

STATE OF ILLINOIS

Single Audit Report

For the Year Ended June 30, 2009

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

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

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

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

STATE OF ILLINOIS

Single Audit Report

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Other Reports Issued Applicable to the Single Audit:

The Comprehensive Annual Financial Report of the State of Illinois for the Year Ended June 30, 2009 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, 2009 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 qualifications for the following programs:

Qualifications (Noncompliance):

- Airport Improvement Program
- Title I, Part A Cluster
- Special Education Cluster
- Career and Technical Education – Basic Grants to States
- Twenty-First Century Community Learning Centers
- Reading First State Grants
- Improving Teacher Quality State Grants
- State Fiscal Stabilization Fund Cluster
- Aging Cluster
- Temporary Assistance for Needy Families Cluster
- Foster Care – Title IV-E
- Adoption Assistance
- Children's Health 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	93	97
Repeated audit findings	65	58
Prior findings implemented or not repeated	32	29



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, 2009. 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, 2009, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2010 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 30, 2010

STATE OF ILLINOIS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipient (Unaudited)</u>
<u>U.S. Department of Agriculture</u>			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 2,609	\$ 21
Wildlife Services	10.028	44	—
Wetlands Reserve Program	10.072	6	—
Inspection Grading and Standardization	10.162	11	—
Market Protection and Promotion	10.163	27	—
Organic Agriculture Research and Extension Initiative	10.307	2	—
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475	5,825	—
Meat, Poultry, and Egg Products Inspection	10.477	11	—
Cooperative Extension Service	10.500	89	—
SNAP Cluster:			
Supplemental Nutrition Assistance Program (SNAP)	10.551	* \$ 2,094,133	—
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	* 117,890	12,764
Total SNAP Cluster			2,212,023
Child Nutrition Cluster:			
School Breakfast Program	10.553	* 72,011	71,027
National School Lunch Program	10.555	* 372,051	330,648
Special Milk Program for Children	10.556	* 3,536	3,536
Summer Food Service Program for Children	10.559	* 8,561	8,281
Total Child Nutrition Cluster			456,159
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	* 218,572	218,429
ARRA - Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	* 421	421
Total WIC Program			218,993
Child and Adult Care Food Program	10.558	* 115,444	114,030
State Administrative Expenses for Child Nutrition	10.560	6,537	410
Commodity Supplemental Food Program	10.565	3,365	3,364
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	10.568	1,657	1,657
ARRA - Emergency Food Assistance Program (Administrative Costs)	10.568	318	318
Emergency Food Assistance Program (Food Commodities)	10.569	18,105	18,105
ARRA - Emergency Food Assistance Program (Food Commodities)	10.569	2,322	2,322
Total Emergency Food Assistance Cluster			22,402
WIC Farmers' Market Nutrition Program (FMNP)	10.572	298	10
Team Nutrition Grants	10.574	152	152
Senior Farmers Market Nutrition Program	10.576	599	—
Fresh Fruit and Vegetable Program	10.582	681	678
Cooperative Forestry Assistance	10.664	962	13
Schools and Roads Cluster:			
Schools and Roads Grants to States	10.665	118	118
Total Schools and Roads Cluster			118
Urban and Community Forestry Program	10.675	36	24
Forest Legacy Program	10.676	16	—
Forest Stewardship Program	10.678	435	—
Forest Health Program	10.680	30	—
Wildlife Habitat Incentive Program	10.914	71	—
Total U.S. Department of Agriculture			3,046,945
<u>U.S. Department of Commerce</u>			
Interjurisdictional Fisheries Act of 1986	11.407	20	—
Coastal Zone Management Administration Awards	11.419	4	—
Public Safety Interoperable Communications Grant Program	11.555	7,149	7,023
Total U.S. Department of Commerce			7,173
<u>U.S. Department of Defense</u>			
Procurement Technical Assistance For Business Firms	12.002	485	321
Payments to States in Lieu of Real Estate Taxes	12.112	800	800
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	784	—
Military Construction, National Guard	12.400	25,849	—
National Guard Military Operations and Maintenance (O&M) Projects	12.401	13,921	—
National Guard Civilian Youth Opportunities	12.404	4,321	—
Troops-to-Teachers/Spouses-to-Teachers	12.XXX	160	—
Total U.S. Department of Defense			46,320
<u>U.S. Department of Housing and Urban Development</u>			
Community Development Block Grants/Entitlement Grants	14.218	79	—
CDBG - State Administered Small Cities Program Cluster:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (State-Administered Small Cities Program)	14.228	* 30,637	29,501
Total CDBG Cluster			30,637

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For the Year Ended June 30, 2009

<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipient (Unaudited)</u>
<u>U.S. Department of Housing and Urban Development (Continued)</u>			
Emergency Shelter Grants Program	14.231	2,612	2,474
Supportive Housing Program	14.235	108	—
Housing Opportunities for Persons with AIDS	14.241	\$ 716	\$ 698
Fair Housing Assistance Program State and Local	14.401	703	—
Section 8 Housing Choice Vouchers	14.871	598	518
Lead-Based Paint Hazard Control in Privately Owned Housing	14.900	516	309
Total U.S. Department of Housing and Urban Development		35,969	
<u>U.S. Department of Interior</u>			
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250	2,413	129
Abandoned Mine Land Reclamation (AMLR) Program	15.252	11,192	320
Fish & Wildlife Cluster:			
Sport Fish Restoration	15.605	\$ 5,351	1,495
Wildlife Restoration	15.611	3,119	1,391
Total Fish & Wildlife Cluster		8,470	
Fish and Wildlife Management Assistance	15.608	19	—
Coastal Wetlands Planning, Protection and Restoration Act	15.614	578	413
Cooperative Endangered Species Conservation Fund	15.615	74	74
Clean Vessel Act	15.616	(18)	—
Sportfishing and Boating Safety Act	15.622	18	—
Wildlife Conservation And Restoration	15.625	(1)	—
Firearm and Bow Hunter Education and Safety Program	15.626	(81)	—
Partners for Fish and Wildlife	15.631	11	11
Landowner Incentive	15.633	437	40
State Wildlife Grants	15.634	730	724
U.S. Geological Survey-Research and Data Collection	15.808	461	20
National Spatial Data Infrastructure Cooperative Agreements Program	15.809	17	6
Historic Preservation Fund Grants In Aid	15.904	914	63
Outdoor Recreation Acquisition, Development and Planning	15.916	2,650	2,650
Total U.S. Department of Interior		27,884	
<u>U.S. Department of Justice</u>			
Federal Asset Forfeiture	16.000	2,299	—
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	649	—
Juvenile Accountability Block Grants	16.523	1,396	818
Juvenile Justice and Delinquency Prevention Allocation to States	16.540	2,098	1,633
Missing Children's Assistance	16.543	206	—
Title V Delinquency Prevention Program	16.548	24	24
National Criminal History Improvement Program (NCHIP)	16.554	59	59
National Institute of Justice Research, Evaluation, and Development Projects Grants	16.560	360	—
Crime Laboratory Improvement Combined Offender DNA Index System Backlog Reduction	16.564	647	—
Crime Victim Assistance	16.575	12,968	12,086
Crime Victim Compensation	16.576	80	—
Edward Byrne Memorial Formula Grant Program	16.579	1,454	568
Edward Byrne Memorial State and Local Law Enforcement Assistance			
Discretionary Grants Program	16.580	636	37
Crime Victim Assistance/Discretionary Grants	16.582	3	—
Violence Against Women Formula Grants	16.588	4,175	3,877
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	16.589	68	68
The Community-Defined Solutions to Violence Against Women Grant Program	16.590	67	—
Residential Substance Abuse Treatment for State Prisoners	16.593	653	106
Corrections Research and Evaluation and Policy Formulation	16.602	71	—
State Criminal Alien Assistance Program	16.606	7,070	—
Bulletproof Vest Partnership Program	16.607	17	—
Community Prosecution and Project Safe Neighborhoods	16.609	330	264
Public Safety Partnership and Community Policing Grants	16.710	86	—
Enforcing Underage Drinking Laws Program	16.727	374	254
Edward Byrne Memorial Justice Assistance Grant Program	16.738	9,121	6,034
Forensic DNA Backlog Reduction Program	16.741	2,516	—
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	535	87
Forensic Casework DNA Backlog Reduction Program	16.743	503	—
Anti-Gang Initiative	16.744	897	848
Equitable Sharing of Federal Forfeitures	16.XXX	153	—
Total U.S. Department of Justice		49,515	

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Schedule of Expenditures of Federal Awards
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<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipient (Unaudited)</u>
<u>U.S. Department of Labor</u>			
Labor Force Statistics	17.002	\$ 2,707	\$ —
Compensation and Working Conditions	17.005	185	—
Employment Services Cluster:			
Employment Service/Wagner-Peyser Funded Activities	17.207	\$ 22,958	—
Disabled Veterans' Outreach Program (DVOP)	17.801	2,786	—
Local Veterans' Employment Representative Program	17.804	2,753	—
Total Employment Services Cluster		28,497	—
Unemployment Insurance	17.225 *	4,834,870	—
ARRA - Unemployment Insurance	17.225 *	328,580	—
Total Unemployment Insurance program		5,163,450	—
Senior Community Service Employment Program	17.235	3,732	3,656
Trade Adjustment Assistance	17.245	11,066	11,066
Workforce Investment Act Cluster:			
WIA Adult Program	17.258 *	37,403	33,002
ARRA - WIA Adult Program	17.258 *	588	588
WIA Youth Activities	17.259 *	41,144	36,302
ARRA - WIA Youth Activities	17.259 *	2,421	2,421
WIA Dislocated Workers	17.260 *	55,552	49,327
ARRA - WIA Dislocated Workers	17.260 *	1,287	1,287
Total Workforce Investment Act Cluster		138,395	—
WIA Pilots, Demonstrations, and Research Projects	17.261	110	—
Youth Opportunity Grants	17.263	(5)	—
Work Incentive Grants	17.266	678	678
Incentive Grants WIA Section 503	17.267	1,851	857
Work Opportunity Tax Credit Program	17.271	850	—
Temporary Labor Certification for Foreign Workers	17.273	391	—
Consultation Agreements	17.504	1,423	—
Mine Health and Safety Grants	17.600	150	—
Total U.S. Department of Labor		5,353,480	
<u>U.S. Department of Transportation</u>			
Airport Improvement Program	20.106 *	82,973	30,156
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205 *	1,200,211	113,227
ARRA - Highway Planning and Construction	20.205 *	48,115	—
Recreational Trails Program	20.219 *	669	—
Total Highway Planning and Construction Cluster		1,248,995	—
Motor Carrier Safety	20.217	36	—
National Motor Carrier Safety	20.218	8,258	1,856
Commercial Driver License State Programs	20.232	(187)	—
Railroad Safety	20.301	110	110
Federal Transit Cluster:			
Federal Transit Capital Investment Grants	20.500	1,871	926
Federal Transit Formula Grant	20.507	7	—
Total Federal Transit Cluster		1,878	—
Federal Transit Metropolitan Planning Grants	20.505	3,387	452
Formula Grants for Other Than Urbanized Areas	20.509	14,351	9,034
Transit Services Program Cluster:			
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	1,348	—
Job Access Reverse Commute	20.516	118	118
Total Transit Services Programs Cluster		1,466	—
State Planning and Research	20.515	76	—
Highway Safety Cluster:			
State and Community Highway Safety	20.600	5,569	5,569
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	3,261	2,732
Occupant Protection Incentive Grants	20.602	2,253	2,253
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	114	114
Safety Belt Performance Grants	20.609	3,974	—
State Traffic Safety Information System Improvements Grants	20.610	506	—
Incentive Grant Program to Prohibit Racial Profiling	20.611	109	—
Incentive Grant Program to Increase Motorcyclist Safety	20.612	209	—
Child Safety and Child Booster Seats Incentive Grants	20.613	143	19
Total Highway Safety Cluster		16,138	—
Pipeline Safety Program Base Grants	20.700	680	—
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	471	356
Total U.S. Department of Transportation		1,378,632	

STATE OF ILLINOIS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipient (Unaudited)</u>
<u>Equal Employment Opportunity Commission</u>			
Employment Discrimination State and Local Fair Employment Practices Agency Contracts	30.002	\$ 1,461	\$ —
Total Equal Employment Opportunity Commission		1,461	
<u>General Services Administration</u>			
Election Reform Payments	39.011	664	168
Total General Services Administration		664	
<u>National Endowment for the Arts</u>			
Promotion of the Arts-Grants to Organizations and Individuals	45.024	370	306
Promotion of the Arts Partnership Agreements	45.025	884	870
Promotion of the Humanities Research	45.161	40	—
Grants to States	45.310	6,523	5,538
National Leadership Grants	45.312	58	13
Total National Endowment for the Arts		7,875	
<u>U.S. Small Business Administration</u>			
Small Business Development Center	59.037	4,214	2,350
Total U.S. Small Business Administration		4,214	
<u>U.S. Department of Veteran's Affairs</u>			
Grants to States for Construction of State Home Facilities	64.005	1,358	—
Veterans State Domiciliary Care	64.014	414	—
Veterans State Nursing Home Care	64.015	20,553	—
All Volunteer Force Educational Assistance	64.124	1,090	—
Total U.S. Department of Veteran's Affairs		23,415	
<u>U.S. Environmental Agency</u>			
State Indoor Radon Grants	66.032	429	238
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	371	—
National Clean Diesel Funding Assistance Program	66.039	83	42
Water Pollution Control State, Interstate, and Tribal Program Support	66.419	113	—
State Underground Water Source Protection	66.433	361	—
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements Section 104 (b)(3) of the Clean Water Act	66.436	7	—
Water Quality Management Planning	66.454	475	—
Capitalization Grants for Clean Water State Revolving Funds	66.458	25,160	25,160
Nonpoint Source Implementation Grants	66.460	8,117	4,978
Regional Wetland Program Development Grants	66.461	(5)	—
Water Quality Cooperative Agreements	66.463	406	—
Capitalization Grants for Drinking Water State Revolving Funds	66.468	14,770	13,845
Great Lakes Program	66.469	66	—
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	539	87
Beach Monitoring and Notification Program Implementation Grants	66.472	230	198
Water Protection Grants to the States	66.474	176	3
BioWatch Cooperative Agreements	66.500	4	—
Performance Partnership Grants	66.605	19,849	441
Surveys, Studies, Investigations and Special Purpose Grants	66.606	208	—
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	231	—
Environmental Policy and Innovation Grants	66.611	51	—
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	200	—
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	177	—
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	375	—
Pollution Prevention Grants Program	66.708	60	60
Multi-Media Capacity Building Grants for States and Tribes	66.709	170	—
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	10,745	—
Underground Storage Tank Prevention, Detection and Compliance Program	66.804	400	—
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	683	—
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	239	37
State and Tribal Response Program Grants	66.817	1,205	—
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	228	—
Environmental Education Grants	66.951	11	9
Total U.S. Environmental Agency		86,134	

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Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipient (Unaudited)</u>
<u>U.S. Department of Energy</u>			
State Energy Program	81.041	\$ 1,435	\$ 1,024
Weatherization Assistance for Low-Income Persons	81.042	15,364	13,436
Transport of Transuranic Wastes to the Waste Isolation Pilot Plant: States and Tribal Concerns, Proposed Solutions	81.106	48	—
State Energy Program Special Projects	81.119	406	304
Total U.S. Department of Energy		17,253	
<u>U.S. Department of Education</u>			
Adult Education - Basic Grants to States	84.002	22,364	20,137
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010 *	\$ 770,100	764,244
Title I Grants to Local Educational Agencies, Recovery Act	84.389 *	120	120
Total Title I, Part A Cluster		770,220	
Migrant Education State Grant Program	84.011	1,682	1,666
Title I Program for Neglected and Delinquent Children	84.013	873	—
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027 *	500,608	486,845
Special Education - Preschool Grants	84.173 *	17,368	16,655
Special Education Grants to States, Recovery Act	84.391 *	1,528	1,361
Total Special Education Cluster (IDEA)		519,504	
Federal Family Education Loan Guaranty Program	84.032G *	245,224	—
Career and Technical Education - Basic Grants to States	84.048 *	44,229	25,079
Leveraging Educational Assistance Partnership	84.069	4,023	—
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126 *	93,627	17,458
Rehabilitation Services Service Projects	84.128	99	99
Migrant Education Coordination Program	84.144	121	73
Rehabilitation Services Client Assistance Program	84.161	510	—
Independent Living State Grants	84.169	595	595
Carl D. Perkins Scholarships	84.176	(2)	—
Rehabilitation Services Independent Living Services for Older Individuals Who Are Blind	84.177	1,277	1,066
Early Intervention Services (IDEA) Cluster:			
Special Education Grants for Infants and Families	84.181	17,920	3,663
Special Education - Grants for Infants and Families, Recovery Act	84.393	8,772	1,837
Total Early Intervention Services (IDEA) Cluster		26,692	
Byrd Honors Scholarships	84.185	1,810	—
Safe and Drug-Free Schools and Communities State Grants	84.186	13,574	13,311
Supported Employment Services for Individuals with Significant Disabilities	84.187	1,238	1,238
Education for Homeless Children and Youth	84.196	2,557	2,391
Even Start State Educational Agencies	84.213	2,559	2,437
Fund for the Improvement of Education	84.215	167	77
Assistive Technology	84.224	597	597
Tech-Prep Education	84.243	4,202	—
Rehabilitation Training State Vocational Rehabilitation Unit In-Service Training	84.265	159	—
Charter Schools	84.282	1,604	1,511
Twenty-First Century Community Learning Centers	84.287 *	38,473	36,712
State Grants for Innovative Programs	84.298	1,435	1,429
Education Technology State Grants	84.318	12,627	12,323
Special Education State Personnel Development	84.323	1,806	1,730
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	441	384
Advanced Placement Program	84.330	752	748
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331	1,284	—
Comprehensive School Reform Demonstration	84.332	(31)	—
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	1,628	1,620
Transition to Teaching	84.350	712	655
Reading First State Grants	84.357 *	44,415	43,451
Rural Education	84.358	734	711
English Language Acquisition Grants	84.365	33,839	32,579
Mathematics and Science Partnerships	84.366	4,451	4,142
Improving Teacher Quality State Grants	84.367 *	135,525	133,780
Grants for Enhances Assessment Instruments	84.368	776	776
Grants for State Assessments and Related Activities	84.369	16,979	—
School Improvement Grants	84.377	4,952	4,771
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394 *	1,038,988	1,038,988
Hurricane Education Recovery	84.938	(4)	—
Total U.S. Department of Education		3,099,287	

STATE OF ILLINOIS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipient (Unaudited)</u>
<u>National Archives and Records Administration</u>			
National Historical Publications and Records Grants	89.003	\$ 12	\$ —
Total National Archives and Records Administration		12	
<u>Election Assistance Commission</u>			
Help America Vote College Program	90.400	429	—
Help America Vote Act Requirements Payments	90.401	7,418	5,689
Total Election Assistance Commission		7,847	
<u>U.S. Department of Health and Human Services</u>			
State and Territorial and Technical Assistance Capacity Development			
Minority HIV/AIDS Demonstration Program	93.006	162	158
Special Programs for the Aging Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	207	199
Special Programs for the Aging Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Individuals	93.042	586	559
Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services	93.043	903	867
Aging Cluster:			
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044 *	\$ 18,238	17,436
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045 *	22,955	21,850
Nutrition Services Incentive Program	93.053 *	6,675	6,675
Total Aging Cluster		47,868	
Special Programs for the Aging Title IV and Title II Discretionary Projects	93.048	224	203
Alzheimer's Disease Demonstration Grants to States	93.051	104	43
National Family Caregiver Support, Title III, Part E	93.052	6,106	5,850
Public Health Emergency Preparedness	93.069	23,957	13,888
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	972	804
Maternal and Child Health Federal Consolidated Programs	93.110	357	335
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	1,240	281
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	310	219
Injury Prevention and Control Research and State and Community Based Programs	93.136	858	830
Projects for Assistance in Transition from Homelessness (PATH)	93.150	2,312	2,246
Health Program for Toxic Substances and Disease Registry	93.161	(7)	—
Grants to States for Loan Repayment Program	93.165	349	349
Disabilities Prevention	93.184	214	116
Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	940	19
Telehealth Network Grants	93.211	306	—
Family Planning Services	93.217	8,323	7,027
Consolidated Knowledge Development and Application (KD&A) Program	93.230	49	—
Traumatic Brain Injury State Demonstration Grant Program	93.234	86	—
Abstinence Education Program	93.235	1,659	1,454
State Capacity Building	93.240	482	9
State Rural Hospital Flexibility Program	93.241	616	616
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	6,826	5,837
Rural Access to Emergency Devices Grant	93.259	84	84
Immunization Cluster:			
Immunization Grants	93.268 *	80,841	682
Total Immunization Cluster		80,841	
Substance Abuse and Mental Health Services Access to Recovery	93.275	5,120	149
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	11,641	6,370
Small Rural Hospital Improvement Grant Program	93.301	479	479
Cancer Cause and Prevention Research	93.393	6	—
Ruminant Feed Ban Support Project	93.449	366	—
Abandoned Infants	93.551	(11)	—
Promoting Safe and Stable Families	93.556	16,749	8,314
TANF Cluster:			
Temporary Assistance for Needy Families	93.558 *	545,739	241,513
Total TANF Cluster		545,739	
Child Support Enforcement	93.563 *	130,881	20,069
ARRA - Child Support Enforcement	93.563 *	6,347	—
Total Child Support Enforcement Program		137,228	
Refugee and Entrant Assistance State Administered Programs	93.566	4,350	2,022
Low-Income Home Energy Assistance	93.568 *	219,718	216,411
CSBG Cluster:			
Community Services Block Grant	93.569 *	31,124	30,252
Total CSBG Cluster		31,124	

