06-55, 05-74, 04-57, 03-51)

#### **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 concurs with the finding. Due to the timing of the fiscal year 2006 audit, the finding could not be addressed in time to not be repeated in the fiscal year 2007 audit. ICCB is reorganizing divisions so that staff can be dedicated to subrecipient monitoring and reporting.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$193,028,000)

**Award Numbers:** None

**Questioned Costs:** Cannot be determined

**Finding 07-58** 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;
- (5) The lender filed a default claim thereon with the guaranty agency within 90 days of default;



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

- (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, 2007, ISAC has not changed its process for submission and payment of claims.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

However, subsequent to the ED-OIG audit in 2003, the USDE established an exceptional performer designation for certain lenders and lender servicers. Under this relatively new program, lenders that meet the exceptional performer requirements, including having a compliance audit of their loan portfolio which shows a performance rating of 97% or higher, receive 100% reimbursement on claims and are entitled to receive payments immediately without a claim review by ISAC. Specifically, in accordance with 34 CFR 682.415(b)(5)(ii), "A guaranty agency may not require repurchase of a loan based solely on the lender's violation of the requirement relating to repayment conversion, due diligence, or timely filing. 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, 2007, ISAC received \$125 million out of a total of \$148 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 84% 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.

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 07-58, 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 fiscal year 2006 meets the requirements of the USDE.

#### **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.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

The Commission has implemented a post-claim review process, which meets, if not exceeds, the requirements outlined by the U.S. Department of Education (USDE) in their letter of December 19, 2005. This process has been in place since the second quarter of calendar year 2006. ISAC is also part of the student loan industry-wide work group that has submitted agreed proposals to the USDE to implement a standard post-claim review process.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$193,028,000)

**Award Numbers:** None

**Questioned Costs:** None

**Finding 07-59** *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 deposited into the federal fund within the required 48 hours. The delays were approximately 5 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 07-59, 06-58, 05-71)

#### **Recommendation:**

We recommend ISAC establish procedures to ensure borrower payments from outside collection agencies are received on a timely basis.

#### **ISAC Response:**

ISAC has thoroughly evaluated its deposit process and is working with the outside legal collection agencies to reduce processing time for remitting 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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$193,028,000)

**Award Numbers:** None

**Questioned Costs:** None

**Finding 07-60** *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 7,251 defaulted loans that meet these criteria as of May 5, 2007 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 07-60, 06-59, 05-72, 04-54)

#### **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.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**ISAC Response:**

ISAC concurs and 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. ISAC made a commitment to send 10,000 loans to the Department of Education during Federal Fiscal Year 2007 to clear up a submission deficit, during that year we submitted 10,914 loans. ISAC will continue to assign all defaulted loans that meet the criteria.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

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

**Program Name:** Trade Adjustment Assistance

**CFDA # and Program Expenditures:** 17.245 (\$25,759,000)

**Award Numbers:** TA143770555/TA153000655/TA158960755/UI151190655/  
UI157960755

**Questioned Costs:** \$2,901

**Finding 07-61** *Inaccurate Benefit Payments and Missing Documentation in Client Eligibility Files*

IDES did not accurately calculate benefit payments and was unable to locate case file documentation supporting client eligibility determinations.

The purpose of the TAA and the North American Free Trade Agreement-TAA (NAFTA-TAA) programs are to assist individuals who become unemployed or underemployed as a result of increased imports or a shift of production to Mexico or Canada to return to suitable employment. The Trade Adjustment Assistance Reform Act of 2002 (TAA Reform Act) repealed the NAFTA-TAA program and created a reformed TAA program, which was implemented beginning November 4, 2002. The objective of the reformed TAA program is to assist individuals who become unemployed or underemployed as a direct or indirect result of increased imports or a shift in production to certain foreign countries to return to suitable employment. Workers certified under TAA or NAFTA-TAA petitions filed prior to November 4, 2002, will continue to be served under the program regulations as they were in effect before November 4, 2002.

The reformed TAA program requires the State to serve as agents of the USDOL for administering the worker adjustment assistance benefit provisions of the Act. Through the State's One Stop Career Centers and other local offices, the State must arrange for training and provide weekly trade readjustment allowances (TRA) for eligible program participants. In addition, eligible individuals may receive a job search allowance, a relocation allowance, and a transportation and/or subsistence allowance for the purpose of attending approved training outside the normal commuting distance of their regular place of residence.

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

- In one case, the claimant did not receive a dependent allowance even though the application indicated this individual did have dependents for which he/she provided at least half of their support resulting in the underpayment of benefits of \$1,584 during the year ended June 30, 2007.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

- In one case, DCEO and IDES were unable to locate the claimant's waiver from training. Accordingly, we were unable to determine whether: (1) the worker was waived from training; (2) the worker's enrollment or waiver date occurred 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); and (3) the worker received TRA benefit payments without being waived from training. Benefits paid to this individual during the year ended June 30, 2007 were \$ 1,944.
- In one case, there was no documentation that a review by DCEO of the conditions upon which the waiver was granted had taken place every 30 days. Benefits paid to this individual during the year ended June 30, 2007 were \$957.

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

Section 114(b) and 115(c) of the Trade Adjustment Reform Act of 2002 (Pub. L. No. 107-210) requires that workers must be enrolled in their approved training within eight weeks of the issuance of the certification or within 16 weeks of their most recent qualifying separation, whichever is later, unless this requirement is waived. In accordance with 20 CFR Section 617.11, to be eligible for weekly TRA payments, a worker must be enrolled in or have completed an approved job training program, unless a waiver from the training requirement has been issued after a determination is made that training is not feasible or appropriate. In accordance with 20 CFR Section 617.19 (3)(c), State agencies must have a procedure for reviewing regularly (i.e., every 30 days or less) all waivers issued under this section to individuals, to ascertain that the conditions upon which the waivers were granted continue to exist. DCEO has adopted a policy to review the waivers every 30 days.

In discussing these conditions with IDES officials, they stated that these were isolated instances by IDES and local LWIA staffs.

Failure to properly calculate benefits and maintain documentation for eligibility determinations could result in unallowable costs and in federal funds being awarded to ineligible beneficiaries. (Finding Code 07-61)

#### **Recommendation:**

We recommend IDES review their procedures for the administration and the coordination of the TAA program to ensure benefits are paid accurately and that waiver forms exist and are properly reviewed every 30 days.

#### **IDES Response:**

We agree. Since March 2006, IDES and DCEO staffs have continually conducted collaborative reviews of each Agency's respective procedure and have updated and clarified staff responsibility with respect to accuracy of TRA benefit payments, issuance and documentation requirements of waivers and 30-day reviews. IDES finalized the current IDES procedure August 19, 2007 and training reviews were conducted with all six IDES Regional Office and Local office staffs in October and November 2007. Direction on determining accurate weekly benefit amounts and the need to review information for payments of dependency allowance was provided during these reviews. USDOL Region V provided guidance to DCEO, LWIA and IDES state, regional and local office staffs during panel discussions in October 2006 and October 2007 and continues to provide guidance with respect to procedures whenever requested. State level IDES and DCEO staffs have drafted changes to the DCEO policy concerning the responsibility of the LWIA case managers and the need to document the 30-day waiver reviews as well as the



**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

procedure for promptly notifying IDES of potential payment issues. Three training/review sessions were conducted with IDES, DCEO, and LWIA staff in April and early May 2008 to ensure compliance with TAA/TRA procedures and accurate payment of benefits. Monitoring of TAA applications and TRA benefit payments for compliance and accuracy are conducted monthly.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

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

**Program Name:** Unemployment Insurance

**CFDA # and Program Expenditures:** 17.225 (\$1,917,798,000)

**Award Numbers:** UI135450455/UI144320555/UI151190655/UI157960755

**Questioned Costs:** \$2,574

**Finding 07-62** *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. After identification of this during our audit, IDES was able to subsequently contact one of the individuals to verify that they had a dependent. Dependent benefits paid to the other individual during the year ended June 30, 2007 were \$2,574.
- In one case, the UI application could not be located. In this case, we were able to verify each of the eligibility criteria through information in the electronic files.
- In three cases, the claimant was not registered on the Illinois Skills Match system. In each of these cases, we were able to determine the individuals were actively seeking employment through the weekly certifications made to IDES.

Additionally, we noted that copies of claimant identification (e.g. driver's license and social security card) were maintained at certain locations, but not others.

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.

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

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

the statewide average weekly wage. Section 500 (C) of the Act states that to be eligible for benefits, an unemployed individual must be able and available for work, provided that during the period in question he was actively seeking work and has certified such. IDES has established policies and procedures that describe actively seeking work as registering with the Illinois Skills Match Program, reporting at an employment office when requested in accordance with the regulations, and certifying during the period that he/she has been actively seeking work.

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.

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 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 07-62, 06-61)

#### **Recommendation:**

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

#### **IDES Response:**

We agree. IDES has reviewed with staff the importance of completing documentation. Internally, managers monitor a sample of claims filed in their offices and report monthly on the Plan Of Service. There is a strict procedure on maintenance of applications and where they are to be stored in the warehouse. In addition, the automatic partial registration of all claimants in the Illinois Skills Match System will take place when the new Benefit System (IBIS) is operational which is scheduled for April 2009.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

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

**Program Name:** Unemployment Insurance

**CFDA # and Program Expenditures:** 17.225 (\$1,917,798,000)

**Award Numbers:** UI135450455/UI144320555/UI151190655/UI157960755

**Questioned Costs:** None

**Finding 07-63** *Inadequate Documentation of Policies and Procedures, Resolution of Exceptions, and Supervisory Review of the Claim Exception and Monitoring Reports*

IDES has not adequately documented policies and procedures to work all claim exception and monitoring reports. Additionally, the local offices did not clearly document the resolution of the issues identified on the claim exception and monitoring reports, and the reports did not always indicate that a supervisory review had been performed.