STATE OF ILLINOIS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipient (Unaudited)</u>
<u>U.S. Department of Health and Human Services (continued)</u>			
Child Care Development Funds Cluster:			
Child Care and Development Block Grant	93.575 *	\$ 75,410	\$ 68,279
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596 *	129,552	120,626
Total Child Care Development Funds Cluster		\$ 204,962	
Refugee and Entrant Assistance Discretionary Grants	93.576	1,036	1,036
Refugee and Entrant Assistance Targeted Assistance Grants	93.584	791	791
State Court Improvement Program	93.586	302	118
Community Based Child Abuse Prevention Grants	93.590	1,245	—
Grants to States for Access and Visitation Programs	93.597	354	347
Chafee Education and Training Vouchers Program (ETV)	93.599	1,427	84
Head Start	93.600	2,861	2,281
Child Support Enforcement Demonstrations and Special Projects	93.601	78	—
Assets for Independence Demonstration Program	93.602	22	—
Voting Access for Individuals with Disabilities Grants to States	93.617	592	592
Basic Center Grant	93.623	120	120
Developmental Disabilities Basic Support and Advocacy Grants	93.630	3,102	1,805
Children's Justice Grants to States	93.643	785	—
Child Welfare Services State Grants	93.645	13,413	13,413
Foster Care - Title IV-E	93.658 *	213,052	64,452
ARRA - Foster Care - Title IV-E	93.658 *	6,083	1,894
Total Foster Care - Title IV-E Program		219,135	
Adoption Assistance	93.659 *	84,293	990
ARRA - Adoption Assistance	93.659 *	6,810	—
Total Adoption Assistance Program		91,103	
Social Services Block Grant	93.667 *	108,690	33,600
Child Abuse and Neglect State Grants	93.669	1,108	—
Child Abuse and Neglect Discretionary Activities	93.670	264	—
Family Violence Prevention and Services/Grants for			
Battered Women's Shelters Grants to States and Indian Tribes	93.671	3,231	3,067
Chafee Foster Care Independence Program	93.674	2,820	880
Children's Health Insurance Program	93.767 *	242,758	—
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	352	—
Medicaid Cluster:			
State Medicaid Fraud Control Units	93.775 *	4,292	—
State Survey and Certification of Health Care Providers and Suppliers	93.777 *	24,189	601
Medical Assistance Program	93.778 *	7,043,866	89,006
ARRA - Medical Assistance Program	93.778 *	935,878	—
Total Medicaid Cluster		8,008,225	
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	787	—
Alternate Non-Emergency Service Providers or Networks	93.790	569	—
Medicaid Transformation Grants	93.793	1,488	—
National Bioterrorism Hospital Preparedness Program	93.889	16,698	14,734
Grants to States for Operation of Offices of Rural Health	93.913	112	29
HIV Care Formula Grants	93.917 *	43,777	6,727
Healthy Start Initiative	93.926	1,781	1,586
Cooperative Agreements to Support Comprehensive School Health Programs			
to Prevent the Spread of HIV and Other Important Health Problems	93.938	313	—
HIV Prevention Activities Health Department Based	93.940	4,271	2,295
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	702	43
Assistance Programs for Chronic Disease Prevention and Control	93.945	(2)	—
Cooperative Agreements to Support State-Based Safe Motherhood			
and Infant Health Initiative Programs	93.946	26	—
Trauma Care Systems Planning and Development	93.952	(1)	—
Block Grants for Community Mental Health Services	93.958	15,678	14,892
Block Grants for Prevention and Treatment of Substance Abuse	93.959 *	64,054	59,909
Preventive Health Services Sexually Transmitted Diseases Control Grants	93.977	2,301	479
Mental Health Disaster Assistance and Emergency Mental Health	93.982	46	45
Cooperative Agreements for State Based Diabetes Control			
Programs and Evaluation of Surveillance Systems	93.988	862	409
Preventive Health and Health Services Block Grant	93.991	1,199	672
Maternal and Child Health Services Block Grant to the States	93.994	22,898	19,380
Adolescent Family Life Demonstration Projects	93.995	252	250
Total U.S. Department of Health and Human Services		10,246,030	

STATE OF ILLINOIS
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For the Year Ended June 30, 2009

<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipient (Unaudited)</u>
<u>Corporation for National and Community Service</u>			
State Commissions	94.003	\$ 561	\$ 127
Learn and Serve America School and Community Based Programs	94.004	874	808
AmeriCorps	94.006	6,395	5,658
Program Development and Innovation Grants	94.007	47	47
Training and Technical Assistance	94.009	123	123
Total Corporation for National and Community Service		8,000	
<u>Social Security Administration</u>			
Disability Insurance/SSI Cluster:			
Social Security - Disability Insurance	96.001	* \$ 67,964	—
Total Disability Insurance/SSI Cluster		67,964	—
Social Security Work Incentives Planning and Assistance Program	96.008	540	214
Total Social Security Administration		68,504	
<u>U.S. Department of Homeland Security</u>			
Pilot Demonstration or Earmarked Projects	97.001	90	86
Urban Areas Security Initiative	97.008	4,721	4,706
Boating Safety Financial Assistance	97.012	245	—
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	226	—
Flood Mitigation Assistance	97.029	43	43
Crisis Counseling	97.032	34	34
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	* 57,466	51,193
Hazard Mitigation Grant	97.039	3,032	3,032
Chemical Stockpile Emergency Preparedness Program	97.040	418	221
National Dam Safety Program	97.041	81	—
Emergency Management Performance Grants	97.042	7,896	3,877
Cooperating Technical Partners	97.045	2,339	1,848
Pre-Disaster Mitigation	97.047	504	457
State and Local All Hazards Emergency Operations Planning	97.051	29	—
Emergency Operations Centers	97.052	62	61
Homeland Security Cluster:			
State Domestic Preparedness Equipment Support Program	97.004	* 416	—
Citizen Corps	97.053	* 53	14
Homeland Security Grant Program	97.067	* 74,250	68,693
State Homeland Security Program (SHSP)	97.073	* 607	556
Law Enforcement Terrorism Prevention Program (LETPP)	97.074	* 471	92
Total Homeland Security Cluster		75,797	
Map Modernization Management Support	97.070	106	—
Rail and Transit Security Grant Program	97.075	5,447	5,434
Buffer Zone Protection Program (BZPP)	97.078	2,924	2,542
Real ID Program	97.089	518	—
Homeland Security Biowatch Program	97.091	1,477	—
Total U.S. Department of Homeland Security		163,455	
Total expenditures of federal awards		\$ 23,680,069	\$ 5,209,745

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

*Denotes Major Program

STATE OF ILLINOIS

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

(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, 2009. 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, 2009. 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, 2009. 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

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

(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 cash basis. Under the cash basis of accounting, expenditures are reported when paid by the State.

(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

SNAP Cluster: Supplemental Nutrition Assistance Program (CFDA No. 10.551) / State Administrative Matching Grants for Supplemental Nutrition Assistance Program (CFDA No. 10.561)

The objective of the Supplemental Nutrition Assistance program 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. The reported expenditures under this program are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009 (ARRA). The mechanism used by the US Department of Agriculture (USDA) to make these funds available to States does not enable a State to validly disaggregate the regular and ARRA funds component of this figure. At the nation aggregate level, however, ARRA funds account for approximately 15% of USDA's total expenditures for Supplemental Nutrition Assistance program benefits in the Federal fiscal year ended September 30, 2009.

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.

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.

STATE OF ILLINOIS

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

US Department of Housing and Urban Development

CDBG – State-Administered Small Cities Program Cluster – 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

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.

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.

Highway Planning and Construction Cluster: Highway Planning and Construction (CFDA No. 20.205) / Recreational Trails Program (CFDA No. 20.219)

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.

STATE OF ILLINOIS

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

The objective of the Recreational Trails Program is to provide funds to states to develop and maintain recreational trails and trail-related facilities for both non-motorized and motorized recreational trail use.

US Department of Education

Title I, Part A Cluster: Title I Grants to Local Educational Agencies (CFDA No. 84.010) / Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389)

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) / Special Education Grants to States, Recovery Act (CFDA No. 84.391)

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.

Career and Technical 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.

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.

STATE OF ILLINOIS

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

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 academic 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.

State Fiscal Stabilization Fund Cluster: State Fiscal Stabilization Fund (SFSF) – Education State Grants CFDA No. 84.394

The objective of this program is to support and restore funding for elementary, secondary, postsecondary education, and early childhood education programs and services in States and local education agencies.

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 Cluster: 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.

STATE OF ILLINOIS

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

TANF Cluster: 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.

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 Program (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.

CSBG Cluster: 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.

STATE OF ILLINOIS

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

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.

Children's Health 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.

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

Disability Insurance/SSI Cluster: Social Security – Disability Insurance (CFDA No. 96.001)

The purpose of this program is to replace part of the earnings lost because of a physical or mental impairment, or a combination of impairments, severe enough to prevent a person from working.

US Department of Homeland Security

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.

STATE OF ILLINOIS

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

Homeland Security Cluster: State and Domestic Preparedness Equipment Support Program (CFDA No. 97.004) / Citizens Corps (CFDA No. 97.053) / Homeland Security Grant Program (CFDA No. 97.067) / State Homeland Security Program (CFDA No. 97.073) / Law Enforcement Terrorism Prevention Program (CFDA No. 97.074)

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.

(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 \$7,576,301,000 as of June 30, 2009. Additionally, the outstanding balance of defaulted loans held by ISAC under this program was approximately \$642,768,000 as of June 30, 2009.



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, 2009, and have issued our report thereon dated June 30, 2010. 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 and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.



A deficiency in internal control over financial reporting 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 material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's schedule of expenditures of federal awards will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the State's internal control over financial reporting of the Schedule described in the accompanying schedule of findings and questioned costs in findings 09-01, 09-03, 09-04, 09-15, and 09-16 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 30, 2010



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, 2009. 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*.

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.



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 as listed below. Compliance with such requirements is necessary, in our opinion, for the State of Illinois to comply with requirements applicable to the identified major federal programs.

State Administering Agency	Federal Program	Compliance Requirement(s)	Finding Number
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles and Eligibility	09-03
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	09-03
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	09-03
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles and Eligibility	09-04
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	09-04
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	09-04
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles and Eligibility	09-05
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	09-06
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	09-06
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	09-15
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	09-15
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	09-16
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	09-16
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Period of Availability	09-17
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Period of Availability	09-17
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	09-35
IL Department of Children and Family Services	Temporary Assistance for Needy Families Cluster	Subrecipient Monitoring	09-36



State Administering Agency	Federal Program	Compliance Requirement(s)	Finding Number
IL Department of Children and Family Services	Foster Care – Title IV-E	Subrecipient Monitoring	09-36
IL Department of Children and Family Services	Adoption Assistance	Subrecipient Monitoring	09-36
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	09-37
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	09-40
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	09-41
IL Department on Public Health	HIV Care Formula Grants	Allowable Costs/Cost Principles and Eligibility	09-43
IL State Board of Education	Title I, Part A Cluster	Allowable Costs/Cost Principles and Special Tests and Provisions	09-48
IL State Board of Education	Title I, Part A Cluster	Subrecipient Monitoring	09-49
IL State Board of Education	Special Education Cluster	Subrecipient Monitoring	09-49
IL State Board of Education	Career and Technical Education – Basic Grants to States	Subrecipient Monitoring	09-49
IL State Board of Education	Twenty-First Century Community Learning Centers	Subrecipient Monitoring	09-49
IL State Board of Education	Reading First State Grants	Subrecipient Monitoring	09-49
IL State Board of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	09-49
IL State Board of Education	Title I, Part A Cluster	Subrecipient Monitoring	09-50
IL State Board of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	09-50
IL State Board of Education	State Fiscal Stabilization Fund Cluster	Cash Management	09-51
IL Department of Transportation	Airport Improvement Program	Subrecipient Monitoring	09-73

In our opinion, except for the noncompliance described in the preceding paragraph, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2009. 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 09-04, 09-07, 09-08, 09-09, 09-11, 09-12, 09-13, 09-14, 09-18, 09-19, 09-20, 09-21, 09-22, 09-23, 09-24, 09-25, 09-26, 09-27, 09-28, 09-29, 09-30, 09-31, 09-32, 09-33, 09-34, 09-36, 09-38, 09-39, 09-42, 09-44, 09-45, 09-47, 09-51, 09-52, 09-53, 09-54, 09-55, 09-56, 09-57, 09-58, 09-59, 09-60, 09-61, 09-62, 09-63, 09-66, 09-67, 09-68, 09-69, 09-70, 09-71, 09-74, 09-75, 09-76, 09-77, 09-78, 09-79, 09-80, 09-82, 09-83, 09-84, 09-85, 09-86, 09-87, 09-89, 09-90, 09-91, 09-92, and 09-93.



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 09-02 to 09-93 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 09-02, 09-03, 09-04, 09-05, 09-06, 09-07, 09-08, 09-09, 09-10, 09-14, 09-15, 09-16, 09-17, 09-18, 09-19, 09-20, 09-21, 09-22, 09-23, 09-24, 09-35, 09-36, 09-37, 09-38, 09-39, 09-40, 09-41, 09-43, 09-44, 09-45, 09-46, 09-48, 09-49, 09-50, 09-51, 09-52, 09-53, 09-54, 09-60, 09-61, 09-70, 09-73, 09-74, 09-82, 09-83, 09-84, 09-90, 09-91, 09-92, and 09-93 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 30, 2010

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

(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: **none reported** Material weaknesses: **yes**
- (b)(2) Significant deficiencies in internal control were disclosed by the audit of the schedule of expenditures of federal awards: **none reported** Material weaknesses: **yes**
- (c)(1) Noncompliance which is material to the basic financial statements: **yes**
- (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:

Qualified:

- Airport Improvement Program
- Title I, Part A Cluster
- Special Education Cluster
- Career and Technical Education – Basic Grants to States
- Twenty-First Century Community Learning Centers
- Reading First State Grants
- Improving Teacher Quality State Grants
- State Fiscal Stabilization Fund Cluster
- Aging Cluster
- Temporary Assistance for Needy Families Cluster
- Foster Care – Title IV-E
- Adoption Assistance
- Children's Health 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 Year Ended June 30, 2009

(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

- SNAP Cluster (10.551/10.561)
- Child Nutrition Cluster (10.553/10.555/10.556/10.559)
- Special Supplemental Nutrition Program for Women, Infants and Children (10.557)
- Child and Adult Care Food Program (10.558)

US Department of Housing and Urban Development

- CDBG – State Administered Small Cities Program Cluster (14.228)

US Department of Labor

- Unemployment Insurance (17.225)
- Workforce Investment Act Cluster (17.258/17.259/17.260)

US Department of Transportation

- Airport Improvement Program (20.106)
- Highway Planning and Construction Cluster (20.205/20.219)

US Department of Education

- Title I, Part A Cluster (84.010/84.389)
- Special Education Cluster (84.027/84.173/84.391)
- Federal Family Education Loans – Guaranty Program (84.032G)
- Career and Technical Education – Basic Grants to States (84.048)
- Rehabilitation Services – Vocational Rehabilitation Grants to States (84.126)
- Twenty-First Century Community Learning Centers (84.287)
- Reading First State Grants (84.357)
- Improving Teacher Quality State Grants (84.367)
- State Fiscal Stabilization Fund Cluster (84.394)

US Department of Health and Human Services

- Aging Cluster (93.044/93.045/93.053)
- Immunization Cluster (93.268)
- Temporary Assistance for Needy Families Cluster (93.558)
- Child Support Enforcement (93.563)
- Low-Income Home Energy Assistance (93.568)
- Community Services Block Grant Cluster (93.569)
- Child Care Development Funds Cluster (93.575/93.596)
- Foster Care – Title IV-E (93.658)
- Adoption Assistance (93.659)
- Social Services Block Grant (93.667)
- Children’s Health Insurance Program (93.767)
- Medicaid Cluster (93.775/93.777/93.778)
- HIV Care Formula Grants (93.917)
- Block Grants for the Prevention and Treatment of Substance Abuse (93.959)

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

US Social Security Administration

- Disability Insurance/SSI Cluster (96.001)

US Department of Homeland Security

- Disaster Grants – Public Assistance (Presidentially Declared Disasters) (97.036)
- Homeland Security Cluster (97.004/97.053/97.067/97.073/97.074)

(h) Dollar threshold used to distinguish between Type A and Type B programs: **\$35,520,000**

(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, 2009 were reported in accordance with *Government Auditing Standards* by the Auditor General of the State of Illinois under separate cover.

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

Finding No.	State Agency	Finding Title	Finding Type
09-01	IL Office of the Governor and IL Office of the Comptroller	Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards	Material weakness

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

Finding No.	State Agency	Finding Title	Finding Type
09-03	IL Department of Human Services	Failure to Perform Eligibility Redeterminations within Prescribed Timeframes	Material weakness
09-04	IL Department of Human Services	Failure to Properly Maintain Case File Records	Material weakness
09-15	IL Department of Healthcare and Family Services	Inadequate Procedures for Performing Eligibility Redeterminations	Material weakness
09-16	IL Department of Healthcare and Family Services	Missing Documentation in Beneficiary Eligibility Files	Material weakness

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

Agency: Office of the Governor and Office of the State Comptroller

Federal Agency: All Federal Agencies

Finding 09-01 *Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards*

The State of Illinois' current financial reporting process does not allow the State to prepare a complete and accurate Comprehensive Annual Financial Report (CAFR) or the Schedule of Expenditures of Federal Awards (SEFA) in a timely manner.

Accurate and timely financial reporting problems continue to exist even though the auditors have: 1) continuously reported numerous findings on the internal controls (material weaknesses and significant deficiencies), 2) commented on the inadequacy of the financial reporting process of the State, and 3) regularly proposed adjustments to financial statements year after year. These findings have been directed primarily toward the Office of the State Comptroller (IOC) and major state agencies under the organizational structure of the Office of the Governor.

The State has not solved these problems or made substantive changes to the system to effectively remediate these financial reporting weaknesses. The process is overly dependent on the post audit program being a part of the internal control for financial reporting even though the Illinois Office of the Auditor General has repeatedly informed state agency officials that the post audit **function is not and should not** be an internal control mechanism for any operational activity related to financial reporting.

The State of Illinois has a highly decentralized financial reporting process. The system requires State agencies to prepare a series of complicated financial reporting forms (SCO forms) designed by the IOC to prepare the CAFR. These SCO forms are completed by accounting personnel within each State agency who have varying levels of knowledge, experience, and understanding of generally accepted accounting principles and of IOC accounting policies and procedures. Agency personnel involved with this process are not under the organizational control or jurisdiction of the IOC. Further, these agency personnel may lack the qualifications, time, support, and training necessary to timely and accurately report year end accounting information to assist the Comptroller in his preparation of statewide financial statements in accordance with generally accepted accounting principles (GAAP).

Although these SCO forms are subject to the review by the IOC financial reporting staff during the CAFR preparation process, the current process has resulted in several restatements relative to the financial statement reporting over the past several years.

Certain SCO forms are used by the IOC to collect financial information utilized in the SEFA compilation and reporting process. Internal control deficiencies have been identified and reported relative to the SEFA financial reporting process in each of the past six years as a result of errors identified during the external audits performed on state agencies. These problems significantly impact the preparation and completion of the SEFA. Errors and delays identified in the SEFA reporting process over the past six years have included the following:

- Expenditures for the Homeland Security Cluster were not appropriately clustered by the Illinois Emergency Management Agency and were overstated by the Illinois Department of Transportation in 2009.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

- Expenditures for the Highway Planning and Construction Cluster were overstated by the Illinois Department of Transportation in 2009.
- Expenditures for the Airport Improvement Program were improperly identified as being funded by the American Recovery and Reinvestment Act by the Illinois Department of Transportation in 2009.
- Expenditures for the Foster Care and Adoption Assistance programs were not identified as being funded by the American Recovery and Reinvestment Act by the Illinois Department of Children and Family Services in 2009.
- Expenditures for the Public Assistance Grants program were not reported in the appropriate fiscal year by the Illinois Emergency Management Agency in 2006 and 2007.
- Expenditures for the Early Intervention program were not reported in the appropriate fiscal year by the Illinois Department of Human Services in 2003, 2004, and 2005.
- Expenditures for the Highway Planning and Construction Cluster program were not recorded in the appropriate fiscal year by the Illinois Department of Transportation in 2004 and 2005.
- Other correcting entries and/or restatements were required in order to accurately state the financial information of the following agencies: Illinois Department of Healthcare and Family Services, Illinois Department of Children and Family Services, Illinois Department of Public Health, Illinois State Board of Education, Illinois Student Assistance Commission, Illinois Community College Board, Illinois Department of Commerce and Economic Opportunity, Illinois Department of Employment Security, Illinois Department of Natural Resources, Illinois Environmental Protection Agency, Illinois Department of Corrections, and Illinois Criminal Justice Information Authority.
- Major programs were not identified until six or more months subsequent to the end of the fiscal year by the following agencies: Illinois Department of Healthcare and Family Services, Illinois State Board of Education, Illinois Department of Public Health, Illinois Department of Commerce and Economic Opportunity, and Illinois Department of Employment Security.
- Preparation of the SEFA has not been completed by the State prior to March 31st in the past seven years.

Although the deficiencies relative to the CAFR and SEFA financial reporting processes have been reported by the auditors for a number of years, **problems continue** with the State's ability to provide **accurate** and **timely** external financial reporting. Corrective action necessary to remediate these deficiencies **continues to be problematic**.

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 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 Office of the Governor, they stated that the weakness is due to (1) lack of a statewide accounting and grants management system and (2) lack of personnel adequately trained in governmental accounting and federal grants management. The lack of a statewide accounting system is due to the State's current inability to obtain the capital funding required to acquire and implement such a system. Without adequate financial and grants management systems, agency staff are required to perform highly manual calculations of balance sheet and SEFA

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

amounts in a short time frame which results in increased errors. The lack of adequate financial and grants management personnel is due to a failure to update the qualifications in the respective job titles to ensure that applicants have the minimum required education and skill sets to be properly trained.