The IDES Central Office generates several system (exception and monitoring) 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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

- 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 test work, we noted policies and procedures had not been established for the Media Transfer Report, the All Transactions Report, the Claims Application Error Report, the Internet Claims Deletion Report, the First Certification Report, and the Pending Adjudication Report. Additionally, IDES only retains claim edit reports (except for the sensitive changes report) for a period of three months after the end of the quarter.

We also conducted unannounced site visits to three local offices and requested the above claim exception and monitoring reports for the most recent date that had been reviewed by the local office staff. From each report, we reviewed exceptions to determine whether they had been properly resolved. We noted that resolution of exceptions and supervisory review was not consistently 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 review of claim exception and monitoring reports.

In discussing these conditions with IDES officials, they stated they believe that the exceptions on the reports are being processed and/or corrected; and that the training materials and procedures provide adequate guidance on reviewing the reports and documenting resolution of claim exceptions.

Failure to adequately follow up and document resolution of claim exception and monitoring reports could result in the payment of UI benefits to ineligible claimants, which are unallowable costs. (Finding Code 07-63, 06-62, 05-88)

#### **Recommendation:**

We recommend IDES formalize policies and procedures for all claim exception and monitoring reports and clearly document the resolution of each claim on the exception and monitoring 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 and monitoring edit reports into the Benefits Information System in future years to facilitate a more efficient and effective process for claims exception resolution documentation.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**IDES Response:**

Procedures were updated in January 2007; all staff responsible for working the error reports received refresher training December 2006 through February 2007. Both the Procedures and the training material contain guidance on the appropriate documentation methods. IDES retains the error/exception reports for three months. Space limitations would preclude extending the retention period; however, if we knew in advance what reports were required, those selected reports could be retained for a longer period. Design of the reports in the new more automated system is currently underway. Under IBIS, there will be fewer exceptions/rejections since most of the information will not be processed in batch but in real time. Entry will not be accepted by the system if there are errors.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

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

**Program Name:** Trade Adjustment Assistance

**CFDA # and Program Expenditures:** 17.245 (\$25,759,000)

**Award Numbers:** TA143770555/TA153000655/TA158960755

**Questioned Costs:** None

**Finding 07-64** *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 process for maintaining adequate supporting documentation for all reports prepared and filed with federal agencies.

In discussing this with IDES officials, they stated they relied on the system edits, the several layers of administrative reviews, and the final supervisory review 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 07-64, 06-67)

**Recommendation:**

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

**IDES Response:**

The ETA 563 is now a collaborative effort between IDES and DCEO. IDES provides data taken from an information systems report (TR025MC) to DCEO for additional inputs and 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

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 IDES review process was revised with the submission of the June 2007 quarterly report to include a final quality and accuracy review by the Manager of UI Research & Analysis. After the management review is completed, the Manager UI Research & Analysis transmits confirmation of the review and approval via email to the IDES employee responsible for transmission of the approved report to DCEO. The last four quarterly reports have been successfully submitted to ETA by DCEO using this new procedure.



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

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

**Program Name:** Unemployment Insurance

**CFDA # and Program Expenditures:** 17.225 (\$1,917,798,000)

**Award Numbers:** UI135450455/UI144320555/UI151190655/UI157960755

**Questioned Costs:** None

**Finding 07-65** *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 was not consistently followed. Specifically, we selected 30 employees terminated during the year ended June 30, 2007 and noted that IDES did not document requests to delete user ids for four employees.
- We selected 30 program changes and noted there was no evidence of testing performed on the authorization form. Additionally, we noted two of the 30 changes were approved by the same individual requesting the change.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

- One technical services and security manager utilizes two active ids, one of which has been assigned to this individual's name.
- The policy in place for new user access requests was not followed in one instance. All user access requests must be approved and signed by the cost center manager. The security administrator must also approve the form to validate the signature of the cost center manager. We selected 30 individuals who were granted access and noted one was not approved by the security administrator.
- Policies and procedures are not updated in a timely manner. Specifically, we noted the Program Development Methodology has not been updated since 1991 and the Operations Guide has not been updated since 1982.
- IDES does not have documented data backup policies and procedures for the mainframe environment.

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 but may not have been followed in all instances. Program development methodology materials and the Operations Guide need to be updated.

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 07-65, 06-68, 05-93)

#### **Recommendation:**

We recommend IDES ensure information system policies and procedures are adequately documented, updated, and consistently followed.

#### **IDES Response:**

We agree. We will review all applicable policies and procedures to ensure that information systems control processes are adequately documented and current. We will work with the appropriate vendor to procure updated program development methodology materials and will review and update the Operations Guide. We will work to ensure that program change testing and approval are properly documented as required by the applicable procedures.

We will redouble our efforts to ensure that new user access rights and termination of access rights are properly documented. As a supplement to the automated termination process, the Department recently added the requirement that cost center managers promptly notify Technical Services and Security when a cost center employee leaves the Department or no longer requires access to data systems (Procedure Section 4011.203).

The ownership of the RACF ID used for DB2 administration has been reassigned to an individual rather than a function.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Trade Adjustment Assistance

CFDA # and Program Expenditures: 17.245 (\$25,759,000)

Award Numbers: TA143770555/TA153000655/TA158960755/UI151190655/  
UI157960755

Questioned Costs: None

Finding 07-66 *Inaccurate ATAA Special Report*

IDES did not accurately report expenditures in the Alternative Trade Adjustment Activities (ATAA) Special Report.

The ATAA Special Report is required to be submitted on a quarterly basis to report key workload data used to measure program activities and to allocate program and administrative funds to the state agencies administering the Trade Adjustment Assistance program for the USDOL.

During our review of the March 31, 2007 quarterly ATAA Special report, we noted IDES did not reconcile the total expenditures reported for the ATAA to the general ledger. We also noted that the ATAA special report was prepared and submitted by the same individual and was not sufficiently reviewed by a supervisor prior to submission. Upon our request, IDES reconciled the expenditure amounts to the general ledger for each quarter and noted the following variances:

Quarter Ended	Reported Expenditures	Actual Expenditures	Variance
September 30, 2006	\$ 187,185	171,114	16,071
December 31, 2006	148,069	156,638	(8,569)
March 31, 2007	151,776	144,446	7,330
June 30, 2007	158,267	169,926	(11,659)

According to 20 CFR Part 617.61, a state agency shall furnish to the Secretary such information and reports and conduct such studies as the Secretary determines are necessary or appropriate for carrying out the purposes of the Trade Adjustment Assistance for Workers program. Training and Employment Guidance Letter No. 2-03 requires state workforce agencies to submit a report detailing quarterly activities regarding ATAA participation in their states. 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 reported expenditures are reconciled to the general ledger and the report is reviewed by an appropriate individual with knowledge of the reporting requirements.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

In discussing these conditions with IDES officials, they stated that the program is fairly new and USDOL ETA and the agency are still working out some issues. Currently, IDES uses a manual system to administer the program which contributed to some of the reporting inaccuracies.

Failure to accurately report information regarding ATAA participation in the State of Illinois prevents the USDOL from effectively monitoring the Alternative Trade Adjustment Assistance program. (Finding Code 07-66)

#### **Recommendation:**

We recommend IDES review the process and procedures in place to prepare the ATAA Special Report to ensure expenditures are accurately reported and reconciled to the general ledger.

#### **IDES Response:**

We agree with the recommendation and are working on an automated system that will allow IDES to administer the program, prepare accurate reports of expenditures and reconcile to the General Ledger. The automated system will allow us to create reports that meet the requirements to measure program activities and funding allocations for benefits and administrative costs as well as the reporting requirements on the ATAA Activities Report (ATAAAR). The automated system is expected to be operational by July 15, 2008. We will ensure that the process and procedures in place will be correctly followed and that a supervisory review of the report takes place and is documented.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

**Federal Agency:** US Department of Housing and Urban Development (USHUD)

**Program Name:** Community Development Block Grant (CDBG)

**CFDA # and Program Expenditures:** 14.228 (\$25,889,000)

**Award Numbers:** B-00-DC-17-0001/B-01-DC-17-0001/B-02-DC-17-0001/B-03-DC-17-0001  
B-04-DC-17-0001/B-05-DC-17-0001/B-06-DC-17-0001/B-07-DC-17-0001

**Questioned Costs:** None

**Finding 07-67** Inaccurate Performance and Evaluation Report

DCEO did not accurately report financial information in the Performance and Evaluation Report for the Community Development Block Grant (CDBG) Program.

DCEO is required to prepare the Performance and Evaluation Report (OMB No. 2506-0085) on an annual basis. This report includes a description of the use of funds, an assessment of the grantee's use for the priorities and objectives identified in the plan, and various financial status information. During our testwork of the Performance and Evaluation Report for the year ended September 30, 2006, we noted amounts included in the report did not agree (reconcile) to the general ledger and supporting schedules. The differences identified were as follows:

Grant Number B-06-DC-0001			
Title	As Reported	Actual	Variance
Part 1. Financial Status:			
Section D - Funds Activities			
Amount drawn from PY 06 line	\$ 1,164,716	838,630	(326,086)
Amount obligated, pending draw	19,206,398	19,532,244	325,846

Grant Number B-05-DC-0001			
Title	As Reported	Actual	Variance
Part 1. Financial Status:			
Section D - Funds Activities			
Funding obligated	\$ 35,215,261	35,222,761	7,500
Funds returned	395,855	403,355	7,500
Funds Re-Obligated	390,470	397,970	7,500
Amount drawn from PY 05 line	19,132,316	17,977,606	(1,154,710)
Amount obligated, pending draw	15,687,090	16,841,800	1,154,710

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

Grant Number B-04-DC-0001

Title	As Reported	Actual	Variance
Part 1. Financial Status:			
Section D - Funds Activities			
Amount drawn from PY 04 line	\$ 31,593,928	31,315,226	(278,702)
Amount obligated, pending draw	4,097,831	4,376,533	278,702

Grant Number B-03-DC-0001

Title	As Reported	Actual	Variance
Part 1. Financial Status:			
Section D - Funds Activities			
Funding obligated	\$ 37,507,757	37,822,757	315,000
Funds returned	981,649	1,296,649	315,000
Funds Re-Obligated	897,137	1,212,137	315,000
Amount drawn from PY 03 line	35,393,719	35,156,157	(237,562)
Amount obligated, pending draw	1,132,388	1,369,950	237,562

Grant Number B-02-DC-0001

Title	As Reported	Actual	Variance
Part 1. Financial Status:			
Section D - Funds Activities			
Funds available to obligate	\$ -	39,735	39,735
Amount drawn from PY 02 line	39,735	36,858,881	36,819,146
Amount obligated, pending draw	36,863,798	918,683	(35,945,115)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

Grant Number B-01-DC-0001			
Title	As Reported	Actual	Variance
Part 1. Financial Status:			
Section D - Funds Activities			
Funding obligated	\$ 39,771,888	39,799,229	27,341
Funds returned	1,702,546	1,733,876	31,330
Funds Re-Obligated	1,691,718	1,719,059	27,341
Funds Available to obligate	10,828	14,817	3,989
Amount drawn from PY 01 line	37,672,665	37,465,611	(207,054)
Amount obligated, pending draw	396,677	599,743	203,066
Part 2. National Objectives:			
Amount used to:			
Benefit to Low/Moderate Income Persons	36,037,111	36,033,122	(3,989)

Grant Number B-00-DC-0001			
Title	As Reported	Actual	Variance
Part 1. Financial Status:			
Section D - Funds Activities			
Funding obligated	\$ 37,872,892	37,914,720	41,828
Funds returned	1,155,853	1,197,681	41,828
Funds Re-Obligated	1,134,232	1,176,060	41,828
Amount drawn from PY 00 line	36,567,038	36,509,984	(57,054)
Amount obligated, pending draw	150,001	207,055	57,054

According to 24 CFR 91.520 (a) and 24 CFR 91.520 (c), each jurisdiction that has an approved consolidated plan shall annually review and report, in a form prescribed by HUD, on the progress it has made in carrying out its strategic plan and its action plan within 90 days after the close of the jurisdiction's program year. For CDBG recipients, the report shall include a description of the use of CDBG funds during the program year. 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 amounts reported in required financial reports are accurate.

In discussing these conditions with DCEO officials, they stated the reports were not submitted accurately due to a staff oversight in properly defining the period of reporting when accumulating the supporting information.

Failure to accurately report amounts in the Performance and Evaluation Report prevents the USHUD from effectively monitoring the Community Development Block Grant Program. (Finding Code 07-67)

**Recommendation:**

We recommend DCEO review the process and procedures in place to prepare the Performance and Evaluation Report to ensure amounts are reported correctly and are reconciled to the general ledger and supporting schedules.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**DCEO Response:**

DCEO agrees with the finding and personnel responsible for the report have been trained and reporting procedures have been updated. For future preparation of annual reports, DCEO Financial Management Accounting staff will provide assistance as necessary to ensure the accuracy of the information.



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$163,864,000)  
**Award Numbers:** AA-13796-04-50/AA-14673-05-55/AA-15477-06-55/EM-11183-01-60 IL-07  
EM-14361-05-06 IL-08/EM-14939-05-60  
**Questioned Costs:** None  
**Finding 07-68** *Inadequate On-Site Monitoring of Subrecipients*

DCEO did not perform the required annual on-site monitoring of local workforce areas receiving federal awards under the Workforce Investment Act Cluster (WIA) program.

DCEO passed through approximately \$150,072,000 to 26 local workforce investment agencies (subrecipients) of the WIA program during the year ended June 30, 2007. During our testwork over subrecipient monitoring, we noted DCEO did not perform on-site monitoring procedures as required by federal regulations for 8 local workforce areas which received \$31,478,000 in federal funds under the WIA program during the year ended June 30, 2007. Specifically, DCEO performed limited on-site procedures including follow up of prior year findings and review of policies and procedures, but did not complete all programmatic and fiscal procedures included in its standard on-site monitoring procedures.

According to 20 CFR 667.410(b)(3), the State must conduct an annual on-site monitoring review of each local area's compliance with U.S. Department of Labor Uniform Requirements, including the appropriate administrative requirements for subrecipients and the applicable cost principles for all entities receiving WIA Title I funds.

In discussing these conditions with DCEO officials, they state they did not perform the on-site monitoring procedures due to limited staff resources. During the fiscal year ended June 30, 2007, DCEO began developing an internet based fiscal and programmatic monitoring system called the Automated Compliance Monitoring Events (ACME). The development of the ACME system required significant staff resources, and as a result DCEO was unable to perform on site monitoring procedures on all local workforce areas. Rather, DCEO performed limited monitoring procedures which included following up on the prior year on-site monitoring review and reviewing the fiscal policy and the OMB Circular A-133 reports. DCEO officials also stated they sent the USDOL a written request to modify their fiscal year 2007 annual monitoring plan by seeking approval for a limited scope of on-site monitoring for the remaining eight local workforce areas. The request letter explained the circumstances and described the scope of the limited monitoring for the remaining eight local workforce areas. Based upon acknowledgement of the letter by the USDOL and other verbal communication, they believed the limited on-site procedures over the 8 local workforce areas were adequate for the current year to comply with federal regulations.

Failure to adequately monitor subrecipients may result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and grant agreements. (Finding Code 07-68)

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

#### **Recommendation**

We recommend DCEO conduct the required annual on-site monitoring procedures in accordance with its standard on-site monitoring procedures for all of its local workforce areas.

#### **DCEO Response**

DCEO disagrees with this finding. DCEO completed on-site monitoring for all 26 local workforce areas. DCEO used a limited monitoring scope for eight of the 26 areas based upon receiving approval by the U.S. Department of Labor, our federal cognizant agency for WIA, that the limited scope for the eight local areas was sufficient and in compliance with their monitoring requirements.

#### **Auditors' Comment**

As stated above, the State must conduct an annual on-site monitoring review of each local area's compliance with U.S. Department of Labor Uniform Requirements, including the appropriate administrative requirements for subrecipients and the applicable cost principles for all entities receiving WIA Title I funds. We do not believe the limited on-site procedures performed met this requirement. We do recognize that DCEO did inform the USDOL of their revised monitoring plan; however, we could not verify through documented correspondence that the USDOL officially approved this plan and agreed that limited procedures were compliance with federal regulations.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$132,371,000)

**Award Numbers:** Various

**Questioned Costs:** None

**Finding 07-69** *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 18 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, 2007, IDOT passed through approximately \$72,237,000 to 36 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 the clause has been added to the agreements effective July 1, 2007.

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 07-69, 06-70, 05-75)

#### **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.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**IDOT Response:**

The Department agrees with the recommendation.

In response to a previous audit finding, the Division of Aeronautics has rectified this finding by inserting a "Suspension and Debarment Certification" in every new Agency and Participation Agreement (for every subrecipient) since July of 2006. There has been no evidence that the Division ever provided federal funds (or any funds) to a subrecipient who was suspended or debarred prior to the inclusion of the "suspension and debarment certification". It was just recently brought to our attention that there is an "Excluded Parties List System" that may be used to check the projects that were opened prior to July 2006. As such, Division of Aeronautics' personnel will conduct a one time check of the subrecipients to verify that funds were not supplied to anyone on the list.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$132,371,000)

**Award Numbers:** Various

**Questioned Costs:** None

**Finding 07-70** *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 \$72,237,000 to 36 subrecipients of the Airport Improvement program during the year ended June 30, 2007. 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 2007, 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 07-70, 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, 2007

**IDOT Response:**

The Department agrees with the finding.

The Division of Aeronautics will develop an on-site monitoring policy and procedure process to ensure that all projects not let by IDOT will have random site visits to ensure adherence with federal and state guidelines. Projects that are let by IDOT under go continuous monitoring. Staff will be assigned to perform on-site reviews of subrecipients receiving federal awards for the Airport Improvement program.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**State Agency:** Illinois Department of Transportation (IDOT)  
**Federal Agency:** US Department of Homeland Security (USDHS)  
**Program Name:** Homeland Security Cluster  
**CFDA # and Program Expenditures:** 97.004/97.042/97.053/97.067/97.071 (\$53,990,000)  
**Award Numbers:** 2003-TE-TX-0165/2003-MU-T3-0029/2004-GE-T4-0027/  
2005-GE-T5-0002/2006-GE-T6-0025  
**Questioned Costs:** None

**Finding 07-71** *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 \$1,000,000 to two subrecipients of the Homeland Security Cluster during the year ended June 30, 2007. 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 2007, 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 officials, they state IDOT has adopted a joint procedure with Chicago DOT for construction inspections of work done with Illinois State Grant monies. This process has been used for over 10 years without any significant audit findings that were not expeditiously resolved and corrected.

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 07-71, 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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

#### **IDOT Response:**

The Department agrees with the recommendation that 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 should be developed. The Department does, however, monitor the subrecipient of the Homeland Security grant in question as part of its monitoring protocols used to monitor the same subrecipient's efforts on projects performed as part of the Federally funded Highway Planning and Construction program.