In discussing these conditions with IOC personnel, they indicated delays were caused by a separation in the responsibility for the State's internal control procedures among agencies and component units. The IOC has the statutory authority to request submission of financial information but does not currently have the ability to enforce those submissions on a timely basis from other State agencies.

Failure to establish effective internal controls at all agencies regarding financial reporting for the preparation of the CAFR and the SEFA **prevents** the State from completing an audit in accordance with timelines set forth OMB Circular A-133 and may result in the suspension of federal funding. (Finding Code 09-01, 08-01, 07-01, 06-01, 05-01, 04-01, 03-01, 02-01)

Recommendation:

We recommend the Office of the Governor and the IOC work together with the state agencies to establish a corrective action plan to address the quality and timeliness of accounting information provided to and maintained by the IOC as it relates to year end preparation of the CAFR and the SEFA.

Office of the Governor's Response:

We agree. The Office of the Governor will continue efforts to increase communication and work closely with the Office of the State Comptroller. The Governor's Office is establishing and implementing a corrective action plan to improve the quality and timeliness of the accounting information provided to the Comptroller for year-end preparation of the CAFR and the SEFA. The plan includes conducting a risk assessment, implementing additional internal controls, providing training to staff, and creating new accounting positions with necessary education and experience requirements to properly perform duties.

As noted in the discussion, the State has a highly decentralized financial reporting process, reliant on over 100 separate agency financial accounting and reporting systems. The Office of the Governor will work with the Illinois General Assembly and the Office of the State Comptroller to establish the business case and plan for the capital cost of implementing a statewide accounting and grants management system.

IOC's Response:

The IOC will continue to provide consultation and technical advice to State agencies in relation to financial reporting in order to increase the likelihood that State agencies will report financial information in a timely manner. The IOC will also continue to support legislation, as was introduced in the past two legislative sessions that provides it with enforcement tools to compel State agencies to comply with necessary reporting deadlines.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

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

Finding No.	State Agency	Finding Title	Finding Type
09-02	IL Department of Human Services	Inadequate Process for Monitoring Interagency Program Expenditures	Material weakness
09-03	IL Department of Human Services	Failure to Perform Eligibility Redeterminations within Prescribed Timeframes	Material noncompliance and material weakness
09-04	IL Department of Human Services	Failure to Properly Maintain and Control Case File Records	Material noncompliance and material weakness
09-05	IL Department of Human Services	Inadequate Process for Preventing Individuals Convicted of Drug Felonies from Receiving TANF Benefits	Material noncompliance and material weakness
09-06	IL Department of Human Services	Missing Documentation in Beneficiary Eligibility Files	Material noncompliance and material weakness
09-07	IL Department of Human Services	Inadequate Procedures for Communicating Non-Cash Expenditures to Subrecipients	Noncompliance and material weakness
09-08	IL Department of Human Services	Unallowable Expenditures Charged to the Vocational Rehabilitation Program	Noncompliance and material weakness
09-09	IL Department of Human Services	Failure to Determine Eligibility in Accordance with Program Regulations	Noncompliance and material weakness
09-10	IL Department of Human Services	Inadequate Procedures to Ensure Controls Are Operating Effectively at Service Organization of WIC Program	Material weakness
09-11	IL Department of Human Services	Inadequate Monitoring of Subrecipient Expenditures	Noncompliance and significant deficiency
09-12	IL Department of Human Services	Failure to Obtain Documentation of Assignment of Medical Support Rights	Noncompliance and significant deficiency
09-13	IL Department of Human Services	Failure to Amend the Public Assistance Cost Allocation Plan	Noncompliance and significant deficiency
09-14	IL Department of Revenue	Inadequate Process for Determining the Allowability of Earned Income Tax Credits	Noncompliance and material weakness
09-15	IL Department of Healthcare and Family Services	Inadequate Procedures for Performing Eligibility Redeterminations	Material noncompliance and material weakness
09-16	IL Department of Healthcare and Family Services	Missing Documentation in Beneficiary Eligibility Files	Material noncompliance and material weakness
09-17	IL Department of Healthcare and Family Services	Failure to Pay Medical Claims within Prescribed Timeframes	Material noncompliance and material weakness

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

Finding No.	State Agency	Finding Title	Finding Type
09-18	IL Department of Healthcare and Family Services	Failure to Initiate and Complete Provider Audits in a Timely Manner	Noncompliance and material weakness
09-19	IL Department of Healthcare and Family Services	Untimely Completion of Medicaid Eligibility Quality Control Reviews	Noncompliance and material weakness
09-20	IL Department of Healthcare and Family Services	Inadequate On-Site Monitoring Procedures	Noncompliance and material weakness
09-21	IL Department of Healthcare and Family Services	Failure to Issue Management Decisions on Subrecipient A-133 Findings	Noncompliance and material weakness
09-22	IL Department of Healthcare and Family Services	Inaccurate Allocation of Costs	Noncompliance and material weakness
09-23	IL Department of Healthcare and Family Services	Inadequate On-Site Monitoring of Subrecipients	Noncompliance and material weakness
09-24	IL Department of Healthcare and Family Services	Failure to Obtain Suspension and Debarment Certifications from Vendors	Noncompliance and material weakness
09-25	IL Department of Healthcare and Family Services	Failure to Reimburse a Provider For Retroactive Rate Adjustment	Noncompliance and significant deficiency
09-26	IL Department of Healthcare and Family Services	Failure to Obtain Required Disclosures from Providers	Noncompliance and significant deficiency
09-27	IL Department of Healthcare and Family Services	Failure to Obtain Documentation of Assignment of Medical Support Rights	Noncompliance and significant deficiency
09-28	IL Department of Healthcare and Family Services	Inadequate Cash Management Procedures	Noncompliance and significant deficiency
09-29	IL Department of Healthcare and Family Services	Failure to Include Interest Calculation Methodology in the Treasury State Agreement	Noncompliance and significant deficiency
09-30	IL Department of Healthcare and Family Services	Failure to Perform Cash Management Reconciliations Timely	Noncompliance and significant deficiency
09-31	IL Department of Healthcare and Family Services	Failure to Properly Perform Non-Custodial Parent Location Procedures	Noncompliance and significant deficiency
09-32	IL Department of Healthcare and Family Services	Failure to Properly Manage and Document Interstate Cases Within KIDS	Noncompliance and significant deficiency
09-33	IL Department of Healthcare and Family Services	Failure to Establish Support Orders Within Required Timeframe	Noncompliance and significant deficiency
09-34	IL Department of Healthcare and Family Services	Failure to Include Allocation Methodology in the PACAP	Noncompliance and significant deficiency

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Schedule of Findings and Questioned Costs

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Finding No.	State Agency	Finding Title	Finding Type
09-35	IL Department of Children and Family Services	Missing Documentation in Adoption Assistance Eligibility Files	Material noncompliance and material weakness
09-36	IL Department of Children and Family Services	Inadequate and Untimely Fiscal Monitoring of Subrecipients	Material noncompliance and material weakness
09-37	IL Department of Children and Family Services	Failure to Ensure that Adoption Assistance Recertifications Are Performed on a Timely Basis	Material noncompliance and material weakness
09-38	IL Department of Children and Family Services	Failure to Separately Identify ARRA Expenditures	Noncompliance and material weakness
09-39	IL Department of Children and Family Services	Failure to ensure Timely Preparation of Initial Case Plans	Noncompliance and material weakness
09-40	IL Department on Aging	Inadequate On-Site Monitoring of Subrecipients	Material noncompliance and material weakness
09-41	IL Department on Aging	Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports	Material noncompliance and material weakness
09-42	IL Department on Aging	Inadequate Cash Management Procedures for Subrecipients	Noncompliance and significant deficiency
09-43	IL Department of Public Health	Inadequate Process for Determining Client Eligibility	Material noncompliance and material weakness
09-44	IL Department of Public Health	Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Noncompliance and material weakness
09-45	IL Department of Public Health	Inadequate On-site Monitoring of Subrecipients	Noncompliance and material weakness
09-46	IL Department of Public Health	Inadequate Process for Monitoring Interagency Program Expenditures	Material weakness
09-47	IL Department of Public Health	Failure to Investigate Provider Complaints within Required Timeframes	Noncompliance and significant deficiency
09-48	IL State Board of Education	Failure to Sanction Non-Comparable Local Education Agency (LEA) and Inadequate Documentation for Determining Comparability	Material noncompliance and material weakness
09-49	IL State Board of Education	Inadequate On-Site Fiscal Monitoring of Subrecipients	Material noncompliance and material weakness
09-50	IL State Board of Education	Inadequate On-Site Programmatic Monitoring of Subrecipients	Material noncompliance and material weakness
09-51	IL State Board of Education	Inadequate Cash Management Procedures for Subrecipients	Material noncompliance and material weakness

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Finding No.	State Agency	Finding Title	Finding Type
09-52	IL State Board of Education	Inaccurate Reporting of the Financial Status Report	Noncompliance and material weakness
09-53	IL State Board of Education	Failure to Perform Central Contractor Registration (CCR) Checks	Noncompliance and material weakness
09-54	IL Community College Board	Inadequate Cash Management Procedures for Subrecipients	Noncompliance and material weakness
09-55	IL Community College Board	Failure to Follow Up On Monitoring Findings	Noncompliance and significant deficiency
09-56	IL Community College Board	Inadequate Documentation of Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Noncompliance and significant deficiency
09-57	IL Student Assistance Commission	Untimely Deposits into the Federal Fund	Noncompliance and significant deficiency
09-58	IL Student Assistance Commission	Inadequate Process to Verify Unreported Loans	Noncompliance and significant deficiency
09-59	IL Student Assistance Commission	Incomplete Lender Agreements	Noncompliance and significant deficiency
09-60	IL Department of Employment Security	Failure to Obtain Refusal to Work Certifications	Noncompliance and material weakness
09-61	IL Department of Employment Security	Failure to Issue Eligibility Determinations within Prescribed Timeframes	Noncompliance and material weakness
09-62	IL Department of Employment Security	Inadequate Procedures for Follow-up of Invalid Social Security Numbers	Noncompliance and significant deficiency
09-63	IL Department of Employment Security	Incomplete Documentation in Client Eligibility Files	Noncompliance and significant deficiency
09-64	IL Department of Employment Security	Inadequate Monitoring of Unemployment Insurance Service Organization	Significant deficiency
09-65	IL Department of Employment Security	Inadequate Documentation of Resolution of Exceptions and Supervisory Review of the Claim Exception and Monitoring Reports	Significant deficiency
09-66	IL Department of Employment Security	Inaccurate Benefit Payment Calculations	Noncompliance and significant deficiency
09-67	IL Department of Employment Security	Inaccurate ATAA Special Report	Noncompliance and significant deficiency
09-68	IL Department of Employment Security	Improper System Configuration for Offset of Overpayments	Noncompliance and significant deficiency
09-69	IL Department of Employment Security	Untimely Verification of Out-of-State Wages for EUC08 Beneficiaries	Noncompliance and significant deficiency

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Finding No.	State Agency	Finding Title	Finding Type
09-70	IL Department of Commerce and Economic Opportunity	Failure to Communicate ARRA Information and Requirements to Subrecipients	Noncompliance and material weakness
09-71	IL Department of Commerce and Economic Opportunity	Inaccurate Performance and Evaluation Report	Noncompliance and significant deficiency
09-72	IL Department of Commerce and Economic Opportunity	Untimely Communication of On-Site Monitoring Findings	Significant deficiency
09-73	IL Department of Transportation	Inadequate On-Site Monitoring of Subrecipients	Material noncompliance and material weakness
09-74	IL Department of Transportation	Inaccurate Reporting of Federal Expenditures	Noncompliance and material weakness
09-75	IL Department of Transportation	Inadequate Contract Provisions For Projects Subject to Davis-Bacon and Department of Labor (DOL) Requirements	Noncompliance and significant deficiency
09-76	IL Department of Transportation	Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports	Noncompliance and significant deficiency
09-77	IL Department of Transportation	Failure to Notify Subrecipients of Federal Funding	Noncompliance and significant deficiency
09-78	IL Department of Transportation	Failure to Obtain Suspension and Debarment Certifications from Subrecipients	Noncompliance and significant deficiency
09-79	IL Department of Transportation	Failure to Follow Sampling and Testing Program for Construction Materials	Noncompliance and significant deficiency
09-80	IL Department of Transportation	Failure to Account For and Remit Interest Earned on Advance Funding	Noncompliance and significant deficiency
09-81	IL Department of Transportation	Inadequate Controls over Information Systems	Significant deficiency
09-82	IL Emergency Management Agency	Inadequate Process to Identify Programs Reported Under the Homeland Security Cluster	Noncompliance and material weakness
09-83	IL Emergency Management Agency	Failure to Deposit Funds in an Interest-Bearing Account	Noncompliance and material weakness
09-84	IL Emergency Management Agency	Failure to Obtain Suspension and Debarment Certifications from Vendors	Noncompliance and material weakness
09-85	IL Emergency Management Agency	Inadequate On-Site Monitoring of Subrecipients	Noncompliance and significant deficiency
09-86	IL Emergency Management Agency	Inaccurate Financial Status Report	Noncompliance and significant deficiency

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Finding No.	State Agency	Finding Title	Finding Type
09-87	IL Emergency Management Agency	Failure to Draw Funds Only for Immediate Cash Needs	Noncompliance and significant deficiency
09-88	IL Emergency Management Agency	Failure to Follow Established Internal Control Procedures for Equipment	Significant deficiency
09-89	IL State Police	Failure to Deposit Funds in an Interest-Bearing Account	Noncompliance and significant deficiency
09-90	IL State Board of Elections	Inadequate Monitoring of Subrecipients	Noncompliance and material weakness
09-91	IL State Board of Elections	Failure to Review Subrecipient OMB Circular A-133 Audit Reports	Noncompliance and material weakness
09-92	IL Department of Central Management Services	Inadequate Process for Monitoring Internal Service Fund Balances	Noncompliance and material weakness
09-93	IL Department of Central Management Services	Unallowable Costs Recorded in Internal Service Funds	Noncompliance and material weakness

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For Year Ended June 30, 2009

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 Cluster
Child Care Development Fund Cluster

CFDA # and Program Expenditures: 93.558 (\$545,739,000)
93.575/93.596 (\$204,962,000)

Award Numbers: G-0802ILTANF/G-0902ILTANF (93.558)
(CFDA Number) G-0801ILCCDF/G-0901ILCCDF (93.575)

Questioned Costs: None

Finding 09-02 *Inadequate Process for Monitoring Interagency Program Expenditures*

IDHS does not have an adequate process for monitoring interagency expenditures claimed under the Temporary Assistance for Needy Families Cluster (TANF) and the Child Care Development Fund Cluster (Child Care).

Federal and state expenditures under the TANF and Child Care 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, 2009, IDHS used expenditures from other agencies to claim reimbursement for or satisfy maintenance of effort (MOE) requirements for the TANF and Child Care programs as follows:

Program	Expending State Agency	Expenditures Claimed	Total Expenditures
Federal TANF	Department of Children and Family Services (DCFS)	\$265,603,885	\$545,739,000
Federal TANF	Illinois Student Assistance Commission (ISAC)	\$48,497,834	\$545,739,000
Federal TANF	Illinois Department of Revenue (IDOR)	\$14,178,462	\$545,739,000
Federal TANF	Department of Healthcare and Family Services (DHFS)	\$89,329	\$545,739,000
TANF MOE	Department of Healthcare and Family Services (DHFS)	\$38,387,569	\$532,682,350

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Program	Expending State Agency	Expenditures Claimed	Total Expenditures
TANF MOE	Illinois State Board of Education (ISBE)	\$77,203,907	\$532,682,350
TANF MOE	Illinois Community College Board (ICCB)	\$3,716,078	\$532,682,350
Child Care MOE	Department of Children and Family Services (DCFS)	\$20,956,784	\$129,551,744

IDHS' procedures to monitor other State agencies expending program funds reported by IDHS include the following:

- 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.
- 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.

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In each of the past seven 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, 2009, 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 (see finding 09-14);
- Expenditures provided by DCFS under all programs identified above included expenditures to subrecipients for which DCFS has not established adequate monitoring procedures (see finding 09-36).

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 this is due to lack of adequate staff with necessary skill set for monitoring interagency program expenditures.

Failure to properly monitor interagency expenditures may result in claiming of expenditures that are inconsistent with the objectives of the federal program. (Finding Code 09-02, 08-02, 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:

The Department accepts the recommendation. We are reviewing our current process of reviewing controls over interagency expenditures. In addition, we are enhancing our controls 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.

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For Year Ended June 30, 2009

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 Cluster
Children’s Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.558 (\$545,739,000)
93.767 (\$242,758,000)
93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: G-0802ILTANF/G-0902ILTANF (93.558)
(CFDA Number) 05-0905IL5021/05-0805ILMSEA5021 (93.767)
05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-0905IL5028/05-0905ILARRA (93.775/93.777/
93.778/93.778 ARRA)

Questioned Costs: Cannot be determined

Finding 09-03 Failure to Perform Eligibility Redeterminations within Prescribed Timeframes

IDHS is not performing “eligibility redeterminations” for individuals receiving benefits under the Temporary Assistance for Needy Families Cluster (TANF), Children’s Health Insurance Program (CHIP), and Medicaid Cluster programs in accordance with timeframes required by the respective State Plans.

Each of the State Plans for the TANF, CHIP, and Medicaid Cluster 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 testwork over eligibility, we noted the State was delinquent (overdue) in performing the eligibility redeterminations for individuals receiving benefits under the TANF, CHIP, and Medicaid programs. In evaluating the eligibility redetermination delinquency statistics, we noted the statistics for the CHIP and Medicaid programs appear to have improved as a result of implementing an inadequate passive redetermination process as reported in finding 09-15. If the cases subject to the inadequate passive redetermination process were included in the analysis below, the number and percentage of overdue cases would be higher for the CHIP and Medicaid programs. The monthly delinquency statistics by program for state fiscal year 2009 are as follows:

Program/Month	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
TANF			
July	1,010	26,953	3.75%
August	951	26,814	3.55%
September	854	26,675	3.20%
October	825	26,824	3.08%
November	742	26,921	2.76%

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Program/Month	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
TANF, cont'd			
December	926	27,699	3.34%
January	786	27,596	2.85%
February	758	27,563	2.75%
March	784	27,527	2.85%
April	713	27,648	2.58%
May	789	27,911	2.83%
June	939	28,479	3.30%
CHIP			
July	13,624	646,018	2.11%
August	13,062	649,659	2.01%
September	12,933	652,189	1.98%
October	14,426	656,925	2.20%
November	14,730	660,023	2.23%
December	15,926	664,000	2.40%
January	15,363	669,618	2.29%
February	16,955	672,714	2.52%
March	18,681	677,422	2.76%
April	18,917	682,013	2.77%
May	20,170	687,542	2.93%
June	21,962	693,313	3.17%
Medicaid			
July	17,390	425,785	4.08%
August	17,320	426,882	4.06%
September	17,353	428,019	4.05%
October	19,095	429,234	4.45%
November	19,374	430,744	4.50%
December	21,141	431,885	4.90%
January	21,024	433,199	4.85%
February	22,494	433,143	5.19%
March	24,873	434,139	5.73%
April	26,281	435,052	6.04%
May	27,026	436,333	6.19%
June	28,787	437,458	6.58%

In addition, during our testwork of 50 TANF, 65 CHIP, and 125 Medicaid eligibility files selected for testwork, we noted redeterminations were not completed within required time frames for one TANF, four CHIP, and nine Medicaid cases tested. Delays in performing redeterminations ranged from one to 65 months after the required timeframe.

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Beneficiary payments selected in our sample totaled \$15,676, \$144,047, and \$347,725 for the TANF, CHIP, and Medicaid Cluster programs, respectively. Payments made on behalf beneficiaries of the TANF, CHIP, and Medicaid Cluster programs totaled \$16,412,408, \$260,867,000, and \$7,553,311,000, respectively, during the year ended June 30, 2009.

In accordance with 42 USC 602(a)(1)(B)(iii), 42 CFR 431.10, and the OMB Circular A-133 Compliance Supplement, dated March 2009, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plans for the Medicaid, CHIP, and TANF programs. The current State Plans require redeterminations of eligibility for all recipients on an annual basis.

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 eligibility redeterminations are performed in accordance with program requirements.

In discussing these conditions with IDHS officials, they stated this is due to lack of staffing.

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 09-03, 08-03, 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:

The Department accepts the recommendation. The Department of Human Services (DHS) will continue working with the Department of Health Care and Family Services (DHFS) to review 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. In fiscal year 2009, IDHS was over 96% current on case redeterminations.

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. 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.

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State Agency: Illinois Department of Human Services (IDHS)

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

Program Name: SNAP Cluster
Temporary Assistance for Needy Families Cluster
Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 10.551/10.561 (\$2,212,023,000)
93.558 (\$545,739,000)
93.767 (\$242,758,000)
93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: 08IS2514/08IS8036/08IE2518/08IE2519/08IS2520/09IS2514/09IS8036/
(CFDA Number) 09IE2518/09IE2519/09IS2520 (10.551/10.561)
G-0802ILTANF/G0902ILTANF (93.558)
05-0905IL5021/05-0805ILMSEA5021 (93.767)
05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-09905IL5028/05-0905ILARRA (93.775/93.777/
93.778/93.778 ARRA)

Questioned Costs: Cannot be determined

Finding 09-04 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 SNAP Cluster, Temporary Assistance for Needy Families Cluster (TANF), Children's Health Insurance Program (CHIP), 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 case files at five 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.

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Additionally, during our testwork over 190 case files selected in our testwork relative to the TANF, CHIP, 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.

Payments made on the behalf of beneficiaries of the SNAP Cluster, TANF, CHIP, and Medicaid programs were approximately \$2,115,070,780, \$16,412,408, \$260,867,000, and \$7,553,311,000, respectively, during the year ended June 30, 2009.