The Department has worked closely with the City's forces performing work on the Homeland Security grant through monitoring meetings and reports regarding the progress on these projects. It should be noted and understood that the City's forces performing the construction work for the Homeland Security grant also performs similar traffic signal projects under the Federally Funded Highway Planning and Construction Program. The construction of these traffic signal projects is monitored and inspected by Department and City resident engineers and the cost of these projects is audited by Department auditors. The subrecipient monitoring protocols for these traffic signal projects have been in place for decades. The Department and the City's forces performing these projects have, for many years, worked closely to resolve any construction or audit issues that arise during our monitoring efforts.

As part of our efforts to provide an increased level of subrecipient monitoring for the specific Homeland Security grant in question, the Department will perform on-site inspections of the work performed and conduct audits of the material, labor and other associated costs charged to the projects. These monitoring efforts will commence in June 2008. The Department will also develop on-site monitoring procedures for the Homeland Security grants.

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

Our testwork determined that IDOT is not performing on-site monitoring related to the Homeland Security Cluster. The fact that IDOT may perform on-site monitoring procedures for subrecipients of the Highway Planning and Construction program that may also coincidentally be subrecipients under the Homeland Security Cluster is irrelevant. The on-site monitoring procedures or "protocols" performed for the Highway Planning and Construction program do not cover activities of the Homeland Security Cluster program.



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$132,371,000)  
20.205 (\$988,207,000)  
97.004/97.042/97.053/97.067/97.071 (\$53,990,000)

**Award Numbers:** Various (20.106)  
Various (20.205)  
2003-TE-TX-0165/2003-MU-T3-0029/2004-GE-T4-0027/  
2005-GE-T5-0002/2006-GE-T6-0025 (97.004/97.042/97.053/97.067/97.071)

**Questioned Costs:** None

**Finding 07-72** *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 \$80,049,000, \$72,237,000, and \$1,000,000 to subrecipients of the Highway Planning and Construction, Airport Improvement, and Homeland Security Cluster programs, respectively, during the year ended June 30, 2007. 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.
- One subrecipient report was received three months after the date it was due, and there was no documentation of IDOT's attempts to collect this report and follow up with the subrecipient.

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.

Per OMB Circular A-133 Compliance Supplement, dated March 2007, 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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

In discussing these conditions with IDOT officials, they state that the two reports noted were not received from the subrecipients timely and follow-up on these two items was not made due to an oversight. With respect to developing procedures to reconcile funds sent by IDOT to the schedule of expenditures of federal awards reported by the subrecipient, the Audit Section has been participating in testing a data warehouse system that will make this type of testing practical. Once the testing has been completed, a protocol will be developed to be followed when the reviews are made.

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 07-72, 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. 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 two reports noted were not received from the subrecipients timely and follow-up on these two items was not made due to an oversight. With respect to developing procedures to reconcile funds sent by IDOT to the schedule of expenditures of federal awards reported by the subrecipient, the Audit Section has been participating in testing a data warehouse system that will make this type of testing practical. Once the testing has been completed, a protocol will be developed to be followed when the reviews are made.

During fiscal year 2007, The Department's Audit Section reviewed and issued reports covering 401 OMB Circular A-133 audits and corrected its prior back log of reviews. As part of our follow-up process to obtain delinquent reports from subrecipients, in fiscal year 2007, the Audit Section sent 167 demand letters to subrecipients. Unfortunately, we had issues with two of the reports. The Department will continue in its efforts to correct this deficiency.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$132,371,000)  
20.205 (\$988,207,000)  
97.004/97.042/97.053/97.067/97.071 (\$53,990,000)

**Award Numbers:** Various (20.106)  
Various (20.205)  
2003-TE-TX-0165/2003-MU-T3-0029/2004-GE-T4-0027/  
2005-GE-T5-0002/2006-GE-T6-0025 (97.004/97.042/97.053/97.067/97.071)

**Questioned Costs:** None

**Finding 07-73** 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, 2007.

During our testwork of 15 subrecipients who received \$63,268,398 in Highway Planning and Construction program funds, 18 subrecipients who received \$57,904,841 of the Airport Improvement program funds, and two subrecipients who received \$1,000,000 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 10 of the 15 subrecipients tested who received funding from the Highway Planning and Construction program, for 15 of the 18 subrecipients tested who received funding from the Airport Improvement Program and for all of the subrecipients who received funding from the Homeland Security Cluster. Subrecipient expenditures under the federal programs for the year ended June 30, 2007 were as follows:

<b>Program</b>	<b>Total Fiscal Year 2007 Subrecipient Expenditures</b>	<b>Total Fiscal Year 2007 Program Expenditures</b>	<b>%</b>
Highway Planning and Construction Program	\$80,049,000	\$988,207,000	8.0%
Airport Improvement Program	\$72,237,000	\$132,371,000	54.6%
Homeland Security Cluster	\$1,000,000	\$53,990,000	1.9%

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 the Department's memorandum to correct this finding was not issued until July 2007 and the instructions were not fully implemented during fiscal year 2007.

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 07-73, 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.

On July 10, 2007, the Department issued a memorandum instructing personnel to include the required provisions and information in all contracts, as appropriate. These instructions should have been fully implemented during fiscal year 2008.

A reminder memorandum will be issued to follow-up on the original memorandum issued in July 2007.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$988,207,000)

**Award Numbers:** Various

**Questioned Costs:** Cannot be determined

**Finding 07-74** *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, 2007 and 50 materials from ongoing (open) construction projects. Of the 50 materials that were selected from construction projects that were completed, eight materials were accepted using a method of testing that was not in accordance with the Guide. Of the 50 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 one instance where there was no documentation of any tests performed.

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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

In discussing these conditions with IDOT officials, they state for the instances noted employees may not have been completely aware of the proper materials acceptance method. Also, the items noted may have been inadvertently overlooked because of their small quantities or relative insignificance to the projects.

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 07-74, 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.

Based on the possible cause for this finding, the resolution this year will be to continue the efforts to educate IDOT materials and construction personnel. IDOT is currently in the process of updating and clarifying the Manual for Materials Inspection. This updated version should provide IDOT field personnel with the information to identify the correct method of acceptance for each permanent material that IDOT uses. When this newly revised manual is published, the districts will be reminded to match the method of acceptance to the material that's being used and to correctly document the acceptance in MISTIC.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

**Federal Agency:** US Department of Homeland Security (USDHS)

**Program Name:** Homeland Security Cluster

**CFDA # and Program Expenditures:** 97.004/97.042/97.053/97.067/97.071 (\$53,990,000)

**Award Numbers:** 2003-TE-TX-0165/2003-MU-T3-0029/2004-GE-T4-0027/  
2005-GE-T5-0002/2006-GE-T6-0025

**Questioned Costs:** None

**Finding 07-75** *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 U.S. Treasury and their disbursement for program purposes.

During our review of 30 expenditures (totaling \$1,545,113) related to federal fiscal 2004 Homeland Security Cluster grants, we noted warrants were not issued for seven expenditure vouchers, totaling \$459,486 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 12 to 70 business days. Total expenditures for the Homeland Security Cluster program administered by IDOT were \$1,000,000 during the year ended June 30, 2007.

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 U.S. Treasury and disbursement whenever advance payment procedures are used. Part III, Chapter 1 of the U.S. 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 officials, they stated IDOT as an agency complies with the 10 day turn around procedure; however, due to the number of agencies involved in approving and processing Homeland Security project payments to vendors, the unpredictable processing time for the vendors to cash checks and the need to have Federal funds available in the Homeland Security accounts to cover these payments, there is often an unfortunate and untimely delay in meeting the 10 day turn around requirement.

Failure to draw and disburse federal funds in accordance with program regulations may result in an interest liability to the federal government. (Finding Code 07-75, 06-76)

**Recommendation:**

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

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**IDOT Response:**

The Department agrees with the finding. As noted, IDOT as an agency complies with the 10 day turn around procedure; however, due to the number of agencies involved in approving and processing Homeland Security project payments to vendors, the unpredictable processing time for the vendors to cash checks and the need to have Federal funds available in the Homeland Security accounts to cover these payments, there is often an unfortunate and untimely delay in meeting the 10 day turn around requirement

In order to facilitate a correction to this issue, the Department has been working to seek a Road Fund appropriation for Homeland Security. This effort will allow processing of Homeland Security project payments to vendors prior to the federal drawdown and minimize the time elapsing between the draw down of federal funds from the U.S. Treasury and their disbursement for program purposes.



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$132,371,000)

**Award Numbers:** Various

**Questioned Costs:** None

**Finding 07-76** *Inadequate Cash Management Procedures*

IDOT does not have procedures to ensure cash draws are performed in accordance with the Treasury-State Agreement.

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. The TSA specifies that IDOT draw funds for the Airport Improvement Program using the pre-issuance method, an advance funding technique. This method requires IDOT to request funds such that they are deposited in a state account not more than three days prior to the day the state makes a disbursement. We selected 24 cash draws and noted the related disbursement for five of those draws was made six days after the deposit of the federal funds.

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 cash draws are performed in accordance with the US Treasury Regulations.

In discussing this condition with Department officials, they state the Office of the Comptroller prudently requires IDOT to draw down the federal funds and have them available at the time the vouchers are presented to the Comptroller for processing and payment. The five vouchers in question were processed by the Comptroller on only two separate days which may have proven to have been problematic for the Comptroller.

Failure to draw funds in accordance with the US Treasury Regulations could result in an interest liability to the Federal government. (Finding Code 07-76)

**Recommendation:**

We recommend IDOT implement procedures to ensure cash draws are performed in accordance with US Treasury Regulations.

**IDOT Response:**

The Department agrees with the finding.

The Office of the Comptroller prudently requires IDOT to draw down the federal funds and have them available at the time the vouchers are presented to the Comptroller for processing and payment. The five vouchers in question

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

were processed by the Comptroller on only two separate days which may have proven to have been problematic for the Comptroller.

The Department will periodically monitor the time it is taking the Comptroller to process such vouchers and determine whether the Department can make improvements to its processes to expedite voucher processing through the Comptroller's Office.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$132,371,000)  
20.205 (\$988,207,000)

**Award Numbers:** Various

**Questioned Costs:** None

**Finding 07-77** *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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

#### Plans, Policies and Procedures:

- The IDOT RACF Administration Guide for granting, modifying, and terminating access rights does not define procedures for performing periodic user access right reviews to determine adequacy and appropriateness of access.
- A periodic review of the propriety of access to the systems is not formalized or documented.
- A periodic review between terminated employees and active user accounts is not performed.
- IDOT's business continuity plans do not contain sufficient details associated with recovery/resumption efforts specific to IDOT's applications and data.

#### Change Management Control:

- Automated Action Request System (AARS) process does not include procedures for emergency changes, major changes, testing documentation, change migration and post-migration review.
- 20 of the 25 selected changes to the BCM and FOA systems we selected required testing, but did not have documentation of testing prior to migration into production.
- IDOT does not have a process in place to follow-up with CMS to review program changes requested by IDOT and migrated into production by CMS.

#### Access Control:

- Terminated user 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.
- 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.
- Password strength is not sufficiently addressed in the Information Technology Security Policy.
- Network accounts were being created without passwords.
- Developers have access to move changes into production on the NOMAD platform, where the FPC system resides.

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 and computer operations controls in place.

In discussing these conditions with IDOT officials, they state that IDOT has begun efforts to resolve the issues noted in the audit. Due to the size and scope of changes requested (a full review of IT Policies and procedures, rewrite of Departmental Orders, development of a Security Awareness program, and continued work with DCMS on the infrastructure items noted) the Department has been working on identifying and implementing improved security control measures and finalizing the efforts needed.

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 07-77, 06-81, 05-82)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**Recommendation:**

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

**IDOT Response:**

The Department agrees with the finding.

The Department continues to work with DCMS (password length, network accounts) pursuant to Public Act 93-0839 in which CMS has assumed responsibility for the statewide Information Technology infrastructure. The Department is working on enhancements to the Business Continuity plans, Action request system updates to include testing documentation, rewriting the Department IT policies, and developing a Security awareness program that is scheduled to be completed in late fiscal year 2008.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

**Federal Agency:** U.S. Department of Homeland Security (USDHS)

**Program Name:** Homeland Security Cluster

**CFDA # and Program Expenditures:** 97.004/97.042/97.053/97.067/97.071 (\$53,990,000)

**Award Numbers:** 2003-TE-TX-0165/2003-MU-T3-0029/2004-GE-T4-0027/  
2005-GE-T5-0002/2006-GE-T6-0025

**Questioned Costs:** Cannot be determined

**Finding 07-78** *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 other state agencies, 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 one subrecipient for periods in excess of ten days during the year ended June 30, 2007.

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, 2007) and the corresponding cash amounts requested according to the federal letter of credit as follows:

<b>Grant</b>	<b>Cumulative Grant Expenditures</b>	<b>Cash Drawn from the Letter of Credit</b>	<b>Unreconciled Differences</b>
2003 Equipment	\$15,363,000	\$13,244,000	\$2,119,000
2003 Supplemental Equipment	41,591,000	43,490,000	(1,899,000)
2003 Supplemental Infrastructure	6,333,000	6,515,000	(182,000)

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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 U.S. Treasury and disbursement whenever advance payment procedures are used. Part III, Chapter 1 of the U.S. 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 previously drawn funds based on Comptroller Form C-64 but have since changed this process to include a review of project code balances and vouchers in the accounting system so that there is a reconciliation prior to a draw down of funds. Also, state agencies are now required to submit an invoice to IEMA who processes a voucher to the agency who has the responsibility of paying vendors.

Failure to establish adequate cash management procedures may result in noncompliance with federal regulations and an interest liability to the U.S. Treasury. (Finding Code 07-78, 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.

#### **IEMA Response:**

The Agency has implemented a formal independent supervisory review of its cash draw calculations and related monthly reconciliations to ensure that cash requests are drawn from the appropriate grant award and state agencies are now required to submit an invoice to IEMA who will process a voucher payment to the agency who will have the responsibility of paying vendors.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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

**Federal Agency:** U.S. Department of Homeland Security (USDHS)

**Program Name:** Homeland Security Cluster

**CFDA # and Program Expenditures:** 97.004/97.042/97.053/97.067/97.071 (\$53,990,000)

**Award Numbers:** 2003-TE-TX-0165/2003-MU-T3-0029/2004-GE-T4-0027/  
2005-GE-T5-0002/2006-GE-T6-0025

**Questioned Costs:** None

**Finding 07-79** *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 one out of 30 award documents tested did not provide evidence IEMA had communicated the federal program's CFDA title and number to the subrecipient. During the year ended June 30, 2007, IEMA passed through approximately \$42,781,000 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 all federal fiscal year 2005 and newer grant agreements contain the appropriate CFDA title and number, award name and number, and award year as recommended as a result of the state fiscal year 2005 audit. Because the performance period for older federal fiscal year grants had expired, the CFDA information was not added to these agreements.

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 07-79, 06-86, 05-98)

**Recommendation:**

We recommend IEMA notify subrecipients in writing of the federal program's CFDA title and number.

**IEMA Response:**

Agree. When notified of this finding for the state fiscal year (SFY) 2005 audit, IEMA immediately complied by including the CFDA program name and number to all new grants issued after this date. Because the grants issued for the U.S. Department of Homeland Security, Homeland Security Grant Program are multi-year, numerous grants had been issued prior to the release of the finding (and repeat finding in SFY 2006). IEMA will review all grants that have a performance period that is within SFY 2007 to ensure the subrecipient has the required federal award information. For those subrecipients that had not received the CFDA program name and number, a grant adjustment notice will be issued by IEMA to the subrecipient that contains this information.



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**State Agency:** Illinois State Police (State Police)

**Federal Agency:** U.S. Department of Homeland Security (USDHS)

**Program Name:** Homeland Security Cluster

**CFDA # and Program Expenditures:** 97.004/97.042/97.053/97.067/97.071 (\$53,990,000)

**Award Numbers:** 2003-TE-TX-0165/2003-MU-T3-0029/2004-GE-T4-0027/  
2005-GE-T5-0002/2006-GE-T6-0025

**Questioned Costs:** None

**Finding 07-80** *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 U.S. Treasury and their disbursement for program purposes.

During our review of 30 expenditures (totaling \$151,265) related to federal fiscal year 2004 Homeland Security Cluster grants, we noted warrants were not issued for three expenditure vouchers, totaling \$50,498, 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 13 to 23 business days. Total expenditures for the Homeland Security Cluster program administered by State Police were \$2,023,000 during the year ended June 30, 2007.

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 U.S. Treasury and disbursement whenever advance payment procedures are used. Part III, Chapter 1 of the U.S. Department of Justice Financial Guide (applicable to federal fiscal year 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 officials, they stated the exception vouchers were handled through the normal voucher processing process which was experiencing delays because of the loss of personnel in the Voucher/Revenue Section. On March 30, 2007, the State Police modified its voucher processing procedures to ensure vouchers for the program are processed within the ten days allowed by program regulations. The exceptions were prior to the implementation of the new procedure.

Failure to draw and disburse federal funds in accordance with program regulations may result in an interest liability to the federal government. (Finding Code 07-80, 06-88)

**Recommendation:**

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

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**State Police's Response:**

Concur. On March 30, 2007, the State Police modified 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, 2007

**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 (\$33,385,000)  
**Award Numbers:** None  
**Questioned Costs:** None

**Finding 07-81** *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 \$27,766,000 to subrecipients of the HAVA program during the year ended June 30, 2007. The majority of funding was passed through to 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 2007, 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 that the agency is not presently able to do extensive on-site monitoring of sub-recipients due to the extremely limited staff resources available within the agency. In addition, the agency continues to feel that the extensive monitoring activities presently performed by SBOE staff at the office level (desk reviews, documentation requirements and other policies/procedures) provide reasonable assurance of sub-recipient compliance with program guidelines.

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 07-81, 06-89)

**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.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**SBOE Response:**

Concur. SBOE continues to assert that present office-based monitoring activities provide reasonable assurance of sub-recipient compliance with program guidelines. However, SBOE will research and develop processes for more comprehensive 'on-site' monitoring of sub-recipient activities, with consideration given to restrictions imposed by agency staff levels and the limited timeframe for availability of HAVA funds for this purpose.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$33,385,000)  
**Award Numbers:** None  
**Questioned Costs:** None

**Finding 07-82** *Failure to Obtain and Review Subrecipient OMB Circular A-133 Audit Reports*

SBOE did not obtain or review OMB Circular A-133 audit reports for subrecipients of the Help America Vote Act Requirements Payments (HAVA) program.

During our review of 30 subrecipient monitoring files for the HAVA program, we noted SBOE had not obtained or reviewed OMB Circular A-133 audit reports for any of the subrecipients selected for our testwork. Upon further review, we determined that OMB Circular A-133 audits reports had not been obtained or reviewed for any HAVA subrecipients. SBOE passed through approximately \$27,766,000 to subrecipients of the HAVA program during the year ended June 30, 2007.

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 2007, 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 this condition with SBOE officials, they state that although subrecipients were previously notified to have Single Audit reports performed when required and available to SBOE upon request, actual submission of those reports were not mandated.