In accordance with 42 USC 1397bb, 42 CFR 435.10, and the OMB Circular A-133 Compliance Supplement, dated March 2009, the State is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plans for the Medicaid and CHIP programs.

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 maintaining adequate controls over beneficiary eligibility case files and related documentation.

In discussing these conditions with IDHS officials, they stated this is a repeated audit finding based on the condition of file rooms in the Family Community Resource Centers. Most offices have a lack of file cabinets and/or file cabinet space in which to properly store all case files.

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 09-04, 08-04, 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:

The Department accepts the recommendation. Given our current fiscal constraints, and staffing limitations, IDHS continues to place high priority on proper case file maintenance and filing, as evidenced by the 100% case record retrieval rate.

Auditors' Comment:

As stated in the finding above, we noted several delays in receiving case files during our testwork. In addition, several case files were missing documentation as identified in finding 09-06. This finding has been repeated since the 2007 audit in which case files could not be located for our testwork. Despite locating the files sampled in our testwork, IDHS has not implemented procedures to address the condition found.

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State Agency: Illinois Department of Human Services (IDHS)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Temporary Assistance for Needy Families Cluster
CFDA # and Program Expenditures: 93.558 (\$545,739,000)
Award Numbers: G-0802ILTANF/G-0902ILTANF
Questioned Costs: Cannot be determined

Finding 09-05 *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 Cluster (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.

Payments made on behalf of beneficiaries of the TANF program totaled \$16,412,408 during the year ended June 30, 2009.

In accordance with 42 USC 602(a)(1)(B)(iii) and the OMB Circular A-133 Compliance Supplement, dated March 2009, 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 of 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 due to inconsistencies in written policy and procedure.

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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 09-05, 08-05, 07-13, 06-04)

Recommendation:

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

IDHS Response:

The Department accepts the recommendation. The Department has reviewed our process of verifying the presence of a Class 1 or Class X felony, and we have modified our policy on June 29, 2009 to be consistent with our eligibility determination process.

Auditors' Comment:

The Department's modification of the policy was to eliminate the crossmatch requirement from the policy document which does not adequately address the condition found. A crossmatch or another verification mechanism should be implemented to ensure beneficiaries that have been convicted of a Class 1 or Class X felony do not receive TANF benefits.

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State Agency: Illinois Department of Human Services (IDHS)

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

Program Name: Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$242,758,000)
93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: 05-0905IL5021/05-0805ILMSEA5021 (93.767)
(CFDA Number) 05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-09905IL5028/05-0905ILARRA (93.775/93.777/
93.778/93.778 ARRA)

Questioned Costs: Cannot be determined

Finding 09-06 Missing Documentation in Beneficiary Eligibility Files

IDHS could not locate case file documentation supporting eligibility determinations for beneficiaries of the Children's Health Insurance Program (CHIP) and the Medicaid Cluster programs.

During our testwork of 65 CHIP 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 CHIP case file and eight Medicaid case files, IDHS could not locate the supporting documentation of the redetermination completed and signed by the beneficiary in the case file. The medical payments made on behalf of these beneficiaries which were selected for our testwork were \$2,190 and \$8,825 for the CHIP and Medicaid Cluster programs, respectively. Medical payments made on behalf of these beneficiaries during the year ended June 30, 2009 were \$33,253 and \$401,486 for the CHIP and Medicaid programs, respectively.
- In one CHIP case file, IDHS could not locate adequate documentation supporting that the required State Online Query (SOLQ) and Division of Child Support Enforcement (DCSE) cross match procedures were performed. Medical assistance payments made on behalf of this beneficiary which was selected for our testwork was \$40. Medical assistance payments made on behalf of this beneficiary during the year ended June 30, 2009 was \$42,589.
- In two CHIP case files, IDHS could not locate adequate documentation supporting income verification procedures were performed. In lieu of collecting copies of pay stubs to verify income, the caseworkers verbally confirmed income information, relied on client handwritten notes, or used income verified on previous applications. The medical payments made on behalf of these beneficiaries which were selected for our testwork were \$9,207. Medical payments made on behalf of these beneficiaries during the year ended June 30, 2009 were \$19,446.

With the exception of case files identified in the third bullet, the eligibility criteria for each of the case files missing documentation 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

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documentation related to the redetermination/income verification procedures performed including evidence of case worker review and approval could not be located.

Beneficiary payments selected in our samples totaled \$144,047 and \$347,725 for the CHIP and Medicaid Cluster programs, respectively. Payments made on behalf beneficiaries of the CHIP and Medicaid Cluster programs totaled \$260,867,000 and \$7,553,311,000, respectively, during the year ended June 30, 2009.

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 2009, 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 CHIP programs.

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 maintaining adequate controls over beneficiary eligibility case files and related documentation.

In discussing these conditions with IDHS officials, they stated this is caused by human filing errors.

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 09-06, 08-08, 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:

The Department accepts the recommendation. The Department will continue to ensure that staff understand the importance of proper and accurate filing processes. Proper documentation of eligibility factors will continue to be an integral part of training curricula.

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For Year Ended June 30, 2009

State Agency: Illinois Department of Human Services (IDHS)

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

Program Name: Special Supplemental Nutrition Program for Women, Infants, and Children
Temporary Assistance for Needy Families Cluster
Child Care Development Fund Cluster
Social Services Block Grant

CFDA # and Program Expenditures: 10.557/10.557 ARRA (\$218,993,000)
93.558 (\$545,739,000)
93.575/93.596 (\$204,962,000)
93.667 (\$108,690,000)

Award Numbers: 2007IW500342/2008IW100342/2008IW100642/2008IW500342/
2009IW100342/2009IW100642/2009IK220842 (10.557/10.557 ARRA)
G-0802ILTANF/G-0902ILTANF (93.558)
G-0801ILCCDF/G-0901ILCCDF (93.575)
G-0601ILSOS2/G-0801ILSOSR/G-0901ILSOSR (93.667)

Questioned Costs: None

Finding 09-07 *Inadequate Procedures for Communicating Non-Cash Expenditures to Subrecipients*

IDHS does not have adequate procedures to communicate non-cash expenditures to its subrecipients.

IDHS provides vouchers for child care services to eligible State residents under the Temporary Assistance for Needy Families Cluster (TANF), Child Care Cluster (Child Care), and Social Services Block Grant (Title XX) programs. IDHS also provides food instruments to eligible State residents under the Special Supplemental Nutrition for Women, Infants, and Children (WIC). IDHS is assisted by subrecipient organizations throughout the State in performing the beneficiary eligibility determinations required for each of these programs. As a result, IDHS identifies and notifies program subrecipients of the amount of non-cash assistance (beneficiary payments) the subrecipient should report on its schedule of expenditures of federal awards (SEFA).

During our testwork over the award notification process for subrecipients of the WIC, TANF, Child Care, and Title XX programs, we noted IDHS only reports the non-cash assistance attributable to each subrecipient on an annual basis. Because IDHS does not identify the specific federal program name, award number, catalog of federal domestic assistance (CFDA) number, or amount of non-cash assistance until several months after the end of the State's fiscal year, subrecipients cannot prepare their SEFAs or have OMB Circular A-133 audits performed until the information is received from IDHS.

In addition, we noted IDHS expended ARRA funding for certain beneficiary payments made under the WIC program which were not separately identified as ARRA funded in the non-cash assistance notifications sent to WIC subrecipients. Further, IDHS' grant agreements for the WIC program did not identify the requirement for subrecipients to separately report ARRA program expenditures on their schedule of expenditures federal awards (SEFA) and data collection form.

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IDHS reported non-cash assistance to subrecipients in the following amounts:

Program Name	Non-Cash Assistance	Total Subrecipient Expenditures	Total Program Expenditures
WIC	\$95,979,000	\$218,429,000	\$218,572,000
WIC ARRA	421,000	421,000	421,000
TANF	145,175,000	241,513,000	545,739,000
Child Care	107,083,000	188,905,000	204,962,000
Title XX	15,795,000	33,600,000	108,690,000

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 addition, according to the American Recovery Reinvestment Act, Federal Agencies must require recipients to agree to: (1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal Award number, CFDA number, and the amount of ARRA funds; and (2) require their subrecipients to provide similar identification in their SEFA and data collection form.

In discussing these conditions with IDHS officials, they stated reporting of non-cash assistance to providers has been conducted on an annual basis. The Department was unaware of the reporting requirements identified in this finding.

Failure to inform subrecipients of the federal award information in a timely manner and to communicate required ARRA information could result in subrecipients improperly reporting expenditures in their schedule of expenditures of federal awards, expending federal funds for unallowable purposes, not receiving a single audit in accordance with OMB Circular A-133, or otherwise not properly administering the federal programs in accordance with federal regulations. (Finding Code 09-07)

Recommendation:

We recommend IDHS notify all subrecipients in writing of the specific federal program name, award number, CFDA number, and amount of non-cash assistance on a quarterly basis. We also recommend IDHS implement procedures to ensure ARRA information and requirements are properly communicated to its subrecipients.

IDHS Response:

The Department accepts the recommendation. Starting in fiscal year 2011, the Department will process reports to providers on a quarterly basis. The reports will identify the program by name and CFDA number. The divisions will generate and issue quarterly reports to providers reporting the ARRA expenditures for the providers.

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For Year Ended June 30, 2009

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 (\$93,627,000)

Award Numbers: H126A080018/H126A090018

Questioned Costs: \$362

Finding 09-08 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 50 Vocational Rehabilitation beneficiary payments, we noted two cases in which IDHS was unable to provide documentation supporting that the beneficiary's IPE had been approved. Payments made on the behalf of these beneficiaries during the year ended June 30, 2009 were \$4,314. The payments selected in our sample for these beneficiaries totaled \$362.

Beneficiary payments selected in our sample totaled \$52,671. Payments made to beneficiaries of the Vocational Rehabilitation program totaled \$14,991,055 during the year ended June 30, 2009.

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 procedures to ensure only allowable beneficiary expenditures are charged to the program.

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In discussing these conditions with IDHS officials, they stated this situation resulted from staff failing to document approval for the expenditures in accordance with federal guidelines.

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 09-08, 08-10, 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:

The Department accepts the recommendation. The Department of Human Services, Division of Rehabilitation Services (DRS) will continue to work to make sure that every case has all of the required documentation signed and included in the case file and that the Individualized Plan for Employment (IPE's) are current at the time of an expenditure.

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State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: US Department of Education (USDE)

Program Name: Rehabilitation Services – Vocational Rehabilitation Grants to States

CFDA # and Program Expenditures: 84.126 (\$93,627,000)

Award Numbers: H126A080018/H126A090018

Questioned Costs: Cannot be determined

Finding 09-09 *Failure to Determine Eligibility In Accordance with Program Regulations*

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

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

- In three eligibility files tested, IDHS did not determine eligibility within the required 60 day timeframe. No payments were made during the year ended June 30, 2009 for services related to these beneficiaries prior to the completion of the eligibility determinations, except those necessary to confirm the beneficiary's disability.
- In four case files, IDHS could not provide the certificate of eligibility signed by the case worker and beneficiary; however, unsigned electronic certificates were provided from the case management systems. Payments made on the behalf of these beneficiaries during the year ended June 30, 2009 were \$29,216. The payments selected in our sample for these beneficiaries were \$3,284.
- In one case file, IDHS could not provide the Customer Financial Analysis signed by the case worker and beneficiary; however, an unsigned electronic Customer Financial Analysis was provided from the case management systems. Payments made on the behalf of these beneficiaries during the year ended June 30, 2009 were \$1,535. The payment selected in our sample for this beneficiary was \$1,535.

Payments made to beneficiaries of the Vocational Rehabilitation program totaled \$14,991,055 during the year ended June 30, 2009.

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

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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 the failure to determine eligibility within the 60 day time period is due to delays in obtaining needed medical records and not documenting customer approval for extending the eligibility determination period.

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 09-09, 08-11, 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.

IDHS Response:

The Department accepts the recommendation. The Department of Human Services, Division of Rehabilitation Services (DRS) continues to work to make eligibility determinations as quickly and accurately as possible, and will strive to document customers' agreement to an extension when the determination cannot be made within the prescribed timeframes.

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State Agency: Illinois Department of Human Services (IDHS)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA # and Program Expenditures: 10.557/10.557 ARRA (\$218,993,000)
Award Numbers: 2007IW500342/2008IW100342/2008IW100642/2008IW500342/
2009IW100342/2009IW100642/2009IK220842

Questioned Costs: None

Finding 09-10 *Inadequate Procedures to Ensure Controls Are Operating Effectively at Service Organization of WIC Program*

IDHS has not established adequate procedures to ensure controls are operating effectively at its third party service organization for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program.

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

During our review of the report on controls placed in operation and tests of operating effectiveness (SAS 70 report) for the service organization, we noted the auditors' report was modified for one control objective that was not achieved. Specifically, the service organization provided information system developers privileged access to the WIC program food information processing application production database and server without formal security controls to ensure the access was only provided when needed or to monitor the developer activities. As a result, the control objective related to ensuring that new or modified application and system software development are authorized, tested, approved, properly implemented, and documented was not achieved.

In addition, IDHS personnel responsible for reviewing the service organization report did not identify the report modification as an exception or control deficiency on their internal review checklist and did not perform procedures to assess the impact of the control deficiencies with respect to the WIC program until this item was identified during our audit.

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 follow up on deficiencies identified in service organization reports and assess their impact on the administration of the WIC program.

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In discussing these conditions with IDHS officials they stated, the SAS70 report noted a finding regarding the functioning of the WIC Banking system. DHS failed to take appropriate action regarding the finding and staff were unaware that further action was needed.

Failure to ensure controls are operating effectively at its third party service organization prohibits IDHS from assessing the effectiveness of internal controls over the validation and reconciliation of food instruments. (Finding Code 09-10)

Recommendation:

We recommend IDHS review its procedures for monitoring its service organizations and implement additional procedures to ensure appropriate follow up is performed relative to control deficiencies identified at its service organization. Such procedures should include documentation of IDHS' assessment of the impact of any control deficiencies and/or noncompliance identified in the service organization's report on the WIC program.

IDHS Response:

The Department accepts the recommendation. The Illinois Department of Human Services (IDHS) will enhance its procedures for monitoring service organizations and procedures to conduct the review of the SAS 70 for this provider.

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State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: US Department of Agriculture (USDA)

Program Name: SNAP Cluster

CFDA # and Program Expenditures: 10.551/10.561 (\$2,212,023,000)

Award Numbers: 08IS2514/08IS8036/08IE2518/08IE2519/08IS2520/09IS2514/09IS8036/
09IE2518/09IE2519/09IS2520

Questioned Costs: Cannot be determined

Finding 09-11 *Inadequate Monitoring of Subrecipient Expenditures*

IDHS does not have adequate procedures in place to ensure expenditures submitted by its subrecipients are allowable under program regulations for the SNAP Cluster.

During the year ended June 30, 2009, IDHS passed through approximately \$7.4 million to a subrecipient of the SNAP Cluster to provide educational programs on nutrition to children and families in economically challenged areas throughout the State. As a condition of receiving this funding, the subrecipient is required to provide matching funds in an amount equal to the federal expenditures. The subrecipient meets its matching requirement with both self-funded expenditures and in-kind contributions received from local governments. IDHS requires the subrecipient to prepare a quarterly expenditure report identifying the expenditures incurred to date under the federal award and the amounts used to meet the matching requirement. These reports are used to compute the amount to be reimbursed to the subrecipient for the applicable reporting period and to monitor program expenditures.

During our testwork, we noted the expenditure report used by the subrecipient of the SNAP Cluster is highly summarized and does not provide sufficient information for IDHS to properly monitor the subrecipient's expenditures and matching contributions or compute the amount to be reimbursed. Specifically, the report does not separately identify in-kind contributions from other expenditures used to meet the matching requirement. As a result, the amount reimbursed by IDHS (which is computed as 50% of the combined total of the expenditures incurred to date under the federal award and the amount used to meet the matching requirement) includes in-kind contributions from local governments which are not allowed to be reimbursed from federal sources. In-kind contributions included in the expenditure reports submitted for quarters ending on or during the year ended June 30, 2009 approximated \$2.6 million.

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. Such monitoring procedures should include requiring subrecipients to report expenditure information in sufficient detail to allow the pass-through entity to appropriately determine the amount required to be reimbursed to the subrecipient and to meet the federal reporting requirements of the pass through entity.

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In discussing these conditions with IDHS officials, they stated this is due to subrecipient expenditures not being properly monitored.

Failure to adequately monitor expenditures and matching contributions of program subrecipients may result in (1) unallowable costs being charged to the federal program, (2) unplanned advances of federal funding to subrecipients which are not monitored, and (3) inaccurate financial reports being prepared by IDHS and submitted to the federal government. (Finding Code 09-11)

Recommendation:

We recommend IDHS revise the expenditure report and related instructions provided to its subrecipient to ensure an appropriate level of information is obtained by IDHS to monitor the expenditures and matching requirements of the SNAP Cluster and to properly determine amounts to be reimbursed to the subrecipient.

IDHS Response:

The Department accepts the recommendation. IDHS has established procedures to review SNAP-Ed expenditures and matching requirements.

IDHS will also revise the expenditure report and related instructions provided to its subrecipient to ensure an appropriate level of information is obtained by IDHS to monitor the expenditures and matching requirements of the SNAP program and to properly determine amounts to be reimbursed to the subrecipient.

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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: 93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: 05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-0905IL5028/05-0905ILARRA

Questioned Costs: Cannot be determined

Finding 09-12 Failure to Obtain Documentation of Assignment of Medical Support Rights

IDHS did not obtain written documentation from beneficiaries of the Medicaid Cluster program documenting they had assigned their rights to medical support payments to the State.

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 Medicaid Cluster program benefits are being received.

During our testwork over the Medicaid programs, we selected eligibility files for 125 Medicaid beneficiaries to review for compliance with eligibility requirements and for the allowability of the related benefits. Specifically, we noted the case file for two Medicaid beneficiaries selected for testwork did not contain a signed acknowledgement of assigning child or medical support payments to the State. The medical assistance payments made on behalf of these beneficiaries selected for our testwork was \$786. Medical assistance payments made on behalf of these Medicaid beneficiaries during the year ended June 30, 2009 were \$4,472.

Beneficiary payments selected in our sample totaled \$347,725. Payments made on behalf of beneficiaries of the Medicaid Cluster program totaled \$7,553,311,000 during the year ended June 30, 2009.

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. 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 assignment of rights statements are on file for all program beneficiaries.

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

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Failure to obtain documentation that Medicaid recipients have assigned their rights to medical support payments from third parties to the State may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 09-12, 08-07, 07-20, 06-17, 05-24)

Recommendation:

We recommend IDHS obtain written documentation of the assignment of medical support rights from all Medicaid beneficiaries.

IDHS Response:

The Department accepts the recommendation. IDHS has reiterated to staff the importance of obtaining proper assignment of rights signature documentation. There are extenuating circumstances surrounding the two cases missing the proper assignment of rights. One of the two clients is deceased; the other has relocated to another state, so attempts to obtain the proper assignments are impractical. Should reapplication occur, newly revised forms required by the applicant will ensure the acquisition of the proper assignment of rights. The Department has added the assignment of rights language to several forms in order to become compliant with this regulation.

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State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: US Department of Agriculture (USDA)
US Department of Education (USDE)
US Department of Health and Human Services (USDHHS)
US Social Security Administration (USSSA)

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

CFDA # and Program Expenditures: 10.551/10.561 (\$2,212,023,000)
10.557/10.557 ARRA (\$218,993,000)
84.126 (\$93,627,000)
93.558 (\$545,739,000)
93.575/93.596 (\$204,962,000)
93.667 (\$108,690,000)
93.959 (\$64,054,000)
96.001 (\$67,964,000)

Award Numbers: 08IS2514/08IS8036/08IE2518/08IE2519/08IS2520/09IS2514/09IS8036/
(CFDA Number) 09IE2518/09IE2519/09IS2520 (10.551/10.561)
2007IW500342/2008IW100342/2008IW100642/2008IW500342/
2009IW100342/2009IW100642/2009IK220842 (10.557/10.557 ARRA)
H126A080018/H126A090018 (84.126)
G-0802ILTANF/G-0902ILTANF (93.558)
G-0801ILCCDF/G-0901ILCCDF (93.575)
G-0601ILSOS2/G-0801ILSOSR/G-0901ILSOSR (93.667)
08B1ILSAPT/09B1ILSAPT (93.959)
0704ILD100/0804ILD100/0904ILD100/ (96.001)

Questioned Costs: Cannot be determined

Finding 09-13 *Failure to Amend the Public Assistance Cost Allocation Plan*

IDHS has not amended the allocation methodology included in the most recently submitted Public Assistance Cost Allocation Plan (PACAP) to accurately include all cost centers assigned to its administrative offices.

IDHS administers several federal and state programs to assist Illinois families in achieving self-sufficiency, independence, and health. In administering each of these programs, IDHS incurs significant expenditures, which are directly and indirectly attributable to the administration of its programs. In order to allocate costs to the programs to which they are attributable, IDHS has submitted a PACAP to the USDHHS describing its overall organizational structure, the federal programs it administers, and the methodologies it has developed to allocate administrative

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expenditures to its federal programs. The PACAP is submitted to USDHHS periodically for review and approval of the allocation methodologies used by IDHS. IDHS has developed the methodologies for allocating costs to its programs, which IDHS believes best represent the actual costs associated with the program.

During our review of costs allocated to federal programs, we noted one cost center for the Chief Financial Office (MS440) was not included in the cost allocation plan until an amendment was requested for the quarter ended March 31, 2009. Accordingly, the method used to allocate this cost center was not approved for use by USDHHS until January 1, 2009. The costs allocated for the Chief Financial Office during the six months ended December 31, 2009 were \$126,701.

As this cost center is administrative in nature, it was allocated using the Departmental Indirect Cost Allocation Plan methodology which allocates costs to all federal and state program administered by IDHS. Total costs allocated through the PACAP for the year ended June 30, 2009 were \$1,267,076,601.

According to 45 CFR 95.509(a)(4), a State shall promptly amend the cost allocation plan and submit the amended plan to the Division of Cost Allocation if other changes occur which make the allocation basis or procedures in the approved cost allocation plan invalid. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure all allocation methodologies used are appropriately defined in the PACAP.

In discussing these conditions with IDHS officials, they stated PACAP amendments and necessary changes to cost allocation methodologies were not timely prepared to accurately reflect programmatic activities.

Failure to amend PACAP cost allocation methodologies for changes in program administration may result in disallowances of costs. (Finding Code 09-13, 08-12)

Recommendation:

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

IDHS Response:

The Department accepts the recommendation. PACAP was amended to include the revision with an effective date of January 1, 2009.

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For Year Ended June 30, 2009

State Agency: Illinois Department of Revenue (IDOR)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Temporary Assistance for Needy Families Cluster
CFDA # and Program Expenditures: 93.558 (\$545,739,000)
Award Numbers: G-0801ILTANF/G-0901ILTANF
Questioned Costs: Cannot be determined

Finding 09-14 *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 Cluster (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 residing in Illinois. 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 determined in accordance with the State's earned income tax credit regulations and 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, we noted IDOR's procedure for verifying the validity of taxpayer's earned income tax credit claims with federal tax returns are not completed prior to paying refunds to taxpayers or preparing the earned income tax credit claiming report for IDHS. Without this information, IDOR relies solely on limited data edits designed to verify the mathematical accuracy of the return and to identify individuals who may not meet the earned income tax credit criteria. The data verification procedure is not performed until the middle of the following year and has historically resulted in adjustments to amounts previously claimed.

Further, we noted that IDOR's limited data edits to identify individuals who may not meet the earned income tax credit criteria do not consider all information available to IDOR when they process the taxpayer's return and pay a refund. During our testwork of 60 earned income tax credits (totaling \$6,400) claimed under the TANF program, we identified:

- one earned income tax credit claimed (\$73) was refunded to a taxpayer that was flagged by IDOR for not having a valid W-2 on file. Upon further review of the population of earned income tax credits claimed under the TANF program during the year ended June 30, 2009, we noted there were 1,427 transactions (totaling \$108,096) that had been flagged by IDOR for not having a valid W-2 form on file as questionable and requiring further taxpayer correspondence or investigation to support the taxpayer's return. In discussing this issue with IDOR officials, IDOR responded that they only consider the validity of a taxpayer's W-2 in determining whether to allow claimed State withholding credits, but not to determine whether the taxpayer may or may not have had earned income during the tax year.

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For Year Ended June 30, 2009

- one earned income tax credit claimed (\$107) was refunded to a taxpayer whose mailing address was outside of the State of Illinois. IDOR's practice is to process returns showing out-of-State addresses as Illinois residents, unless the filer checks a box indicating that they are a part-year resident or non-resident. As a result, IDOR had not determined whether or not the earned income tax credit for this taxpayer was allowable under the TANF program. Earned income tax credits for non-military, tax filers with an out-of-State address claimed under the TANF program were \$143,511 (totaling 2,400 transactions) during the year ended June 30, 2009. In discussing this issue with IDOR officials, they stated that IDOR does not use the taxpayer's address or compare to other State databases to determine that a TANF claim was for a resident of the State.

In addition, during our testwork of 30 earned income tax adjustments (totaling \$3,504), we noted three earned income tax credit adjustments (\$337) which the Department could not locate due to missing batch information. In following up on this exception, the Department determined that the new GenTax system had identified \$12,868 in 195 accounts that should have been refunded to the federal government between federal fiscal year 2004 and federal fiscal year 2008; however, due to a system problem, these amounts had not been previously identified and repaid to the federal government.

Earned income tax credits claimed under the TANF program were \$14,178,462 during the year ended June 30, 2009.

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 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 prior to claiming.

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

Failure to establish effective procedures to ensure expenditures claimed under federal programs meet allowability requirements results in unallowable costs. (Finding Code 09-14, 08-16, 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 eligible for claiming are reported to IDHS.

IDOR Response:

The Department of Revenue disagrees with the finding. The underlying issue is twofold: (1) the department pays the refundable earned income credit before it is possible to verify that the federal Earned Income Credit has been paid by the IRS, and (2) the department draws down the Federal TANF match for the refundable portion of the tax refund before it is possible to verify that the federal Earned Income Credit has been paid.

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For Year Ended June 30, 2009

The General Assembly implemented the refundable Illinois Earned Income Credit to provide grants to low-income working families in conjunction with their income tax return filing. Lawmakers set the Illinois EIC at 5 percent of the federal EIC.

The Department pays the Illinois EIC based on the information reported on the taxpayer's Illinois 1040 filing, before the IRS has shared the federal EIC information, and works with the Illinois Department of Human Services to periodically draw down federal funds to replenish the Refund Fund. Only after the filing season, usually in October or November, does the Illinois Department of Revenue receive an IRS report on federal EICs paid to Illinois taxpayers. Based on that report, when the IRS has made changes to what the taxpayer originally claimed, the department bills the taxpayer and adjusts the drawn down amount (NB: changes were relatively small – amount to \$159,816.62 in fiscal year 2009, approximately 1% of the \$14,178,462 TANF claimed). As a result, at the conclusion of the process, no TANF funds are utilized for ineligible EIC payments.

The Department does not believe it is reasonable to require taxpayers to wait for federal data to be available in order to receive the TANF portion of their refund; the department believes that splitting a tax refund into two payments would be inefficient and confusing. The Department's current verification process has been blessed by U.S. Department of Health and Human Services staff in Washington and in Chicago.

Auditors' Comment:

As stated in the finding above, the verification procedures are not performed by IDOR until several months after IDHS has claimed the tax credits reported by IDOR. The State's current procedures allow unallowable costs to be claimed to the TANF program. Our finding and recommendation pertain solely to the timing of the claiming of TANF expenditures, not how IDOR chooses to process refunds or operate the Illinois Earned Income Tax Credit program.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

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

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

Program Name: Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$242,758,000)
93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: 05-0905IL5021/05-0805ILMSEA (93.767)
(CFDA Number) 05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-0905IL5028/05-0905ILARRA (93.775/93.777/
93.778/93.778 ARRA)

Questioned Costs: Cannot be determined

Finding 09-15 *Inadequate Procedures for Performing Eligibility Redeterminations*

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

Effective in February 2006, DHFS revised its procedures for performing eligibility redeterminations for children receiving services under the Medicaid and CHIP 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 most 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 CHIP programs were \$7,553,311,000 and \$260,867,000 during the year ended June 30, 2009.

In accordance with 42 USC 1397bb, 42 CFR 435.10, and the *OMB Circular A-133 Compliance Supplement*, dated March 2009, the State is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plans for the Medicaid and CHIP programs. The current State Plans require redeterminations of eligibility for all recipients on an annual basis. According to 42 CFR 435.916(b) the State is required to implement procedures designed to ensure that recipients make timely and accurate reports of any change in circumstances that may affect their eligibility. 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 eligibility redeterminations are performed in accordance with the State Plan and federal regulations.

In discussing these conditions with DHFS officials, they stated they disagree with the finding.

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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 09-15, 08-17, 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 the finding in that the administrative renewal process used by DHFS is a federally allowable policy choice that was adopted by the state in 2006. It has been heavily promoted by the U.S. Centers for Medicare & Medicaid Services as an effective strategy for assuring children do not experience unnecessary breaks in coverage. However, the Department accepts the recommendation and will review the legal, financial and operational issues associated with making changes in the redetermination process. In addition, the Department will review policies used by other states, recommended by civic organizations, legislative committees related to Medicaid reform and recommended as “best practices” by national bodies, boards and think tanks. The Department is also in the process of developing reports to support closer monitoring of the results of the administrative or passive renewal process.

It is important to note that the Department’s administrative renewal process is performed in accordance with the federal regulations and State Plans. Per the Department of Health and Human Services letter to State Medicaid Directors dated February 6, 1997, “The redetermination can be based on information contained in the individual’s Medicaid file if the State believes that the information is accurate.” The State Plans require that eligibility be reviewed annually, but does not specify what procedures are to be used. The Department does review eligibility annually, either administratively or manually, depending on the family situation.

Federal policy supporting this process was affirmed by Congress and the President in the recent reauthorization of the Children’s Health Insurance Program Reauthorization Act of 2009. It is included in Section 104 as one of eight enrollment and retention measures for which states may qualify for bonus payments. In December 2009, Illinois received a bonus payment of \$9.1 million for increasing enrollment by implementing six of the enrollment and retention measures, including administrative renewals.

Auditors’ Comment:

As stated by DHFS in its response, “[t]he State Plans require that eligibility be reviewed annually, but does not specify what procedures are to be used.” However, as we point out in the finding, DHFS does not maintain a formal record of the cases subjected to the passive renewal process. Consequently, DHFS could not demonstrate adequately that eligibility in those cases was reviewed or that any effort was made to ensure that a change in circumstances affecting eligibility had not occurred.

As for DHFS’ use of the administrative renewal process, we are aware of provisions in the Children’s Health Insurance Program Reauthorization Act of 2009. Since this finding has been repeated for three years, we strongly encourage DHFS to resolve any issues of interpretation through the federal government’s finding resolution process.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

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

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

Program Name: Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$242,758,000)
93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: 05-0905IL5021/05-0805ILMSEA (93.767)
(CFDA Number) 05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-0905IL5028/05-0905ILARRA (93.775/93.777/
93.778/93.778 ARRA)

Questioned Costs: \$295,455

Finding 09-16 *Missing Documentation in Beneficiary Eligibility Files*

DHFS could not locate case file documentation supporting eligibility determinations for beneficiaries of the Children's Health Insurance Program (CHIP) and the Medicaid Cluster programs.

During our test work of 65 CHIP and 125 Medicaid beneficiary payments (totaling \$144,047 and \$347,725), respectively), we selected eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits provided. In 17 CHIP case files and two Medicaid case files (with medical payments sampled of \$8,305 and \$65, respectively), DHFS could not locate the supporting documentation of the redetermination completed and signed by the beneficiary in the case file. Medical payments made on behalf of these beneficiaries for which there was no supporting documentation were \$288,727 and \$6,728 for the CHIP and Medicaid programs, respectively, during the year ended June 30, 2009.

Payments made on behalf beneficiaries of the CHIP and Medicaid Cluster programs totaled \$260,867,000 and \$7,553,311,000, respectively, during the year ended June 30, 2009.

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 2009, 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 CHIP programs.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws,

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regulations, and program compliance requirements. Effective internal controls should include maintaining adequate controls over beneficiary eligibility case files and related documentation.

In discussing these conditions with DHFS officials, they stated the cases identified as exceptions above were subject to the Department's passive redetermination process discussed in finding 09-15.

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 09-16)

Recommendation:

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

DHFS Response:

The Department disagrees with the finding and believes they were in compliance with all State and Federal regulations regarding the renewal process, including documentation and client signature requirements. In addition, the Department provided supporting documentation in the form of the Authorization of Assistance Action (552) showing the cases were passively redetermined, which according to policy did not require client signature. The administrative renewal process is automated and does not necessarily require any documentation in the case file as the renewal is recorded automatically by the data system.

However, the Department accepts the recommendation and will review the legal, financial and operational issues associated with making changes in the redetermination process. The Department will review policies used by other states, recommended by civic organizations, legislative committees related to Medicaid reform and recommended as "best practices" by national bodies, boards and think tanks.

The Department respectfully notes that the auditors found no evidence that the cases reviewed did not comply with policy established by the Department. Instead, the auditors fault the policy itself and the Department has agreed to review that policy. There is no requirement in law or rule for a signed renewal form. All redeterminations were performed in accordance with federal regulations and State Plans. The fact that the audit found that "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;" supports the validity of the administrative renewal process for children's healthcare coverage.

Auditors' Comment:

DHFS was unable to provide documentation to support the exception cases identified in the finding above were redetermined in accordance with the Department's established procedures or that they were subject to the passive redetermination process. Accordingly, all information necessary to establish and support the eligibility of these individuals for the period was **not** available.

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For Year Ended June 30, 2009

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

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

Program Name: Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$242,758,000)
93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: 05-0905IL5021/05-0805ILMSEA (93.767)
(CFDA Number) 05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-0905IL5028/05-0905ILARRA (93.775/93.777/
93.778/93.778 ARRA)

Questioned Costs: Cannot be determined

Finding 09-17 *Failure to Pay Medical Claims within Prescribed Timeframes*

DHFS is not paying practitioner medical claims for individuals receiving benefits under the Children's Health Insurance Program (CHIP) and Medicaid programs in accordance with timeframes required by federal regulations.

Federal regulations require the medical providers to submit all medical claims within twelve months of the date of service and require the State to pay 90% of all clean claims within 30 days of the date of receipt and 99% of all clean claims within 90 days of the date of receipt. Further, under the American Reinvestment and Recovery Act (ARRA) signed into law on February 17, 2009, states must comply with these claims processing requirements or lose their eligibility for the increased Federal medical assistance percentage (FMAP) for certain expenditures. Subsequent to February 17, 2009, any practitioner claim received on a day in which the State was not in compliance with the claims processing requirements is ineligible to receive the increased FMAP rate.

The processing of medical claims for payment involves a series of electronic MMIS edits to verify all applicable data is provided, verify recipient eligibility, verify expenditure allowability, and calculate the provider reimbursement. Once a medical payment has been approved for payment, it is adjudicated, vouchered and submitted to the Office of the Comptroller for payment. Beginning with the enactment of ARRA, DHFS began monitoring the State's compliance with these claims processing requirements on a daily basis in order to calculate the amount of increased FMAP the State would lose as a result of not being in compliance. Prior to the enactment of ARRA, DHFS performed a periodic analysis to monitor compliance with the claims processing requirements.

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For Year Ended June 30, 2009

During our review of the analysis covering practitioner medical payments during state fiscal year 2009 prior to the enactment of ARRA, we noted medical payments were not made within the payment timeframes required by federal regulations. Management’s analysis summarizes claims received and later paid in the following manner:

Month	Number of Claims Received	Claims Paid Within 30 Days	Percentage Paid Within 30 Days	Claims Paid Within 90 Days	Percentage Paid Within 90 Days
July	2,078,948	1,409,974	67.82%	2,077,341	99.92%
August	2,786,530	991,060	35.57%	2,203,355	79.07%
September	2,399,700	1,271,237	52.97%	1,703,382	70.98%
October	2,660,969	238,566	8.97%	1,662,262	62.47%
November	2,340,085	1,408,804	60.20%	2,199,102	93.98%
December	2,535,486	1,785,027	70.40%	2,507,576	98.90%
January	2,249,249	1,069,934	47.57%	2,241,745	99.67%
February	2,562,499	2,408,329	93.98%	2,551,072	99.55%
Total	19,613,466	10,582,931	53.96%	17,145,835	87.42%

Management’s daily analysis of claims paid after the enactment of ARRA identified 33 days in which the State was not in compliance with the claims processing requirements. The State received claims totaling \$59,366,343 on those days, resulting in \$6,140,554 of lost federal reimbursement.

In accordance with 42 CFR 447.45(d) and Section 5001(f)(2) of the American Recovery and Reinvestment Act, the State is required to pay 90% of all clean claims within 30 days of the date of receipt and 99% of all clean claims within 90 days of the date of receipt. The State must pay all other claims within twelve months of the date of receipt. In addition, the increased FMAP rate is not available for any practitioner claim (hospital and nursing faculty provider claims are included as of May 31, 2009) received by the State on a day in which the State failed to pay claims in accordance with the timely processing of claims requirements

In discussing these conditions with DHFS officials, they stated that claims are processed promptly by the Department and the delays in payment were due to a lack of funds necessary to initiate payments.

Failure to pay medical claims in accordance within the required timeframes may result in unallowable costs being charged to the program. (Finding Code 09-17, 08-19)

Recommendation:

We recommend DHFS review its current process for processing and paying medical payments and consider changes necessary to ensure medical payments are made within the timeframes prescribed within the federal regulations.

DHFS Response:

The Department accepts the finding and has requested sufficient appropriations in its budget request to allow payments in a timeframe consistent with federal regulations.

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For Year Ended June 30, 2009

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

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

Program Name: Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$242,758,000)
93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: 05-0905IL5021/05-0805ILMSEA (93.767)
(CFDA Number) 05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-0905IL5028/05-0905ILARRA (93.775/93.777/
93.778/93.778 ARRA)

Questioned Costs: None

Finding 09-18 *Failure to Initiate and Complete Provider Audits in a Timely Manner*

DHFS did not initiate and complete audits of providers of the Children's Health Insurance Program (CHIP) and Medicaid Cluster programs in a timely manner.

The DHFS Office of Inspector General (OIG) conducts several types of audits and reviews of healthcare providers to monitor the integrity of payments made to providers of the CHIP and Medicaid Cluster programs. Specifically, the OIG performed post-payment compliance audits to identify improper payments which may have been made to providers and quality of care reviews to assess whether healthcare providers are giving proper care and services to CHIP and Medicaid beneficiaries. These audits may lead to sanctions against providers, recoveries of overpayments from providers, and/or criminal prosecution of providers. The OIG reports the results of these audits, as well as its other activities, to the Center Medicare and Medicaid Services on an annual basis.

During our testwork over 60 providers recommended by the OIG for audit, we noted there were significant time delays between the date DHFS determined a provider audit should be performed and the start date of the audit. Specifically, we noted 21 of the 60 provider audits tested had not been started as of the date of our testwork. The number of days that had elapsed between the date the provider was recommended for audit and the date of our testwork (December 2, 2009) ranged from 461 to 1,695 days. For the 39 provider audits completed, we noted the number of days that had elapsed between the dates the provider was recommended for audit and the audit start date ranged from zero to 1,089 days.

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In addition, we noted provider audits were not completed in a timely manner. Specifically, the length of time to perform the 39 completed provider audits selected in our testwork ranged from 7 to 1,121 days. The provider audits were completed as follows:

Timeframe	Number of Provider Reviews
0-44 days after audit start date	5
45-90 days after audit start date	20
91-120 days after audit start date	4
121-150 days after audit start date	1
151-180 days after audit start date	4
180 + days after audit start date	5

According to 42 CFR 455.17, the OIG is required to report on the results of its activities and investigations periodically. The OIG has a responsibility to investigate violations of the applicable laws, follow up on complaints, and perform provider audits. 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 procedures to ensure provider analysis and audits are performed and completed in a timely manner.

In discussing these conditions with DHFS officials, they stated there are extenuating circumstances that may extend the audit process and may be outside the control of the OIG. In addition, the Department stated that federal guidelines do not stipulate an audit period.

Failure to initiate and perform provider audits in a timely manner may result in federal funds being expended for unallowable purposes and may prevent the State from adequately monitoring payments to providers. (Finding Code 09-18, 08-20)

Recommendation:

We recommend DHFS implement procedures to ensure provider audits are performed and completed in a timely manner.

DHFS Response:

The Department accepts the finding. It should be noted that there is no federally prescribed timeframe for completion of provider audits; however, the OIG strives to complete all audits in a timely manner. As with the nature of the audit profession, situations occur that may extend the time necessary to complete the audit such as: the type of audit being conducted (i.e., pharmacy, hospital, and individual practitioner), the size of the auditee (hospital vs. individual practitioner), a re-audit at the request of the auditee, and the availability of the information to be audited. There are also delays due to external entities, such as the Federal Bureau of Investigation or Illinois State Police performing investigations on the same auditee.

The OIG is putting controls in place to improve the process for ensuring audits are completed within 180 days. These controls include improved monitoring reports and higher level management approvals for exceptions to completion target dates. The OIG is also closely scrutinizing all cases pending audit to determine the reasonableness of the audit queue.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

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

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

Program Name: Children’s Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$242,758,000)
93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: 05-0905IL5021/05-0805ILMSEA (93.767)
(CFDA Number) 05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-0905IL5028/05-0905ILARRA (93.775/93.777/
93.778/93.778 ARRA)

Questioned Costs: None

Finding 09-19 *Untimely Completion of Medicaid Eligibility Quality Control Reviews*

DHFS did not complete Medicaid Eligibility Quality Control (MEQC) reviews in a timely manner.

The DHFS Office of the Inspector General (OIG) is responsible for performing and reporting the results of quality control reviews of beneficiary eligibility determinations performed by the State for the Medicaid and CHIP programs. In place of the traditional MEQC program, the OIG participates in various MEQC pilot programs which target specific eligibility risk areas. Those pilot programs include an Income Verification Review (Income), Redetermination Accuracy Review (Redetermination), Health Benefits for Workers with Disabilities Review, and Passive Redeterminations. The reviews are performed on a federal fiscal year basis for a sample of cases selected from a population of all active beneficiary cases of the Medicaid Cluster and Temporary Assistance for Needy Family programs. These reviews are designed to assist the State in monitoring the accuracy of eligibility determinations and the appropriateness of medical payments made on the behalf of beneficiaries. The results of these reviews are required to be reported to the Center for Medicare and Medicaid Services (CMS) within ten months of the end of the applicable fiscal year.

During our review of 20 pilot program reviews (10 Redetermination reviews and 10 Health Benefits for Workers with Disabilities reviews) completed in fiscal year 2009, we noted reviews were not completed within a reasonable timeframe. Specifically, we noted the reviews were completed as follows:

Timeframe	Number of Reviews
0-60 days	7
61-120 days	2
121-180 days	6
181-240 days	3
240 + days	2

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,

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For Year Ended June 30, 2009

and program compliance requirements. Effective internal controls should include establishing procedures to ensure MEQC reviews are completed in a timely manner.

In discussing these conditions with DHFS officials, they stated they are in compliance with the federal requirements as stated in the MEQC pilot guidelines.