Failure to obtain and review subrecipient OMB Circular A-133 audit reports may 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 07-82)

**Recommendation:**

We recommend SBOE develop and implement procedures to ensure all subrecipients receiving federal awards have audits conducted in accordance with OMB Circular A-133. Such procedures should include provisions for:

- following up on delinquent reports
- performing desk reviews over the reports

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

- issuing management decisions within required timeframes
- following up on the subrecipient's implementation of its corrective action plan

**SBOE Response:**

Concur. SBOE will develop and implement procedures to monitor subrecipients for compliance with the present A-133 Single Audit requirement, and ensure that qualifying subrecipients have the appropriate Single audits performed. SBOE will also implement procedures to ensure that required Single audit reports are submitted to SBOE for review and necessary corrective action, in compliance with A-133.

# STATE OF ILLINOIS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**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 (\$33,385,000)  
**Award Numbers:** None  
**Questioned Costs:** None

**Finding 07-83** 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 officials, they stated that an appeal was in process with the EAC regarding certain elements of this finding, and they were waiting for outcome of that appeal before a corrective action plan could be finalized.

Failure to meet matching requirements results in lost interest earnings on HAVA program funds deposited in the Vote Fund. (Finding Code 07-83, 06-93)

**Recommendation:**

We recommend SBOE deposit the required state matching contribution, as well as lost interest, into the Vote Fund.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

#### **SBOE Response:**

Concur. After the SBOE was notified of the original finding and additional interest penalty after the fiscal year 2006 EAC Special Audit in March 2007, an appeal was filed with the Federal Election Assistance Commission in April 2007. This appeal asked for reconsideration of the finding and recalculation of the associated interest penalty.

The EAC responded to the SBOE appeal in a revised determination letter dated April 15, 2008. This revised determination upheld the original finding regarding the calculation of the State match, but reduced the calculation of interest based on assertions made by the SBOE in its appeal. As a result, the amount of the expected repayment has been reduced from the \$417,219 amount in the original finding to a new total due of \$341,749.

SBOE will concur with the new finding recommendation, and has requested a special appropriation in the Agency's fiscal year 2009 budget request to reimburse this amount to the dedicated State HAVA fund. In addition, SBOE is in discussion with the EAC regarding the feasibility of satisfying this additional amount due against Indirect Cost Allocation monies due SBOE through negotiated Indirect Cost agreements for fiscal year 2005 and fiscal year 2006.



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**State Agency:** Illinois Department of Central Management Services (DCMS)

**Federal Agency:** US Department of Agriculture (USDA)  
US Department of Housing and Urban Development (USHUD)  
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  
Community Development Block Grant  
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  
Community Services Block Grant  
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  
Disaster Grants Public Assistance (Presidentially Declared Disasters)

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

<b>CFDA # and Program Expenditures:</b>	10.551/10.561 (\$1,646,762,000)
	10.553/10.555/10.556/10.559 (\$364,197,000)
	10.557 (\$187,330,000)
	10.558 (\$108,492,000)
	14.228 (\$25,889,000)
	17.207/17.801/17.804 (\$38,238,000)
	17.225 (\$1,917,798,000)
	17.245 (\$25,759,000)
	17.258/17.259/17.260 (\$163,864,000)
	20.106 (\$132,371,000)
	20.205 (\$988,207,000)
	84.010 (\$519,959,000)
	84.027/84.173 (\$464,244,000)
	84.032 (\$193,028,000)
	84.048 (\$46,314,000)
	84.126 (\$89,994,000)
	84.181 (\$18,086,000)
	84.287 (\$40,554,000)
	84.357 (\$30,753,000)
	84.367 (\$113,795,000)
	90.401 (\$33,385,000)
	93.044/93.045/93.053 (\$44,118,000)
	93.268 (\$54,627,000)
	93.283 (\$42,662,000)
	93.558 (\$556,726,000)
	93.563 (\$128,591,000)
	93.568 (\$138,522,000)
	93.569 (\$30,032,000)
	93.575/93.596 (\$197,141,000)
	93.658 (\$194,295,000)
	93.659 (\$89,317,000)
	93.667 (\$109,206,000)
	93.767 (\$330,917,000)
	93.775/93.777/93.778 (\$6,544,606,000)
	93.917 (\$39,853,000)
	93.959 (\$67,918,000)
	96.001 (\$62,153,000)
	97.004/97.042/97.053/97.067/97.071 (\$53,990,000)
	97.036 (\$32,589,000)

**Questioned Costs:** Cannot be determined

**Finding 07-84** 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.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 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 DCMS 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, 2005, and 2006. Upon further review, the fiscal year 2007 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 \$9,697,000 and \$14,414,000 as of June 30, 2007 for the CRF and SSRF, respectively.

Additionally, we noted DCMS is not properly reconciling federal internal service fund reports to its GAAP based financial statements as evidenced by the following unidentified reconciling items:

- Certain IT billings have been reported differently in SSRF for GAAP purpose than for federal purposes resulting in balances that are not entirely reconciled.
- SSRF credits of \$1,485,000 applied against fiscal year 2005 GAAP basis revenue was not reported for federal purposes until fiscal year 2006;
- Equipment totaling \$1,574,000 purchased in the SSRF during the fiscal year 2006 lapse period was properly excluded from fiscal year 2006 expenses for the GAAP basis financial statements, but was expensed in fiscal year 2006 for federal purposes;
- DCMS was not able to document the matching of revenues with related expenses for certain fiscal year 2006 lapse period pass-through billings totaling \$3,105,000 in SSRF that are reported differently in the GAAP basis financial statements than for federal purposes;
- Equipment totaling \$3,588,000 purchased in the CRF during the fiscal year 2005 lapse period was reported in the fiscal year 205 GAAP basis financial statements, but was expensed in fiscal year 2006 for federal purposes; and
- Expenses of \$1,965,000 related to equipment purchased in prior years for another State agency have been excluded for the fiscal year 2006 GAAP basis financial statements, but were included in expenses reported in fiscal year 2006 for federal purposes.

The majority of the differences identified above represent timing differences which may have significantly altered the annual calculation of excess fund balances. As the reconciling items identified above have not been associated with a specific billed service, we are unable to determine the impact of these items on the federal share of the excess fund balances.

According to the OMB Circular A-133 Compliance Supplement dated March 2007, 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 and reconcile the fund balances of internal service funds on a periodic basis to identify whether amounts in excess of those allowed under federal regulations exist.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 07-84, 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:**

Regarding Excess Fund Balances: The existence of excess balances is not a violation of A-87. The federal requirement is that excess balances be remedied. Per A-87 Attachment C, G.4(a) "*a cash refund to the federal government for the federal share of the adjustment*", is an appropriate and allowable adjustment mechanism to remedy excess balances. The paybacks are negotiated during the federal review of the annual SWCAP. The federal review cycle often is not completed annually, and the refunds are formally determined through the federal letter of determination at the end of the review process. The Department would not have a means to issue a payment through its accounting systems without such letter of determination.

The Department does adjust rates and cost allocations on an ongoing basis to reduce exposure to future excess balances, and will continue to do so. However, that does not mean that excess balances will never be generated for individual services. Direct negotiated federal refunds have always been, and will likely always be a part of the remedy for excess balances. The timeliness of these negotiated remedies will continue to be dependent on the federal review cycle. The Department does not believe that corrective action on its part is required.

Regarding Reconciling Items: The Department partially concurs. The finding states that data reported to the USDHHS is not reconciled with GAAP. This is not entirely accurate. Internal financial statements are reconciled to GAAP, and federal cost recovery data is reconciled to internal financials. This three way reconciliation process does produce some differences associated with timing. However, the Department believes that the adjustments are reported accurately in the annual SWCAP. Based on the auditor's recommendation, we do agree to pursue a more clear presentation of the reconciliation process back to source data, and to adjust our practices to reduce the total number of reconciling items.

#### **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

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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.

Additionally, the "three-way reconciliation" described in DCMS' response does not constitute a reconciliation of the data reported to USDHHS and DCMS' GAAP financial statements. As a result, we maintain that DCMS has not performed an adequate reconciliation of this information, nor has DCMS investigated and resolved the reconciling items identified in the finding above to be in a position to conclude the amounts are accurately reported.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**State Agency:** Illinois Department of Central Management Services (DCMS)

**Federal Agency:** US Department of Agriculture (USDA)  
US Department of Housing and Urban Development (USHUD)  
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  
Community Development Block Grant  
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  
Community Services Block Grant  
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  
Disaster Grants Public Assistance (Presidentially Declared Disasters)

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

<b>CFDA # and Program Expenditures:</b>	10.551/10.561 (\$1,646,762,000)
	10.553/10.555/10.556/10.559 (\$364,197,000)
	10.557 (\$187,330,000)
	10.558 (\$108,492,000)
	14.228 (\$25,889,000)
	17.207/17.801/17.804 (\$38,238,000)
	17.225 (\$1,917,798,000)
	17.245 (\$25,759,000)
	17.258/17.259/17.260 (\$163,864,000)
	20.106 (\$132,371,000)
	20.205 (\$988,207,000)
	84.010 (\$519,959,000)
	84.027/84.173 (\$464,244,000)
	84.032 (\$193,028,000)
	84.048 (\$46,314,000)
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	84.367 (\$113,795,000)
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	93.775/93.777/93.778 (\$6,544,606,000)
	93.917 (\$39,853,000)
	93.959 (\$67,918,000)
	96.001 (\$62,153,000)
	97.004/97.042/97.053/97.067/97.071 (\$53,990,000)
	97.036 (\$32,589,000)

**Questioned Costs:** Cannot be determined

**Finding 07-85** Inadequate Supporting Documentation for Payroll Costs

Adequate supporting documentation does not exist to substantiate payroll costs paid by the Communications Revolving Fund (CRF) and Statistical Services Revolving Fund (SSRF) which are allocated for reimbursement under federal programs operated by the State.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

During our audit testwork, we noted DCMS does not obtain effort certifications from employees who perform activities or services applicable to CRF and/or SSRF to verify that payroll expenditures reported in each of these funds correlate to the costs assignable to these funds. Specifically, we noted DCMS allocated 50% of the payroll costs for approximately 60 employees paid from SSRF to CRF and allocated 50% of the payroll costs for approximately 25 employees paid from CRF to SSRF. We noted the amounts allocated between the CRF and SSRF funds approximated \$1,942,000 and \$910,000, respectively. Total payroll and fringe benefit expenditures reported in CRF and SSRF during the year ended June 30, 2006 were \$53,482,000 and \$7,793,000, respectively.