Failure to complete MEQC reviews in a timely manner may prevent the State from identifying unallowable beneficiary payments and from adequately monitoring the accuracy of eligibility determinations and redeterminations. (Finding Code 09-19, 08-21)

Recommendation:

We recommend DHFS review its current process for performing MEQC reviews and consider changes necessary to ensure reviews are completed in a timely manner and summary reports are submitted within the timeframes required by CMS.

DHFS Response:

The Department respectfully disagrees with the finding. The OIG provided KPMG all guidance as prescribed by the federal government in relation to the MEQC pilot requirements. Per federal CMS, the guidelines for conducting MEQC pilots are:

Requirement #1 - the submittal of a sampling plan - includes a response to each of the areas (purpose, method, cost-effective, training, etc.) listed in the March 1999 letter

Requirement #2 - maintaining MEQC staffing levels by redirecting staff in a maintenance effort that equals or exceeds current program requirements

(Program requirements for the traditional MEQC included 875 required case reviews each six month sampling period at 7.8 hours each totaling 13,650 hours annually)

Requirement #3 - the submission of findings by August 1 for the previous year's reviews

The OIG also provided KPMG all documentation to support compliance with the MEQC pilot requirements.

Requirement #1 - Submitted a sample plan on August 10, 2007 and received approval on September 27, 2007,

Requirement #2 - Maintained MEQC staffing levels by completing at least 13,650 hours annually, and

Requirement #3 - Submitted the summary of findings on July 29, 2009.

To address KPMG's concerns on the timeliness of reviews, the OIG performed an evaluation (which was shared with KPMG) of all 689 reviews associated with the HBWD pilot, which is the review associated with the KPMG audit period. The evaluation found 2 out of 689 cases reviewed (or less than 3 tenths of 1 percent), whereas, for those cases that required a corrective action following the MEQC review, the local office was not notified within 210 days. The 210 day timeframe was utilized as this is associated with the Traditional MEQC guidelines, whereas the pilot reviews do not stipulate

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a time line. This 100% analysis was performed to address the control risk as identified by KPMG and resulted in less than a .3% materiality impact.

Auditors' Comment:

As discussed in the finding above, of the 20 case reviews tested, five (or 25%) were completed more than 180 days after they began. We acknowledge there is not a timeframe identified in the regulations for pilot reviews; however, we do not believe it was the intention of USDHHS to provide unlimited time to complete case reviews.

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For Year Ended June 30, 2009

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: 93.563/93.563 ARRA (\$137,228,000)

Award Numbers: 0704IL4004/0804IL4004/0904IL4002/0904IL4002

Questioned Costs: None

Finding 09-20 *Inadequate On-Site Monitoring Procedures*

DHFS did not perform adequate on-site monitoring procedures for subrecipients of the Child Support Enforcement (Child Support) program.

DHFS passes through Child Support program funding to various local governments within the State to administer particular aspects of operating the program, including locating absent parents, assisting in establishing paternity, obtaining child support obligations, and enforcing support obligations owed by non-custodial parents. DHFS' subrecipient monitoring process includes: (1) providing subrecipients with technical guidance through training sessions and handbooks; (2) performing reviews of monthly expenditure claims documentation; (3) performing physical inventories of equipment purchased with federal funds; (4) performing reviews of monthly programmatic monitoring reports; and (5) performing desk reviews of single audit reports.

During our review of the on-site monitoring procedures performed by DHFS for a sample of 15 subrecipients of the Child Support program with expenditures of \$26,089,973 during the year ended June 30, 2009, we noted DHFS has not developed adequate procedures to monitor all relevant fiscal and administrative processes and controls of its subrecipients. Specifically, on-site monitoring procedures are not performed to determine whether subrecipients are documenting administrative expenditures in accordance with the applicable cost principles or whether subrecipients are following appropriate procurement procedures. The on-site monitoring procedures performed by DHFS primarily focus on verifying information reported by the subrecipient relative to locating absent parents, assisting in establishing paternity, obtaining child support obligations, and enforcing support obligations owed by non-custodial parents and performing physical inventory procedures for Child Support equipment purchases. Although DHFS collects a monthly expenditure claim along with documentation supporting the expenditures reported by the subrecipient, the documentation collected does not provide sufficient detail to allow DHFS to evaluate whether the costs meet the allowable costs criteria in OMB Circular A-87 or whether procurements were performed in accordance with the Illinois Procurement Code.

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 DHFS officials, they stated they believe their procedures are sufficient to allow reasonable evaluation and assurance that the costs meet the allowable costs criteria.

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These procedures include monitoring monthly expenditure claims along with documentation supporting the expenditures reported by the subrecipient.

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 09-20, 08-23)

Recommendation:

We recommend DHFS review its on-site monitoring procedures for subrecipients of its Child Support program and implement changes necessary to ensure procedures performed adequately address all compliance requirements that are direct and material to subrecipients.

DHFS Response:

The Department accepts the finding. The Department is in the process of developing procedures to identify the appropriate subrecipients. In addition, the Department will seek guidance, and follow up, from the internal audit group once they are transferred back to the Department.

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For Year Ended June 30, 2009

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
Low Income Home Energy Assistance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.563/93.563 ARRA (\$137,228,000)
93.568 (\$219,718,000)
93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: 0704IL4004/0804IL4004/0904IL4002/0904IL4002 (93.563)
(CFDA Number) G-0602ILLIE5/G-08B2ILLIEA/G-0901ILLIE2/G-09B2ILLIEA (93.568)
05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-0905IL5028/05-0905ILARRA (93.775/93.777/
93.778/93.778 ARRA)

Questioned Costs: Cannot be determined

Finding 09-21 Failure to Issue Management Decisions on Subrecipient A-133 Findings

DHFS did not issue management decisions on OMB Circular A-133 findings for subrecipients of its Child Support Enforcement program, Low Income Home Energy Assistance Program (LIHEAP) and Medicaid Cluster.

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 are responsible for reviewing the audit 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, DHFS 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 (i.e. six months).

During our testwork over OMB Circular A-133 audit reports for fifteen subrecipients of the Child Support Enforcement program and ten subrecipients of the LIHEAP program with expenditures of \$9,749,000 and \$146,739,000, respectively, during the year ended June 30, 2009, we noted the following:

- The A-133 audit report for a subrecipient of the Child Support Enforcement program and Medicaid Cluster reported three separate instances of noncompliance which were considered material weaknesses and related to both programs. DHFS did not issue a management decision relative to these findings or follow up on the conditions identified in the findings. Amounts passed through to this subrecipient were \$84,030 and \$456,038 for the Child Support Enforcement program and Medicaid Cluster during the year ended June 30, 2009.
- The A-133 audit report for one subrecipient of the Child Support Enforcement program reported the subrecipient did not act upon referrals received from DHFS for the establishment of parentage and enforcement of child support collections within the federally mandated time frames.

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Although DHFS performed procedures to follow up on this finding with the subrecipient and determined the finding had been resolved, DHFS did not issue a management decision relative to this finding. Amounts passed through to this subrecipient were \$655,355 during the year ended June 30, 2009.

- The A-133 report for one subrecipient of the Low Income Home Energy Assistance Program reported a material weakness related to inadequate segregation of duties. Due to the limited number of personnel performing accounting and compliance transactions at the subrecipient, there was a lack of segregation of duties over the accounting and compliance transactions. DHFS did not issue a management decision relative to these findings or follow up on the conditions identified in the findings. Amounts passed through to this subrecipient were \$1,142,890 during the year ended June 30, 2009.

Total federal awards passed through to subrecipients of the Child Support Enforcement and LIHEAP programs were \$20,069,000 and \$216,411,000, respectively, for the year ended June 30, 2009.

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. According to OMB Circular A-133 §__.400(d)(5), a pass-through entity is required to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. 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 findings are followed up on and management decisions are issued within required timeframes.

In discussing these conditions with DHFS officials, they stated that although a management decision was not issued relative to the instances previously identified, follow up was performed on each finding to determine the corrective action plan appeared reasonable.

Failure to follow up and issue management decisions on subrecipient findings 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 09-21, 08-24)

Recommendation:

We recommend DHFS establish procedures to ensure management decisions are issued for all findings affecting its federal programs in accordance with OMB Circular A-133.

DHFS Response:

The Department partially agrees with the finding. The Department has implemented procedures to ensure management decisions are issued for all findings affecting its federal programs in accordance with OMB Circular A-133. This procedure requires utilization of a Corrective Action Review Sheet identifying the applicable DHFS CFDA number along with a description of the entity's corrective action. Approval of the corrective action is obtained from the respective program area prior to issuance of a management decision letter. The Department believes proper procedures were

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followed, in all three cases cited by the auditors, and follow up on the conditions identified in the findings were performed.

Auditors' Comment:

As identified in the finding above, DHFS could not provide documentation supporting management decisions were issued in accordance with OMB Circular A-133.

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For Year Ended June 30, 2009

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
Medicaid Cluster

CFDA # and Program Expenditures: 93.563/93.563 ARRA (\$137,228,000)
93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: 0704IL4004/0804IL4004/0904IL4002/0904IL4002 (93.563)
(CFDA Number) 05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-0905IL5028/05-0905ILARRA (93.775/93.777/
93.778/93.778 ARRA)

Questioned Costs: \$1,300

Finding 09-22 *Inaccurate Allocation of Costs*

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

DHFS administers federal and state programs to provide healthcare coverage for Illinois adults and children. In administering these programs, DHFS 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, DHFS has prepared a PACAP describing its overall organizational structure, the federal programs it administers, and the methodologies it has developed to allocate administrative expenditures to its federal programs.

In order to certify time worked on the federal programs, DHFS requires employees to prepare monthly timesheets. In addition to the individual monthly time sheets, DHFS also requires some of the Bureaus and Divisions to submit quarterly certifications summarizing the total hours worked on the federal programs. These quarterly certifications are used for the purpose of performing cost allocations and are designed to summarize each individual employee's monthly time sheet certifying the number of hours worked per program each month. The quarterly certifications are certified by the respective manager, Bureau Chief, or administrator.

During our review of costs allocated to federal programs during the quarter ended March 31, 2009, we noted the total of hours recorded on monthly employees' time sheets for the Attorney General Office and Division of Medical Programs did not agree to the quarterly certifications provided to DHFS. As a result, the Child Support Enforcement and Medicaid Cluster were erroneously allocated costs totaling \$1,156 and \$144, respectively, during the year ended June 30, 2009.

According to 45 CFR 95.517, a State must claim costs associated with a program in accordance with its approved cost allocation plan. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure time certifications used to allocate costs to the federal program are accurate and consistent with actual payroll records.

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In discussing these conditions with DHFS officials, they stated the allocation errors were the result of staff oversight.

Failure to properly accumulate monthly time reports results in inaccurate allocation of costs to federal programs, which are unallowable. (Finding Code 09-22)

Recommendation:

We recommend DHFS develop procedures to ensure that the quarterly certifications submitted by various Bureaus and Divisions are accurate and consistent with actual payroll records.

DHFS Response:

The Department accepts the finding. Prior period adjustments for the amount of the questioned costs have been made. Additional procedures have been implemented to ensure the quarterly certifications are accurate and consistent with payroll records.

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For Year Ended June 30, 2009

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

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

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: 05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-0905IL5028/05-0905ILARRA

Questioned Costs: None

Finding 09-23 *Inadequate On-Site Monitoring of Subrecipients*

DHFS is not adequately performing on-site monitoring for subrecipients of the Medicaid Cluster.

DHFS passed through approximately \$55,907,000 in Medicaid funding to the Local Education Agencies (LEAs) and County Health Departments (CHDs) during the year ended June 30, 2009 to assist DHFS in identifying students whose families may need Medicaid assistance and to monitor the coordination of the student's medical care. DHFS' subrecipient monitoring process includes: (1) providing subrecipients with technical guidance through training sessions, provider notices, and handbooks; (2) performing data analysis of electronic claims data; (3) performing desk reviews of quarterly administrative claims documentation; (4) performing desk reviews of single audit reports; and (5) performing on-site reviews of subrecipient operations.

During our review of the monitoring procedures performed by DHFS for 30 subrecipients, we noted DHFS has not established measurable selection criteria for determining which subrecipients will be subject to on-site monitoring procedures on an annual basis. Although DHFS has established a risk based approach to selecting subrecipients for desk reviews of administrative claims, DHFS was unable to adequately demonstrate the correlation between subrecipients identified as high risk for desk reviews and those selected for on-site reviews. We noted only 109 LEAs and three CHDs were subject to on-site reviews out of approximately 893 LEAs and 84 CHDs that received Medicaid funding during the year ended June 30, 2009.

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. 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 for identifying which subrecipients will be subject to on-site monitoring review procedures.

In discussing these conditions with DHFS officials, they stated they do not believe that a specific score alone should determine when a site visit is warranted.

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 09-23, 08-31)

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Recommendation:

We recommend DHFS develop comprehensive written procedures for determining which subrecipients should be selected for on-site reviews.

DHFS Response:

The Department respectfully disagrees with the finding. A high-risk score initiates a desk review at which time a determination is made as to whether a site visit is warranted. However, the Department does not believe a specific high-risk score should automatically initiate a site visit. With limited administrative resources, it is inefficient to use a risk score alone, without considering other actions that may address the identified risk. For example an LEA may have just received a site visit at the end of the previous fiscal year. In fact, all of the LEAs with high-risk scores that did not have site visits in fiscal year 2009, did receive site visits in fiscal year 2008. These LEAs continued to receive additional scrutiny in fiscal year 2009 as a result of the prior site visit.

The school year in which LEAs claims are prepared does not align with the required fiscal year audit cycle. Monitoring school claims is an on-going process that crosses fiscal years. Monitoring does not end with a site visit. Procedures for conducting a review often builds on previously completed work and may include additional training if such actions will be more effective in correcting a problem.

The Department continues to disagree with just establishing an automatic threshold triggering a site visit and provided additional documentation to the auditors describing why certain site visits were not appropriate.

Auditors' Comment:

As noted in our finding above, DHFS has established a risk based selection method for performing administrative reviews of claims and for performing on-site monitoring procedures. The risk based approach used by DHFS involves the calculation of a numerical score which is used to identify higher risk subrecipients; however, we were unable to identify a correlation between the risk score (the risk assessment) and the subrecipients subject to administrative claim and on-site reviews.

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

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

Program Name: Child Support Enforcement
Low Income Home Energy Assistance Program
Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.563/93.563 ARRA (\$137,228,000)
93.568 (\$219,718,000)
93.767 (\$242,758,000)
93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: 0704IL4004/0804IL4004/0904IL4002/0904IL4002 (93.563)
(CFDA Number) G-0601ILLIE5/G-08B2ILLIEA/G-0901ILLIE2/G-09B2ILLIEA (93.568)
05-0905IL5021/05-0805ILMSEA (93.767)
05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-0905IL5028/05-0905ILARRA (93.775/93.777/
93.778/93.778 ARRA)

Questioned Costs: None

Finding 09-24 Failure to Obtain Suspension and Debarment Certifications from Vendors

DHFS did not obtain required certifications that vendors were not suspended or debarred from participation in Federal assistance programs for the Child Support Enforcement, Medicaid Cluster, Children's Health Insurance Program, and Low Income Home Energy Assistance Program (LIHEAP).

During our review of 15 vendors of the Child Support Enforcement program and 15 vendors allocated to all federal programs, we noted DHFS did not include a suspension and debarment certification in ten of its vendor agreements. As a result DHFS did not obtain a certification that these vendors were not suspended or debarred from participation in Federal assistance programs. Additionally, DHFS did not perform a verification check with the "Excluded Parties List System" (EPLS) maintained by the General Services Administration for vendors.

Payments to vendors allocated to the Child Support Enforcement, Medicaid Cluster, Children's Health Insurance Program, and LIHEAP totaled \$30,873,000, \$250,077,000, \$1,991,149 and \$770,935, respectively, during the year ended June 30, 2009.

According to 44 CFR 17.200, 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.

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In discussing these conditions with DHFS officials, they stated solicitation and contract documents provided by the Department of Central Management Services (CMS) and utilized by CMS and State agencies did not contain adequate suspension and debarment certification language.

Failure to perform verification procedures with the EPLS could result in the awarding of Federal funds to vendors that are suspended or debarred from participation in Federal assistance programs. (Finding Code 09-24)

Recommendation:

We recommend DHFS establish procedures to ensure that vendors contracting with DHFS are not suspended or debarred or otherwise excluded from participation in Federal assistance programs.

DHFS Response:

The Department accepts the finding. The solicitation and contract documents provided by CMS and utilized by the Department have been updated as of April 25, 2010 and now include required disclosures and certifications for suspension and debarment.

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State Agency: Illinois Department of Healthcare and Family Services (DHFS)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Medicaid Cluster
CFDA # and Program Expenditures: 93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)
Award Numbers: 05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-0905IL5028/05-0905ILARRA
Questioned Costs: None

Finding 09-25 *Failure to Reimburse a Provider For Retroactive Rate Adjustment*

DHFS did not properly reimburse a provider for a retroactive rate adjustment to its Medicaid Percentage Adjustment (MPA) payment rate.

During our testwork of Medicaid Cluster program beneficiary payments, we selected a sample of 125 Medicaid beneficiary payments to review for compliance with eligibility requirements and for the allowability of the related benefits. In our review of a provider reimbursement for one of the Medicaid beneficiary payments selected for our testwork, we noted DHFS calculated the provider reimbursement using a MPA payment rate effective when the reimbursement was vouchered. The reimbursement identified was for an inpatient hospital stay from November 3, 2008 through November 12, 2008 (nine days) to a hospital reimbursed using the diagnosis related groups (DRG) method. Under this method, a hospital's reimbursement is calculated in part by multiplying the MPA rate by the number of covered days. The reimbursement selected in our testwork was calculated using a MPA rate that was subsequently revised on January 26, 2009. The revised rate was retroactive back to October 1, 2008 and covered the payment selected for testwork. However, no adjustment was made to this reimbursement for the retroactive rate revision and the hospital was under reimbursed \$82 due to the error. As a result of this rate revision, this hospital was under reimbursed a total of \$46,795 during the year ended June 30, 2009.

Beneficiary payments to providers selected in our sample totaled \$347,725 for the Medicaid Cluster program. Payments made to providers on behalf beneficiaries of the Medicaid Cluster programs totaled \$7,553,311,000 during the year ended June 30, 2009.

In accordance with 42 CFR 447.15 and the approved Medicaid State Plan, DHFS is required to limit participation in the Medicaid program to providers who accept, as payment in full, the amounts paid by the agency for services rendered to beneficiaries. 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 providers are paid in full and retroactive revisions to reimbursement rates are properly remitted to providers.

In discussing these conditions with DHFS officials, they stated the rate adjustments identified were the result of an appeal by the provider, which was subsequently granted.

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Failure to ensure retroactive rate adjustments are reflected in subsequent provider reimbursements may result in inaccurate provider reimbursements and financial reporting of expenditures. (Finding Code 09-25)

Recommendation:

We recommend DHFS review its current process for calculating provider reimbursements and consider the changes necessary to ensure providers are properly reimbursed anytime reimbursement rates are retroactively revised.

DHFS Response:

The Department accepts the finding and has moved to initiate a more formal follow-up process to assure timely processing of rate adjustments. The rate adjustments identified were the result of an appeal by the provider, which was subsequently granted. Rate adjustments have been identified and forwarded for processing.

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

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

Program Name: Medicaid Cluster
Children's Health Insurance Program

CFDA # and Program Expenditures: 93.767 (\$242,758,000)
93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: 05-0905IL5021/05-0805ILMSEA (93.767)
(CFDA Number) 05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-0905IL5028/05-0905ILARRA (93.775/93.777/
93.778/93.778 ARRA)

Questioned Costs: None

Finding 09-26 *Failure to Obtain Required Disclosures from Providers*

DHFS does not require providers of the Medicaid Cluster to provide specific information related to all required disclosures about ownership and control, business transactions, and criminal convictions.

During our testwork of Medicaid Cluster program providers, we selected a sample of 30 Medicaid providers to review for compliance with provider eligibility requirements. In our review of provider applications and enrollment agreements, we noted the DHFS standard provider applications and agreements did not address all elements of the required disclosures about ownership and control, business transactions, and criminal convictions. Although the standard provider applications and enrollment agreements require providers to comply with all applicable Federal laws and regulations, they do not specifically require providers to disclose and certify the following information:

- each subcontractor in which the provider has an ownership interest of five percent or more;
- the address of each person with an ownership or controlling interest;
- business or familial relationships among the owners and subcontractors disclosed;
- past criminal convictions related to Medicare, Medicaid, or Title XX programs;
- ownership of any subcontractor with whom the provider had business transactions totaling more than \$25,000 during the previous 12-month period if requested by DHFS; and
- significant business transactions between the provider and any wholly owned supplier, or between the provider and any subcontractor, during the previous 5-year period if requested by DHFS.

In accordance with 42 CFR 455 Subpart B, and the approved Medicaid State Plan, providers are required to disclose specific information about ownership and control, business transactions, and criminal convictions. 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 the standard provider applications and enrollment agreements address or capture specific information related to disclosures required by federal regulations.

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In discussing these conditions with DHFS officials, they stated that according to CMS in 2003, the federal disclosure statement (CMS 1513) had been discontinued. Therefore, the Department ceased requiring the CMS 1513 form in September 2007, when its existing stock was exhausted.

Failure to ensure providers of the Medicaid Cluster provide required disclosures about ownership and control, business transactions, and criminal convictions may inhibit the State's ability to determine provider eligibility and could result in payments being made to ineligible providers, which are unallowable. (Finding Code 09-26)

Recommendation:

We recommend DHFS modify the standard provider applications and enrollment agreements to require providers to supply the required information about ownership and control, business transactions, and criminal convictions.

DHFS Response:

The Department partially agrees with the finding. The Medicaid providers reviewed in the sample above had provider disclosure statements, which were provided to the auditors.

Historically, the Department used the federal disclosure statement (CMS-1513), to gather the required information. When Department staff contacted CMS in 2003, they were informed that the form was discontinued June 15, 2003 and no document replaced the form. Therefore, the Department believed that the disclosure requirement had been discontinued.

However, there has always been a requirement on the Provider Application that providers comply with 42 CFR 455 Subpart B. When applicable, providers are to supply documentation to the department that meets the definition of the CFR citation.

In June 2006, CMS redesigned the CMS-1513 and again placed it into production for their providers. In June 2009, the Department instituted a redesigned Enrollment Disclosure Form with the desired information for all new enrolled providers.

Auditors' Comment:

As discussed in the finding above, DHFS did not obtain federal disclosure statements from September 2007 through June 2009 for providers of the Medicaid Cluster. The disclosures referenced by DHFS in the provider applications and enrollment agreements are general in nature and do not include specific disclosures on ownership and control, business transactions, and criminal convictions.

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

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

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: 05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-0905IL5028/05-0905ILARRA

Questioned Costs: Cannot be determined

Finding 09-27 Failure to Obtain Documentation of Assignment of Medical Support Rights

DHFS did not obtain written documentation from beneficiaries of the Medicaid Cluster program documenting they had assigned their rights to medical support payments to the State.

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. DHFS 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 Medicaid Cluster program benefits are being received.

During our testwork over the Medicaid programs, we selected eligibility files for 125 Medicaid beneficiaries to review for compliance with eligibility requirements and for the allowability of the related benefits. Specifically, we noted the case file for one Medicaid beneficiary selected for testwork 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 signed by the beneficiary. The medical assistance payment made on behalf of this beneficiary selected for our testwork was \$58. Medical assistance payments made on behalf of the Medicaid beneficiary selected for our testwork during the year ended June 30, 2009 were \$3,378.

Beneficiary payments selected in our sample totaled \$347,725. Payments made on behalf of beneficiaries of the Medicaid Cluster program totaled \$7,553,311,000 during the year ended June 30, 2009.

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. 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 assignment of rights statements are on file for all program beneficiaries.

In discussing these conditions with DHFS officials, they stated this resulted from human error and was an inadvertent oversight by staff.

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Failure to obtain documentation that Medicaid recipients have assigned their rights to medical support payments from third parties to the State may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 09-27)

Recommendation:

We recommend DHFS obtain written documentation of the assignment of medical support rights from all Medicaid beneficiaries.

DHFS Response:

The Department accepts the finding. It is the Department's policy to obtain a signature on all applications, but the Department acknowledges that, in one isolated incident, a case was missing the signature page. The case in question had been transferred from the Department of Human Services to DHFS. By the time of the audit, DHS had sent the record containing the original assignment of medical support rights to storage and DHFS was advised that it had been destroyed. For that reason it could not be retrieved. DHFS has since obtained a new signature page assigning medical support rights to the State for this case. The ultimate solution for this kind of error will be to adopt electronic imaging for managing all cases. In the meantime, DHFS will work with DHS to minimize the chance of pages being lost from case records especially when they are transferred between the two agencies.

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For Year Ended June 30, 2009

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

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

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: 05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-0905IL5028/05-0905ILARRA

Questioned Costs: None

Finding 09-28 *Inadequate Cash Management Procedures*

DHFS does not have adequate procedures in place to ensure Medicaid Cluster program cash draws are performed in accordance with the Treasury-State Agreement (TSA).

Annually, the State of Illinois negotiates the Treasury-State Agreement with the US Department of the Treasury which details the funding techniques to be used for the drawdown of federal funds. The TSA requires DHFS to draw Medical Cluster program funds passed through to Local Education Agencies (LEA) using the direct administrative costs – drawdowns at fixed intervals method. This funding technique requires DHFS to request funds based on actual cash outlays for direct administrative costs during the month. Because the funding technique is on a reimbursement basis, it is interest neutral.

During our testwork over 60 payments to subrecipients of the Medicaid Cluster program, we noted the State's cash draws for payments to LEAs were performed on an advance basis (prior to paying the LEAs). Upon review of all cash draws for payments to LEAs during the year ended June 30, 2009, we noted the number of days cash was drawn in advance of actual cash outlays ranged from one to 82 days.

According to 31 CFR 205.11(b), a State must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs. 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 TSA.

In discussing these conditions with DHFS officials, they stated since these funds are not drawn till after acceptance of the Department's federal claim, they do not believe the TSA applies to these transactions.

Failure to draw funds in accordance with the US Treasury Regulations could result in an interest liability to the Federal government. (Finding Code 09-28, 08-33)

Recommendation:

We recommend DHFS implement procedures to ensure cash draws are performed in accordance with the Treasury State Agreement.

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DHFS Response:

The Department respectfully disagrees with the finding. The transactions reviewed by the auditors are not Medicaid payments and have no relevance to the Treasury State Agreement (TSA). The transactions the auditors reviewed are transfers of federal financial participation (FFP) that have been received by the department as a result of a prior Medicaid expenditure by the local education agency (LEA).

LEAs incur costs on behalf of the Medicaid program. The LEA transmits documentation of its costs incurred, in support of the Medicaid program, to the department. Those costs are included in the Department's federal claim and FFP is drawn after the claim has been accepted by the federal Centers for Medicare and Medicaid Services. The non-acceptance of an LEA expenditure as a claimable transaction when that expenditure is made by the LEA is a fundamental misunderstanding of the Medicaid program on the part of the auditors. LEAs may, and do, provide necessary services (e.g., speech therapy) and administer certain portions of the Medicaid program. Section 2560.4(F) of the (federal) State Medicaid Manual states:

“For the purpose of expenditures for financial assistance under Title XIX, ‘State Agency’ means any agency of the State, including the State Medicaid agency, its fiscal agents, a State health agency, or any State or local organization which incurs matchable expenses . . .”

Paragraph (G)(1)(a)(1) of the same section states, “. . . the expenditure is made when it is paid or recorded, whichever is earlier, by any State agency. Public providers are those that are owned or operated by a State, county, city, or other local government agency or instrumentality.”

LEAs are local governments, as federally defined, incurring Medicaid expenditures. As the qualifying Medicaid program expenditures have already been incurred by the LEAs prior to reporting the same to the department, the department is able to comply with 31 CFR 205.11(b) and limit the draw to the exact amount required. The transfer of federal funds reviewed by the auditors has no bearing on the TSA.

Auditors' Comment:

As stated above, the TSA requires DHFS to draw Medical Cluster program funds passed through to LEA's (subrecipients) using a reimbursement based funding technique. The TSA specifically states: “The amount of the request shall be based on the amount of the actual cash outlays for direct administrative costs during the month.” As the TSA governs the timing of cash draws between the State and the federal government, a reimbursement based funding technique requires funds to be paid to the LEA's by the State prior to requesting reimbursement from the federal government. Our testing and discussions with management identified that DHFS' practice is to draw these fund in advance of paying the LEA's which is in violation of the TSA and may result in an interest liability to the US Treasury.

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For Year Ended June 30, 2009

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 (\$219,718,000)

Award Numbers: G-0602ILLIE5/G-0702ILLIE2/G-07B2ILLIEA/G-08B2ILLIEA

Questioned Costs: None

Finding 09-29 *Failure to Include Interest Calculation Methodology in the Treasury State Agreement*

DHFS did not include a method for calculating an interest liability for the Low Income Home Energy Assistance Program (LIHEAP) in the Treasury State Agreement (TSA).

Annually, the State of Illinois negotiates the TSA with the US Department of Treasury (the Treasury), which details the funding techniques to be used for the drawdown of federal funds and the methods to be used for calculating State and Federal interest liabilities. The TSA is required to include all major federal assistance programs (defined as programs exceeding \$60 million in expenditures) based on the most recent single audit data available. During our testwork over the June 30, 2008 interest liability calculation (submitted in fiscal year 2009), we noted the TSA does not include a methodology for calculating an interest liability for the LIHEAP program. As a result, DHFS calculated its 2008 interest liability using a methodology included in the TSA for another State agency (the Illinois Department of Commerce and Economic Opportunity), which followed the same funding technique for its federal programs. However, this interest liability calculation methodology has not been approved in the TSA for the LIHEAP program.

According to 31 CFR 205.9(g), a State must include the methods used by the State and the Federal agencies to calculate interest liabilities. 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 TSA includes interest calculation methods for all federal assistance programs covered by the agreement.

In discussing these conditions with DHFS officials, they stated the TSA was amended to include the LIHEAP program under DHFS, but a reference to the LIHEAP program in a later section of the TSA describing DHFS' program methodologies was inadvertently omitted.

Failure to include methods for calculating interest liabilities in the TSA for major programs using advance funding techniques may result in an improper calculation of the State's interest liability to the Federal government. (Finding Code 09-29, 08-34)

Recommendation:

We recommend DHFS work with the Governor's Office of Management and Budget to ensure the methods for calculating interest liabilities for all major federal assistance programs are included in the TSA.

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DHFS Response:

The Department accepts the finding and implemented the recommendation for the TSA for the year ended June 30, 2009.

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For Year Ended June 30, 2009

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

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

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: 05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-0905IL5028/05-0905ILARRA

Questioned Costs: None

Finding 09-30 Failure to Perform Cash Management Reconciliations Timely

DHFS did not complete quarterly cash management reconciliations of cash draws to actual expenditures for assistance payments made under the Medicaid Cluster in a timely manner which resulted in errors in its expenditure claim report not being identified timely.

DHFS' cash management process includes making assistance cash draws on a daily basis based on actual warrants issued the previous day, an estimate of the agency's overall federal participation rate, and any expected refunds. At the end of each quarter, DHFS reports actual assistance expenditures of the Medicaid Cluster to USDHHS through the claim reporting process. Since cash draws are performed using an estimate throughout the quarter, on a quarterly basis DHFS reconciles cash draws performed during the quarter to actual expenditures, as reported on the quarterly expenditure claim report, to calculate whether DHFS is in a net overdrawn or underdrawn position. Based on the results of this reconciliation process, DHFS adjusts future cash draws to ensure the amount of funds drawn match actual expenditures.

During our audit, we noted DHFS did not perform these reconciliations as it relates to assistance payments for the quarters ending March 31, 2009 and June 30, 2009 in a timely manner and did not adjust future cash draws based on the results of these reconciliations. Based on the results of these reconciliations, we noted the agency was in an overdrawn position of \$178,023,000 as of March 31, 2009 and an underdrawn position of \$145,090,000 as of June 30, 2009. In addition, upon investigating the overdrawn position as of March 31, 2009, DHFS discovered \$112,679,000 of claimable expenditures was excluded from the March 31, 2009 quarterly expenditure claim report in error. Since this reconciliation was not performed timely, the error was not discovered in time to include the expenditures in the March 31, 2009 quarterly expenditure claim. As a result the expenditures were claimed as a prior period increasing adjustment on the subsequent quarterly expenditure claim.

According to 31 CFR 205.11(b), a State must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs. 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 draw reconciliations are performed timely to ensure funds requested meet actual cash needs and reconciling items can be resolved in a timely manner.

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In discussing these conditions with DHFS officials, they stated the reconciliations fell behind due to an unexpected staffing vacancy and the resulting re-training and re-assignment of duties.

Failure to perform the cash management reconciliations of cash draws to actual expenditures for assistance payments for the Medicaid Cluster in a timely manner may result in the State requesting funds in excess of actual and immediate cash needs. (Finding Code 09-30)

Recommendation:

We recommend DHFS implement procedures to ensure assistance reconciliations of the Medicaid Cluster are performed and completed in a timely manner and that adjustments needed as a result of those reconciliations are made to future draws.

DHFS Response:

The Department accepts the finding. Reconciliations have been completed through the most recent quarters claim and all adjustments are scheduled for completion by June 30, 2010. The quarterly reconciliation process was re-assigned to a full-time staff position in fiscal year 2010.

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For Year Ended June 30, 2009

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: 93.563/93.563 ARRA (\$137,228,000)

Award Numbers: 0704IL4004/0804IL4004/0904IL4002/0904IL4002

Questioned Costs: None

Finding 09-31 *Failure to Properly Perform Non-Custodial Parent Location Procedures*

DHFS did not conduct interviews with custodial parents in a timely manner.

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 two cases (3%) in which interviews with custodial parents were scheduled late, ranging from one to 64 days after the referral or receipt of application.

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. 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 non-custodial parent location procedures are performed within required timeframes.

In discussing these conditions with DHFS officials, they stated the two cases identified in the finding were inadvertent staff errors.

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 09-31, 08-28, 07-27, 06-23, 05-37, 04-32, 03-29, 02-15, 01-04)

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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 accepts the finding. Although the Department continues to improve in this area, the Department's Division of Child Support Enforcement (DCSE) will continue to review cases that are identified in audits and routine casework where case management action has not occurred appropriately. The Illinois Child Support program is a highly automated program. Where appropriate, DCSE will refer the audit cases to the appropriate workgroup for review. Department staff is reminded on a continuing basis at their monthly staff meeting and quarterly Field Operations leadership meeting regarding the necessity to document all actions taken on a case.

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

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

Program Name: Child Support Enforcement

CFDA # and Program Expenditures: 93.563/93.563 ARRA (\$137,228,000)

Award Numbers: 0704IL4004/0804IL4004/0904IL4002/0904IL4002

Questioned Costs: None

Finding 09-32 *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;

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- 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.

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 four and 378 days after the required federal timeframe.

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

In discussing these conditions with DHFS officials, they stated they disagree with the two initiating case exceptions and the one responding case exception was due to worker oversight.

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 09-32, 08-29, 07-28, 06-24)

Recommendation:

We recommend DHFS review its procedures for managing interstate cases and implement any procedures necessary 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 partially accepts the finding. One of the cases cited was federally closed prior to the audit period, there were no child under 18 (emancipation) and the only reason the case was marked initiating interstate was to document payments from the other State (Iowa). The Department agrees with the other case cited and is engaged in ongoing continuous process improvement efforts focusing on the area of interstate case processing. These include conducting annual interstate case reconciliation processes between OCSE and the State, reviewing monthly newly initiated interstate cases, and identifying needed PIR's for priority production.

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Auditors' Comment:

In our testwork, we noted the non-custodial parent was located on December 5, 2008 in the responding state and the case was subsequently coded as an initiating interstate case and forwarded to the central case registry on January 5, 2009 which was four days in excess of 20 calendar day federal requirement. Department management stated that this case was not subject to the required timeframes and procedures for initiating interstate cases since the case was federally closed prior to our audit procedures, had no children under 18, and was only marked initiating interstate to document payments from the other State; however, an open support order against the non-custodial parent was currently being enforced under the case tested.

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

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

Program Name: Child Support Enforcement

CFDA # and Program Expenditures: 93.563/93.563 ARRA (\$137,228,000)

Award Numbers: 0704IL4004/0804IL4004/0904IL4002/0904IL4002

Questioned Costs: None

Finding 09-33 *Failure to Establish Support Orders Within Required Timeframe*

DHFS did not adequately perform procedures to ensure support orders were established within required time frames.

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 60 child support cases, we noted one case (2%) for which DHFS did not initiate support order procedures within the federally prescribed 90-calendar day timeframe. The delay in establishing the support order was 43 days in excess of the 90 calendar day requirement.

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

In discussing these conditions with DHFS officials, they stated they disagree with the finding.

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 09-33, 08-30, 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.

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DHFS Response:

The Department respectfully disagrees with the finding. The Department referred the case in question to the Cook County State's Attorney on 1-5-08, 41 days from receipt of the case and completed service of process on 1-29-08, 55 days from the other states request. The final court order was made retroactive back to the date of service, 1-29-08. The Department will continue to ensure that procedures are followed and support orders are established within the required timeframes.

Auditors' Comment:

In our testwork, we noted the non-custodial parent was located on October 21, 2008 and the support obligation court order was processed on March 3, 2009 which was 43 days in excess of 90 calendar day federal requirement. Department management stated that the dates referenced in the response above are the retroactive dates on which the support order was effective; however, these dates are not relevant to the condition identified in this finding.

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

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

Program Name: Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$242,758,000)
93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: 05-0905IL5021/05-0805ILMSEA (93.767)
(CFDA Number) 05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-0905IL5028/05-0905ILARRA (93.775/93.777/
93.778/93.778 ARRA)

Questioned Costs: None

Finding 09-34 *Failure to Include Allocation Methodology in the PACAP*

DHFS did not include an allocation methodology in the Public Assistance Cost Allocation Plan (PACAP) to allocate certain cost centers to the CHIP and Medicaid programs.

DHFS administers federal and state programs to provide healthcare coverage for Illinois adults and children. In administering these programs, DHFS 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, DHFS has prepared a PACAP 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 DHFS. DHFS has developed the methodologies for allocating costs to its programs, which DHFS 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, 2009, we noted the PACAP did not prescribe an allocation methodology to allocate costs for the "Special Assistant for HIPAA and Computer" cost center. As a result, DHFS used the Medical Allocation methodology prescribed for other cost centers allocated to the CHIP and Medicaid Cluster to allocate these cost centers; however, this method was not approved for this cost center. After this item was identified in the 2008 audit, DHFS submitted a PACAP amendment to include this methodology effective April 1, 2009.

According to 45 CFR 95.507(b), a cost allocation plan must include all organizational units, a description of the activities performed by each organizational unit and the procedures used to allocate all costs from each organizational unit to the benefiting programs. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure all allocation methodologies used are appropriately defined in the PACAP.

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In discussing these conditions with DHFS officials, they stated an amendment to clarify the PACAP language was submitted in May 2009.

Failure to include cost allocation methodologies in the PACAP may result in disallowances of costs. (Finding Code 09-34, 08-32)

Recommendation:

We recommend DHFS implement procedures to ensure allocation methodologies are included in its PACAP for all cost centers.

DHFS Response:

The Department accepts the finding and has implemented the recommendation. The Department submitted an amendment to its PACAP with an effective date of April 1, 2009 clarifying the language regarding the allocation of the "Special Assistant for HIPPA and Computer." The USDHHS Division of Cost Allocation approved the amendment in October of 2009 effective April 1, 2009. The Department believes the allocation methods for all cost centers are now appropriately defined in the PACAP.

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

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

Program Name: Adoption Assistance

CFDA # and Program Expenditures: 93.659/93.569 ARRA (\$91,103,000)

Award Numbers: 0901IL1407/0801IL1407/0701IL1407

Questioned Costs: \$2,930

Finding 09-35 *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 in one case, 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 this child totaling \$2,930 during the year ended June 30, 2009.

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

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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 stated the document requested for the case opened in 1993 was received a number of years ago and was thought to have been filed with in the original case file. When the file was retrieved, the determination needed was not included and apparently had been misplaced.

Failure to maintain case file documentation, including initial judicial determinations, could result in payments to ineligible beneficiaries, which are unallowable costs. (Finding Code 09-35, 08-38, 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 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 recently instituted a pre-subsidy completion review process in order to assure that all required documentation is in the records before claiming. Changes are made, as necessary after on-going reviews, to procedures for obtaining and retaining documents to ensure copies initial judicial determinations and other required documents are retained for all children. DCFS will also conduct an additional review for the one missing document and, if obtaining a copy of the determination is not possible, the Department will make the appropriate claiming adjustment for actual amount claimed for the one beneficiary payment questioned by the auditor.

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

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

Program Name: Temporary Assistance for Needy Families Cluster
Foster Care – Title IV-E
Adoption Assistance
Social Services Block Grant

CFDA # and Program Expenditures: 93.558 (\$545,739,000)
93.658/93.658 ARRA (\$219,135,000)
93.659/93.659 (\$91,103,000)
93.667 (\$108,690,000)

Award Numbers: G0901ILTANF/G0801ILTANF (93.558)
(CFDA Number) 0801IL1401/0701IL1401/0901IL1401 (93.658/93.658 ARRA)
0801IL1407/ 0701IL1407/0901IL1407 (93.659/93.659 ARRA)
G-0901ILSOSR2/G-0701ILSOSR/G-0801ILSOSR (93.667)

Questioned Costs: None

Finding 09-36 *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 Cluster, Foster Care Title IV-E, Adoption Assistance, and Social Services Block Grant programs.

In our sample of 60 subrecipient monitoring files out of a total of 177 subrecipients, we noted that on-site fiscal and administrative monitoring procedures were performed for only four subrecipients. Upon further discussion with management, we noted that on-site monitoring procedures have only been performed for 17 of 177 total subrecipients of the Temporary Assistance for Needy Families Cluster, Foster Care Title IV-E, Adoption Assistance, and Social Services Block Grant programs during the year ended June 30, 2009. 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 2009, 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 the desk review, which is the annual review of audited financial statements, OMB A-133 audits, and related reports from the provider's independent CPA's (annual audit package), is the principle basis for the fiscal monitoring of subrecipients. The annual audit package contains reports and findings issued by licensed accountants with professional credentials to review recipients of federal funding. Audit packages are received from all agencies that receive over \$150,000 during the State's fiscal year. Over 200 agencies are required to submit the annual audit package, and a desk review is performed on all annual audit

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packages required to be submitted. The desk review program is the most effective and cost efficient method for DCFS to monitor sub-recipients' activities, and provide reasonable assurance that the sub-recipient administers federal awards in compliance with federal requirements. On-site reviews are also used when the assessment of risk so indicates the necessity, and staff resources are available. The majority of reports received do not contain major issues and DCFS providers do not make eligibility determinations for care services reimbursed by the Department which would be a primary cause for ineligible services. Those sub recipients selected for field visits are generated from the desk reviews completed in the prior year that have notable negative issues. Auditors contact the Department's programmatic monitors and the licensing representatives to discuss and share any potential problems at the sub recipients to aid in the scheduling of on-site visits, and prioritize on-site audit activities.

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 09-36, 08-39, 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.

Future schedules for on-site reviews will prioritize visits to agencies not previously visited, or visited years ago. The ability of DCFS to conduct more on-site visits each year is dependent upon the Department's ability to hire additional staff, and implement improvements in efficiency. Staff size is dependent on the State's financial position. Proposals to improvements in efficiency must be developed, and evaluated in the field. Therefore, specific projections of the number of on-site fiscal reviews that will be conducted in the future cannot be made at this time.