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 the expenditure be adequately documented. If an employee works on multiple activities, monthly personnel activity reports must be completed and signed by the employee. The personal activity report is required to be an after-the-fact distribution of effort and must account for 100% of the employee's activity.

In discussing these conditions with DCMS officials, they stated that they believed they were in compliance with the federal guidelines.

Inadequate documentation for payroll expenditures may result in federal funds being expended for unallowable purposes. (Finding Code 07-85)

#### **Recommendation:**

We recommend DCMS obtain effort certifications or personal activity reports where required for payroll and fringe benefit expenditures allocated to its federal programs through internal service fund charges.

#### **DCMS Response:**

OMB Circular A-87 Attachment B.8.h(4) allows for a “*substitute system approved by the federally cognizant agency*”. The negotiators responsible for reviewing and approving the SSRF and CRF have accepted the methodology currently in use for many years. In addition, these staff are considered top level management overhead, and as such do not meet the criteria of “employees working on multiple cost objectives” as described in Attachment B.8.h(4)(a) through (e). Given the nature of these cost elements and the limited impact they have on specific federal programs, the existing distribution method has been deemed reasonable by USDHHS.

The particular allocations questioned by the auditor were at the Fund level. Subsequently, costs are reallocated through various federally approved means to the service levels. Based on the auditor's recommendation, the Department will pursue a more formal documentation during fiscal year 2008 for the Fund level allocation for the particular overhead staff cited by the auditors.

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

As of the date our report, DCMS did not have documentation supporting that a substitute system for documenting time and effort has been approved by USDHHS. Additionally, DCMS officials stated in their response that the individuals identified as exceptions in our finding do not work on multiple cost objectives; however, DCMS also maintained that it is appropriate to charge the payroll and fringe benefits costs of these individuals to more than one revolving fund which would suggest that these individuals work on more than one cost objective. To the extent the activities of these individuals represent “top level management overhead” as discussed above, they should be allocated to the revolving funds in accordance with a cost allocation methodology approved by USDHHS.



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**State Agency:** Illinois Department of Central Management Services (DCMS)

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US Department of Housing and Urban Development (USHUD)  
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  
Community Development Block Grant  
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  
Community Services Block Grant  
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  
Disaster Grants Public Assistance (Presidentially Declared Disasters)

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

<b>CFDA # and Program Expenditures:</b>	10.551/10.561 (\$1,646,762,000)
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	93.959 (\$67,918,000)
	96.001 (\$62,153,000)
	97.004/97.042/97.053/97.067/97.071 (\$53,990,000)
	97.036 (\$32,589,000)

**Questioned Costs:** Cannot be determined

**Finding 07-86** Unallowable Costs Recorded in Internal Service Funds

DCMS recorded costs that are not allowed under OMB Circular A-87 in its internal service funds.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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 based upon the costs recorded in its internal service funds.

During our audit, we noted other auditors had identified that DCMS had recorded unallowable costs in each of its internal service funds. Specifically, the auditors judgmentally selected a sample of 54 cash disbursements (totaling \$5,141,262) from DCMS' internal service funds and found 24 of the disbursements tested (totaling \$26,758) were for costs that did not pertain to the fund in which they were recorded or were not necessary or reasonable in relation to the services provided by the fund. Total expenditures recorded in these funds approximated \$498,502,000.

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.

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 procedures to ensure only allowable costs are charged to internal service funds.

In discussing these conditions with DCMS officials, they stated that they believed they were in compliance with the federal guidelines for the majority of these expenditures.

Failure to properly determine the allowability of costs in accordance with federal regulations may result in unallowable costs being claimed to federal programs. (Finding Code 07-86)

#### **Recommendation:**

We recommend DCMS implement procedures to ensure only expenditures meeting allowable cost criteria are used in establishing rates for expenditures charged to federal programs.

#### **DCMS Response:**

All of the expenditures cited by the auditor, with the exception of \$273 for bottled water, represented allowable costs under A-87 guidelines. The separate issue is whether the costs pertained solely to the fund in which they were recorded. The Department contends that expenditures totaling \$16,381 were for costs dedicated to the individual funds from which they were expended. Other payments totaling \$10,104 were for costs that benefited the agency as a whole. For administrative reasons these costs were targeted to individual funds rather than split among all funds. The effect of these expenditures on fund balances was immaterial.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**Auditors' Comment:**

As stated above, in order for costs to be allowable under OMB Circular A-87, they 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. The costs identified as exceptions in our finding above did not meet the A-87 allowable cost criteria and adequate controls have not been established by DCMS to prevent unallowable costs from being charged to the internal service funds. The documentation for the expenditures totaling \$16,281 referred to in DCMS' response above did not support that these expenditures pertained to the fund in which they were recorded. DCMS appears to agree with the other unallowable costs identified in our finding.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**State Agency:** Illinois Department of Central Management Services (DCMS)

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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  
Community Development Block Grant  
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  
Community Services Block Grant  
Child Care Development Funds Cluster  
Foster Care – Title IV-E  
Adoption Assistance  
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State Children’s Insurance Program  
Medicaid Cluster  
HIV Care Formula Grants  
Block Grants for the Prevention and Treatment of Substance Abuse  
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**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

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	10.553/10.555/10.556/10.559 (\$364,197,000)
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	93.775/93.777/93.778 (\$6,544,606,000)
	93.917 (\$39,853,000)
	93.959 (\$67,918,000)
	96.001 (\$62,153,000)
	97.004/97.042/97.053/97.067/97.071 (\$53,990,000)
	97.036 (\$32,589,000)

**Questioned Costs:** Cannot be determined

**Finding 07-87** Inadequate Process for Billing Costs to Users

DCMS does not have an adequate process in place to bill State agencies for the use of services from the Statistical Services Revolving Fund (SSRF).

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

During our audit testwork, we noted certain State agencies using SSRF information technology services were billed in an inconsistent manner. Specifically, State agencies whose information technology services were consolidated into DCMS during fiscal year 2007 in accordance with Public Act 93-25, were billed the payroll and fringe benefit costs of the information technology personnel previously assigned to the State agency in a consolidated amount rather than at the rates established by CMS for the specific unit of service provided. We noted the units of services and rates calculated for each of the affected State agencies were specific to the State agency and were not calculated using the same methodology used to establish the standard SSRF billing rates. The State agencies subject to the consolidated billing process included the Illinois Department of Human Services, the Department of Public Health, the Department of Healthcare and Family Services, the Department of Revenue and the Department of Transportation. The amounts billed to State agencies using the consolidated billing approach totaled \$26,332,564 for the year ended June 30, 2007.

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. In accordance with Attachment C, Section C, to be allowable under federal awards, central service cost allocation plan must include all central service costs that will be claimed (either as a billed or an allocated cost). Section II of the Cost Allocation Agreement dated October 10, 2007 (covering the years ending June 30, 2006 and 2007) categorizes services from the Statistical Services Revolving Fund as billed services. Section III of this Agreement states that billed cost services are required to be billed in accordance with the rates established 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 controls should include establishing procedures to ensure internal service fund costs are billed in a manner consistent with the Cost Allocation Agreement.

In discussing these conditions with DCMS officials, they stated that they believed they were in compliance with the federal guidelines.

Failure to properly bill internal service fund costs in accordance with the approved Cost Allocation Agreement and federal regulations may result in unallowable costs being claimed to federal programs. (Finding Code 07-87)

#### **Recommendation:**

We recommend DCMS ensure that all State agencies are billed internal service fund costs in a consistent manner in accordance with OMB Circular A-87.

#### **DCMS Response:**

The Department does not bill IT services in an inconsistent manner. The auditors' assertion is that any form of direct bill for dedicated costs is unallowable. We can find no language in A-87 prohibiting such billings, and the auditor has not provided any. The Department has always had pass through charges approved in its SWCAP submissions. Specifically, the auditor states the following:

- In accordance with A-87, Attachment C, Section C, to be allowable under federal awards, central service cost allocation plans must include all central service costs that will be claimed (either as a billed or an allocated cost).

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

Response: Our Section II submissions do include all billed services, including pass through charges.

- Section II of the Cost Allocation Agreement dated October 10, 2007 categorizes services from the Statistical Services Revolving Fund as billed services.

Response: All our charges meet the definition of billed services in A-87 Attachment C, Section B, 1.

- Billed cost services are required to be billed in accordance with the rates established by the State.

Response: A direct billing is an individual rate for a dedicated service.

What is required in A-87 is to demonstrate that the billed entity received the benefit of the billed service. The consolidated agencies were the only agencies consuming the services of the direct billed staff, and the staff costs were billed back to the entities that they served.

During fiscal year 2008, the Department moved most of these direct billed costs for consolidated staff into other usage based rates as it had always planned to do once physical and functional consolidation were complete. But the billing procedures utilized during the interim period were in conformance with federal requirements.

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

As of the date of our report, DCMS was unable to provide documentation supporting that direct billed staff **only** worked on projects pertaining to the consolidated agency to which the staff costs were charged. DCMS did not track the time and effort spent by the direct billed staff to support that their activities solely benefited the consolidated agency to which they were direct billed. Rather, DCMS presumed that staff previously assigned to an agency worked solely on the activities of that agency which does not meet the requirements of OMB Circular A-87.



## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2007

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

#### **Prior Year Finding 06-05**

IDHS used unallowable expenditures to meet the earmarking requirement for the Social Services Block Grant (Title XX) program. In the current audit period, IDHS revised the query performed to identify these expenditures to correct the household size calculation.

#### **Prior Year Finding 06-08**

IDHS was not able 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 program. In the current audit period, IDHS was able to provide documentation to substantiate the maintenance of level base established in fiscal year 2006.

#### **Prior Year Finding 06-09**

IDHS did not adequately monitor a service organization of the Special Supplemental Nutrition Program for Women, Infants, and Children. In the current audit period, IDHS obtained and reviewed the service organization report.

#### **Prior Year Finding 06-15**

IDHS did not properly report state program expenditures in the ACF-204 TANF Annual Report. In the current audit period, IDHS implemented procedures to accurately report expenditures used to meet the TANF MOE requirement on the ACF-204 report.

#### **Prior Year Finding 06-18**

IDHS does not have adequate controls over user access to its information systems. In the current audit period, IDHS implemented procedures to segregate production and development functions relative to the payroll system.

#### **Prior Year Finding 06-19**

IDHS did not amend the allocation methodology included in the Public Assistance Cost Allocation Plan (PACAP) to accurately allocate the costs of its Early Intervention Program (State EI) to all applicable federal program in a timely manner. In the current audit period, IDHS amended the PACAP for the State EI program to allocate costs to all applicable state and federal programs.

**STATE OF ILLINOIS**

Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2007

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

**Prior Year Finding 06-22**

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 IDHS. In the current audit period, DHFS implemented procedures to report non-cooperative TANF beneficiaries to IDHS.

**Prior Year Finding 06-26**

DHFS did not adequately monitor subrecipients of the Medicaid Cluster. In the current audit period, DHFS revised its procedures to document how subrecipients are selected for monitoring reviews and the monitoring procedures performed.

**Prior Year Finding 06-28**

DHFS did not include the State Children's Insurance Program (SCHIP) in the Treasury State Agreement (TSA). In the current period, DHFS amended the TSA to include the SCHIP program.

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

**Prior Year Finding 06-31**

DCFS did not ensure that foster care permanency hearings were performed within the federally required timeframes. In the current audit period, DCFS implemented procedures to perform foster care permanency hearings within the federally required timeframes. We did not identify any exceptions in our review of permanency hearings in the current audit period.

**Prior Year Finding 06-35**

DCFS did not ensure that administrative case reviews were performed within the federally required timeframes. In the current audit period, DCFS implemented procedures to perform administrative case reviews within the federally required timeframes. We did not identify any exceptions in our review of permanency hearings in the current audit period.

**State Agency: Illinois Department on Aging (IDOA)**

**Prior Year Finding 06-40**

IDOA inaccurately prepared the semi-annual financial status reports and the Administration on Aging (AoA) supplemental form. In the current audit period, IDOA accurately prepared the semi-annual financial status reports and the AoA supplemental form.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2007

#### **Prior Year Finding 06-42**

IDOA did not have adequate supporting documentation for costs used to meet the match requirement for state plan administration of the Aging Cluster program. In the current audit period, IDOA was able to provide documentation to substantiate the costs used to meet the match requirement.

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

#### **Prior Year Finding 06-45**

IDPH did not adequately monitor subrecipients receiving federal awards and vaccines under its Immunization Grants program. In the current audit period, IDPH was not able to differentiate between state and federally funded vaccines and as a result a disclaimer of an opinion was issued. See finding 07-43.

#### **Prior Year Finding 06-49**

IDPH did not allocate certain compensation expenditures to its federal programs through Public Assistance Cost Allocation Plan (PACAP). In the current audit period, IDPH allocated these costs in accordance with the provisions of the PACAP.

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

#### **Prior Year Finding 06-52**

ISBE did 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 program. In the current audit period, ISBE expanded its interagency monitoring process to include procedures to review expenditures made by ICCB.

#### **Prior Year Finding 06-53**

ISBE did not obtain adequate documentation from subrecipients requesting waivers for the carryover of grant awards for the Title I Grants to Local Educational Agencies program. During the current audit period, ISBE amended the request for carryover of funds prepared by subrecipients to require documentation supporting amounts to be carried over to subsequent years.

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

#### **Prior Year Finding 06-56**

ICCB did not minimize the time elapsing between the draw down date of federal funds and their disbursement for program purposes. In the current audit period, ICCB implemented procedures to limit the time between the receipt of federal funds and their disbursement for program purposes to three business days.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

Prior Year Findings Not Repeated

For the Year Ended June 30, 2007

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

#### **Prior Year Finding 06-60**

IDES did not adequately administer or coordinate the program responsibility of the Trade Adjustment Assistance – Workers 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. In the current audit period, IDES established procedures to coordinate the program responsibilities of the Trade Adjustment Assistance – Workers program with DCEO and determine whether individuals were enrolled in or waived from training.

#### **Prior Year Finding 06-63**

IDES did not have adequate procedures for follow up on multiple unemployment benefit checks delivered to the same address. In the current audit period, IDES established procedures to follow up on multiple unemployment benefit checks delivered to the same address.

#### **Prior Year Finding 06-64**

IDES did not update its policies and procedures on a timely basis and IDES local offices did not consistently follow policies and procedures. In the current audit period, IDES updated the policies and procedures manual for the Unemployment Insurance program.

#### **Prior Year Finding 06-65**

IDES did not follow established procedures to reconcile cash draws to actual disbursements (cleared checks). In the current audit period, IDES reconciled cash draws to actual disbursements.

#### **Prior Year Finding 06-66**

IDES did not have adequate procedures to ensure cash draws were performed in accordance with U.S. Treasury regulations. In the current audit period, IDES revised its methodology for drawing funds under the Employment Services Cluster to conform to Subpart B of the U.S. Treasury regulations.

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

#### **Prior Year Finding 06-69**

DCEO did not competitively bid professional services purchased as required by the Illinois Procurement Code for the Workforce Investment Act Cluster. In the current audit period, DCEO competitively bid the professional services contract identified in the prior year finding.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

#### Prior Year Findings Not Repeated

For the Year Ended June 30, 2007

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

#### **Prior Year Finding 06-75**

IDOT did not properly calculate the interest liability for the Airport Improvement program. In the current audit period, IDOT properly calculated the dollar weighted average time between the warrant date and the deposit date of the federal funds, and thus properly calculated the interest liability in accordance with the Treasury State Agreement.

#### **Prior Year Finding 06-78**

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. In the current audit period, IDOT implemented additional procedures to verify the federal authorization date prior to processing subrecipient invoices for payment.

#### **Prior Year Finding 06-79**

IDOT entered inaccurate contract execution dates into the contracting information systems. In the current audit period, IDOT established additional review procedures to determine that the award date documented in ELM/BCM matches the executed contract.

#### **Prior Year Finding 06-80**

IDOT did not follow its control procedures to ensure all federal requirements had been met for property acquisition and relocation assistance payments under the Uniform Relocation Assistance and Real Property Acquisition (URA) regulations for the Airport Improvement program. In the current audit period, IDOT implemented a checklist to document compliance with property acquisition and relocation assistance payments.

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

#### **Prior Year Finding 06-82**

IEMA did not perform adequate on-site monitoring procedures for subrecipients of the Homeland Security Cluster program. In the current audit period, IEMA received a waiver from the Illinois Department of Central Management Services exempting subrecipients of IEMA's federal programs from the State's property management regulations. Additionally, IEMA implemented procedures in fiscal year 2007 to monitor the subrecipient monitoring procedures of subrecipients who grant to funds to other organizations.

## STATE OF ILLINOIS

### Schedule of Findings and Questioned Costs

#### Prior Year Findings Not Repeated

For the Year Ended June 30, 2007

#### **Prior Year Finding 06-83**

IEMA did not review OMB Circular A-133 audit reports received from its subrecipients for the Homeland Security Cluster program. In the current audit period, IEMA performed reviews of audit reports received and followed up on delinquent reports.

#### **Prior Year Finding 06-85**

IEMA charged certain administrative costs directly to the Homeland Security Cluster rather than allocating the costs to all state and federal programs. In the current audit period, IEMA implemented procedures to allocate administrative costs to state and federal programs.

#### **Prior Year Finding 06-87**

IEMA did not implement formal review and approval procedures for quarterly financial status reports filed for the Homeland Security Cluster program. In the current audit period, IEMA implemented procedures requiring a supervisory review of quarterly financial status reports.

**State Agency:** Illinois State Board of Elections (SBOE)

#### **Prior Year Finding 06-90**

SBOE did not provide subrecipients of the Help America Vote Act Requirements Payments (HAVA) program with required federal award information. In the current audit period, SBOE personnel implemented procedures to communicate required federal award information to subrecipients.

#### **Prior Year Finding 06-91**

SBOE provided funds to subrecipients of the HAVA program in excess of their immediate cash needs. In the current audit period, SBOE implemented procedures to limit advances to subrecipients to the subrecipient's immediate cash needs (30 days of funding).

#### **Prior Year Finding 06-92**

SBOE did not obtain required certifications that subrecipients were not suspended or debarred from participation in federal assistance programs for the HAVA program. In the current audit period, SBOE revised its procedures to verify subrecipients are not included on the federal excluded parties list.

#### **Prior Year Finding 06-94**

SBOE did not properly allocate interest earned on HAVA program funds maintained in the Vote Fund. In the current audit period, SBOE implemented procedures to review the accuracy of HAVA interest calculations and the allocation of interest earnings between HAVA programs.