The Department has also begun initiatives to increase productivity by improving efficiency of its staff and seek other resources to obtain increased coverage. The efforts are on-going, but the resources to implement the changes required are not currently available, therefore, efforts to increase the scope of the department's mission, improve efficiency, improve on-site monitoring tools, and increase the number of on-site visits to sub-recipients, have been adversely affected.

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

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

Program Name: Adoption Assistance

CFDA # and Program Expenditures: 93.659/93.659 ARRA (\$91,103,000)

Award Numbers: 0901IL1407/0801IL1407/0701IL1407

Questioned Costs: Cannot be determined

Finding 09-37 *Failure to Ensure That Adoption Assistance Recertifications Are Performed On A Timely Basis*

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

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

During our review of the eligibility for 50 beneficiaries receiving recurring subsidy payments under the adoption assistance program, we noted seven 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 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 09-37, 08-41, 07-39, 06-36)

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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 has instituted a multi-step routine, automated adoption recertification process which should ensure that all recertification's are performed timely.

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

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

Program Name: Foster Care – Title IV-E
Adoption Assistance

CFDA # and Program Expenditures: 93.658/93.658 ARRA (\$219,135,000)
93.659/93.659 ARRA (\$91,103,000)

Award Numbers: 0801IL1401/0701IL1401/0901IL1401 (93.658/93.658 ARRA)
(CFDA Number) 0801IL1407/ 0701IL1407/0901IL1407 (93.659/93.659 ARRA)

Questioned Costs: None

Finding 09-38 *Failure to Separately Identify ARRA Expenditures*

DCFS did not separately identify expenditures from American Recovery and Reinvestment Act (ARRA) awards under the Foster Care and Adoption Assistance programs.

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 SCO forms prepared by DCFS, we noted DCFS did not separately identify corresponding expenditures that resulted from enhanced federal participation rates under ARRA for the Foster Care and Adoption Assistance programs. Specifically, we noted DCFS received approximately \$6,083,000 and \$6,810,000, from enhanced federal participation rates under ARRA for the Foster Care and Adoption Assistance programs, respectively. However, the corresponding expenditures from the enhanced federal participation rates were reported with federal expenditures from non-ARRA awards. Upon identification during our audit, DCFS prepared revised SCO forms which resulted in the expenditures being properly reported in the SEFA and data collection form.

According to the OMB Circular A-133 Compliance Supplement Addendum #1, dated June 2009, and 2 CFR 176.210, recipients of ARRA award must, among other things, (1) maintain records that identify the source and application of ARRA awards, and (2) provide identification of ARRA awards in their SEFA and Data Collection Form.

In discussing these conditions with DCFS officials, they stated the SCO forms were filed with the Comptroller by the original due date following instructions provided at that time. However, due to subsequent changes in the forms by the Comptroller additional information was provided when requested and included an allocation of expenditures to reflect enhanced rate expenditures for ARRA proposes from regular program expenditures.

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Failure to separately identify and report expenditures under ARRA awards inhibits the ability of USDHHS to monitor and evaluate compliance with ARRA specific requirements applicable to the Foster Care and Adoption Assistance programs. (Finding Code 09-38)

Recommendation:

We recommend DCFS review the current process for reporting financial information to the IOC and implement changes necessary to ensure expenditures under ARRA awards are separately identified.

DCFS Response:

The Department agrees and has discussed these issues with and continues to request assistance and training from the State Comptroller's Office for preparation of SCO Forms. The Department's financial statements and SEFA are compiled by the Comptroller's Office from the SCO forms submitted by the Department. DCFS will continue to strive to provide the information to the Comptroller's office within the stringent timeframes established for it and DCFS agrees to support all efforts by the Office of the Comptroller to modernize the financial reporting infrastructure.

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

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

Program Name: Child Welfare Services – State Grants

CFDA # and Program Expenditures: 93.645 (\$13,413,000)

Award Numbers: G-0801IL1400/G-0901IL1400

Questioned Costs: None

Finding 09-39 *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-E, Child Welfare Services requires that an initial case plan must be developed for each child within 60 days of placement.

During a review of 60 case files selected for testwork, we noted nineteen of the initial case plans were completed within a range of two to 81 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 stated 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 09-39, 08-40, 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.

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DCFS Response:

The Department agrees and continues to stress the importance of adequate and timely documentation for child case files through training and communications to all case staff. 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. Additionally, a workgroup has established a plan to implement changes to procedures in order to timely prepare service plans and resolve the matters that cause delays as well as provide an on-going monitoring of timeliness. That implementation project is continuing. We continue to stress the importance of adequate and timely case planning as a key component of providing quality service to children.

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State Agency: Illinois Department on Aging (IDOA)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Aging Cluster
CFDA # and Program Expenditures: 93.044/93.045/93.053 (\$47,868,000)
Award Numbers: 09AAILT3SP/09AAILNSIP/08AAILT3SP/08AAILNSIP
Questioned Costs: None
Finding 09-40 *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 performs on-site programmatic monitoring procedures on the Advisory Councils for each area agency once every three years. 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 over eight subrecipients of the Aging Cluster with total expenditures of approximately \$24,092,000, we noted on-site monitoring procedures had not been performed since 1998 for any the subrecipients selected. Upon further discussion with Agency personnel, we noted fiscal on-site monitoring procedures were not performed during the year ended June 30, 2009. However, during the fiscal year, we noted IDOA has implemented a pilot program to perform specific on-site reviews over internal controls related to the operation of the program at each AAAs. The reviews were only over internal controls in place and there were no reviews over financial or programmatic records to ensure the federal awards were used for authorized purposes in compliance with laws and regulations, and the provisions of the grant agreement. These reviews were performed for only one quarter at each of the AAA's. Total awards passed through to subrecipients were approximately \$45,961,000 during the year ended June 30, 2009.

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 the Department needed to update its review tool to be consistent with the latest standards outlined in OMB Circular A-133.

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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 09-40, 08-42, 07-40, 06-38, 05-52, 04-38, 03-36)

Recommendation:

We recommend IDOA perform periodic on-site reviews of all subrecipients 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:

The Department concurs in the finding and recommendation. Although staffing shortages may be a given and certainly contribute to the finding, it is nonetheless important to monitor our subrecipients. The Department will continue the development of procedures concerning the responsibilities of the subrecipient review process.

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State Agency: Illinois Department on Aging (IDOA)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Aging Cluster
CFDA # and Program Expenditures: 93.044/93.045/93.053 (\$47,868,000)
Award Numbers: 09AAILT3SP/09AAILNSIP/08AAILT3SP/08AAILNSIP
Questioned Costs: None

Finding 09-41 *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 staffs are responsible for evaluating the type of audit opinion issued (i.e. unqualified, qualified, and 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 \$24,092,000 we noted the following regarding the desk review process:

- 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. Additionally, a desk review was not completed for this subrecipient. Amounts passed through to this subrecipient approximated \$9,939,000 during the year ended June 30, 2009.
- Evidence of a supervisory review of an A-133 desk review checklist was not documented for one subrecipient. Amounts passed through to this subrecipient approximated \$2,005,000 during the year ended June 30, 2009.

Total awards passed through to subrecipients of the Aging Cluster were approximately \$45,961,000 during the year ended June 30, 2009.

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 2009, 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

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timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

In discussing these conditions with IDOA officials, they stated that the missing reconciliation of federal expenditures and the desk review was not completed for this client due to insufficient staffing resources to perform detailed follow-up and review with the subrecipient. Staffing re-allocations are being implemented which will provide the additional resources needed to managing this complicated subrecipient.

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 09-41, 08-43, 07-41, 06-39)

Recommendation:

We recommend IDOA establish procedures to ensure that: (1) desk reviews are performed on a timely basis for all subrecipients, (2) expenditures reported by the subrecipients are reconciled to the schedule of expenditures of federal awards submitted in the OMB Circular A-133 audit reports, and (3) supervisory reviews are documented to evidence their completion.

IDOA Response:

The Department concurs in the finding and recommendation. Although staffing shortages have contributed to the finding, the Department will improve upon the current procedures and tools used to perform desk reviews on a timely basis, reconcile the schedule of expenditures of federal awards submitted in the audit report to Department records timely and complete supervisory reviews.

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State Agency: Illinois Department on Aging (IDOA)

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

Program Name: Aging Cluster

CFDA # and Program Expenditures: 93.044/93.045/93.053 (\$47,868,000)

Award Numbers: 09AAILT3SP/09AAILNSIP/08AAILT3SP/08AAILNSIP

Questioned Costs: None

Finding 09-42 *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 accrual expenditures. IDOA will disburse estimated accrual expenditures for the requested period not to exceed 1/12th of the subrecipient's grant award. Each subrecipient is required to maintain the federal funds in an interest bearing account. Upon close out of the grant, the subrecipients certify and remit the interest earned back to IDOA.

During our test work we noted that IDOA requires its subrecipients to prepare a quarterly reconciliation of their net cash position; however, IDOA does not reduce a subrecipient's cash advance if the reconciliation identifies the subrecipient has excess cash on hand. As a result, subrecipients remitted approximately \$98,700 in interest earned on excess federal funds to IDOA. Additionally, IDOA does not have a process in place to determine if the interest remitted is reasonable.

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 92.21 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 subrecipients are not able to provide monthly expenditure reporting, therefore, the actual expenditures are reconciled on a quarterly basis.

Providing subrecipients funding advances of greater than 30 days results in additional costs of financing for the US Treasury. (Finding Code 09-42, 08-44, 07-42, 06-41)

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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 and that the subrecipient interest certified and remitted appears reasonable.

IDOA Response:

The Department concurs in the finding and recommendation. The Department will review its policies and procedures for advance funding with program managers and fiscal staff to develop a methodology that will assist in creating a more efficient projection of the 30 day advance funding.

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State Agency: Illinois Department of Public Health (IDPH)

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

Program Name: HIV Care Formula Grants

CFDA # and Program Expenditures: 93.917 (\$43,777,000)

Award Numbers: 2X07HA00013-18-00/CAN08-3770753/2X07HA00013-19-00/CAN09-3770763

Questioned Costs: Cannot be determined

Finding 09-43 *Inadequate Process for Determining Client Eligibility*

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

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

During our testwork of benefits provided to HIV beneficiaries, we selected 60 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits. We noted the following:

- In seventeen 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 income verification procedures were performed to determine whether the income reported (or lack thereof) was accurate.
- In one case, no verification of income was documented in the beneficiary file.

Additionally, we noted IDPH only recertifies (redetermines) eligibility of beneficiaries on an annual basis, instead of every six months as required by program requirements.

According to 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. According to the Notice of Grant Award for the HIV program dated April 1, 2008 and April 21, 2009, IDPH is required to implement a recertification process, at a minimum, every six months to ensure the program only serves eligible clients.

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Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include procedures to collect and maintain adequate documentation to support eligibility determinations and recertifying the eligibility of beneficiaries every six months.

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

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 09-43, 08-47, 07-46, 06-43, 05-54, 04-40)

Recommendation:

We recommend IDPH implement procedures to (1) verify income and insurance information with third party sources (i.e. employers, third party insurers, etc.) and other state agencies and (2) perform recertifications of eligibility every six months.

IDPH Response:

The department concurs in the finding and recommendation. ADAP staff conduct regular monthly Medicaid enrollment verification with the Illinois Department of Healthcare and Family Services to ensure that ADAP clients were not dually enrolled. IDPH believes that Medicaid enrollment, not Medicaid eligibility, should be the appropriate criterion for determining a beneficiary's eligibility for ADAP. This ensures that needed medicines are provided to clients at the earliest opportunity. Additionally, the Department verifies with the dispensing pharmacy (CVS) upon each fill the insurance and Medicaid enrollment status. When it is determined that an ADAP client has been actively enrolled in Medicaid, the Department's dispensing pharmacy is able to back bill for services to Medicaid. Thus, recapturing expended costs and ensuring that the client has been served.

In an effort to ensure that we are compliant with the audit requirements, a policy change was made on April 1, 2010 for all new clients. All clients who are new or reapplying to ADAP after April 1, 2010 will be required to reapply for ADAP every 6 months.

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For Year Ended June 30, 2009

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 (\$11,641,000)
93.917 (\$43,777,000)

Award Numbers: Various (93.283)
(CFDA Number) 2X07HA00013-18-00/2X07HA00013-19-00 (93.917)

Questioned Costs: None

Finding 09-44 *Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports*

IDPH does not have an adequate process for ensuring subrecipients of the Centers for Disease Control and Prevention – Investigations and Technical Assistance (CDC Investigations and Technical Assistance) program has 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 CDC Investigations and Technical Assistance program, we noted the following:

- There was one subrecipient of the CDC Investigations and Technical Assistance program for which no OMB Circular A-133 audit reports were received. The subrecipient files did not contain any evidence that follow up procedures were performed by IDPH to obtain the missing reports.
- There were two subrecipients of the CDC Investigations and Technical Assistance Program whose A-133 reports were not obtained within the required nine months after the subrecipients year end, and there was no evidence of follow procedures performed by IDPH. Specifically, these reports were received between 49 and 70 days after the nine month requirement.

Additionally, a standard checklist was not used to document the review of subrecipient A-133 reports received from subrecipients of the CDC Investigations and Technical Assistance and the HIV Care Formula Grant programs to determine whether: (1) the audit reports met the audit requirements of OMB Circular A-133; (2) federal funds reported in the schedule of expenditures of federal awards reconciled to IDPH records to ensure subrecipients properly included amounts in the SEFA; and (3) Type A programs were audited at least every three years.

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Subrecipient expenditures under the federal programs for the year ended June 30, 2009 were as follows:

Program	Total Fiscal Year 2009 Subrecipient Expenditures	Total Fiscal Year 2009 Program Expenditures	Percentage
CDC Investigations and Technical Assistance Program	6,370,000	11,641,000	54.7%
HIV Care Formula Grants	6,727,000	43,777,000	15.4%

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 2009, 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 that staffing shortages have limited their ability to meet these requirements.

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 09-44, 08-48, 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 the A-133 desk review checklist which include 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.

IDPH Response:

The Department concurs with the finding and recommendation. Due to limited personnel, the department is admittedly limited in their reviews of OMB Circular A-133 audit reports. The Department does, however, closely review audit reports for the audit opinion issued and the schedule of federal assistance. The Department forwards any applicable findings and management responses

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to appropriate program offices for follow-up. The Department continues to receive audit reports from its subrecipients and has been more diligent in its follow up to obtain any missing reports.

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For Year Ended June 30, 2009

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 Grant

CFDA # and Program Expenditures: 93.283 (\$11,614,000)
93.917 (\$43,777,000)

Award Numbers: Various (93.283)
2X07HA00013-18-00/2X07HA00013-19-00 (93.917)

Questioned Costs: None

Finding 09-45 *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 Formula Care Grant Programs.

IDPH monitors subrecipients of the CDC Investigations and Technical Assistance program 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 quarterly basis, and (4) periodic communication of program requirements. However, IDPH does not perform on-site monitoring procedures to review the fiscal and administrative capabilities and internal controls of any of the subrecipients. Additionally, during our testwork of 30 subrecipients of the CDC Investigations and Technical Assistance program and six subrecipients of the HIV Formula Care Grant, we noted seven CDC Investigations and Technical Assistance subrecipients and one HIV Formula Grant subrecipient was not subject to a regular on-site programmatic review.

Subrecipient expenditures under the federal programs for the year ended June 30, 2009 were as follows:

Program	Total Fiscal Year 2009 Subrecipient Expenditures	Total Fiscal Year 2009 Program Expenditures	Percentage
CDC Investigations and Technical Assistance Program	6,370,000	11,641,000	54.7%
HIV Care Formula Grant	6,727,000	43,777,000	15.4%

In accordance with the OMB Circular A-133 Compliance Supplement, dated March 2009, 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

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audit findings, and to evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

In discussing these conditions with IDPH officials, they stated staffing shortages continue to hamper some routine monitoring efforts.

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 09-45, 08-49, 07-44, 06-44, 05-55, 04-42)

Recommendation:

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

IDPH Response:

The Department concurs in the finding and recommendation. Multiple staffing shortages within the HIV Section have now been filled. These vacancies had previously contributed to this finding. An internal guidance document has been drafted to address onsite evaluations of agencies receiving grant funds to appropriately monitor subrecipients and fulfill our required federal grant oversight function. In spring 2010, all subrecipients of CDC funds will receive at least one site visit. These site visits are conducted by IDPH staff and include both programmatic and fiscal reviews. Quarterly data monitoring has also occurred in Spring 2010. These quarterly reports assess progress toward program objective completion compared with funds expended.

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State Agency: Illinois Department of Public Health (IDPH)

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

Program Name: HIV Care Formula Grants

CFDA # and Program Expenditures: 93.917 (\$43,777,000)

Award Numbers: 6X07HA00013-17-01/1G24HA08494-01-00/2X07HA00013-18-00

Questioned Costs: None

Finding 09-46 *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.

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 requires 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.

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 staffing shortages have prevented proper monitoring.

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 09-46, 08-51, 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.

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IDPH Response:

The Department concurs with the finding and recommendation. The Illinois Department of Public Health has assumed a much more intensive oversight of interagency reporting of MOE expenditures. The greater oversight of other state agency expenditures has ensured that non-IDPH appropriated state expenditures were not otherwise claimed as MOE expenditures for other federal grants. In order to ensure better MOE oversight, IDPH staff met with other state agencies to ensure that reported MOE expenditures corresponded to the appropriate grant reporting periods, thus establishing more effective internal controls of MOE requirements.

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For Year Ended June 30, 2009

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: 93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)

Award Numbers: 05-0705IL5048/05-0805IL5048/05-0905IL5048/05-0705IL5028/
05-0805IL5028/05-0905IL5028/05-0905ILARRA

Questioned Costs: None

Finding 09-47 *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 seven 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 60 complaints filed against Medicaid providers during the year ended June 30, 2009, we identified sixteen complaints that were not investigated within the timeframes required by the State's law. The delays in investigating these complaints ranged from three to 35 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 at least as 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 shortage of staff for this time period, especially in one regional office, contributed to several complaints not being initiated in the required timeframes.

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 09-47, 08-53, 07-48)

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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 with the finding and recommendation. Due to the State's serious budget problems and hiring limitations, the Illinois Department of Public Health's Office of Health Care Regulation has seen a significant reduction in field surveyor staffing, especially in the Chicago area. This staff reduction has resulted in our inability to get some complaint surveys done within the required timeframes. The Office of Health Care Regulation has attempted to meet required timeframes by working overtime and using other out of region staff to assist. These strategies have helped but have not eliminated the problem. The only true solution is to hire more staff.

The Department is hopeful that the passage of Senate Bill 326 will allow the Department to hire more surveyor staff. This bill, which has passed the General Assembly and is awaiting the Governor's signature, will increase IDPH field staffing by as many as 71 positions. If we are able to hire these staff and after training is completed, the Agency should be able to meet all required survey timeframes.

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For Year Ended June 30, 2009

State Agency: Illinois State Board of Education (ISBE)

Federal Agency: US Department of Education (USDE)

Program Name: Title I, Part A Cluster

CFDA # and Program Expenditures: 84.010/84.389 ARRA (\$770,220,000)

Award Numbers S010A050013/S010A060013/S010A070013/S010A080013/S389A090013

Questioned Costs: None

Finding 09-48 *Failure to Sanction Non-Comparable Local Education Agency (LEA) and Inadequate Documentation for Determining Comparability*

ISBE does not take adequate measures to sanction a LEA that did not meet the comparability of services requirement under the Title I, Part A Cluster (Title I).

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, we noted the following:

- ISBE did not sanction one LEA who did not properly calculate comparability ratios or determine the amount of federal funds that should have been returned as a result of the LEA not meeting the comparability requirement. Specifically, ISBE did not sanction the LEA for continuously having non-comparable schools or for including improper salary information in the calculations. During the initial comparability calculation, the LEA had 21 non-comparable schools. To make the schools comparable, the LEA allocated just enough funds (totaling \$1.6 million) to each of the non-comparable schools to make them comparable. However, the LEA only expended \$955,000 of that amount and 20 of the 21 schools remained non-comparable. Further, this LEA continues to improperly include longevity salary information in the calculation.
- ISBE did not follow its established process for one LEA and incorrectly lifted a sanction which froze the LEA’s Title I funds. ISBE froze the LEA’s funding when it submitted an improper comparability calculation but mistakenly lifted the freeze order before the LEA submitted the correct calculation.

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.

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In discussing these conditions with ISBE officials, they stated the non-comparability issue was first raised in the U.S. Department of Education (ED) 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 ED determination of corrective action before the Agency can sanction the LEA. The situation regarding the improper release of frozen funds was the result of an error in determining if other holds were placed on the funds before they were released.

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 09-48, 08-54, 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:

As has been previously stated, ISBE acknowledges that the LEA noted in the finding was not sanctioned when comparability requirements were not met. However, the Agency is still awaiting the final determination of corrective action from the U.S. Department of Education. In its July 1, 2009 Program Determination Letter on ISBE's FY 07 Single Audit findings, the ED Office of Elementary and Secondary Education stated: "As the auditors and ISBE noted, this and other related issues regarding LEAs' compliance with the comparability requirement and ISBE's monitoring of its LEAs' compliance with this requirement are being addressed by the Program Determination Letter (PDL) for the OIG's audit of Illinois (ED-OIG/A05G0033). Because the PDL for ED-OIG/ A05G0033 will be issued in the near future, we are not requiring ISBE to provide corrective actions regarding the comparability issues identified by the auditors in response to the above referenced audit findings. Rather, these matters will be handled through the resolution of the OIG audit, and we consider these findings to be closed." Upon receipt, ISBE will take the corrective action contained in the Program Determination Letter. The Agency continues to work with the LEA cited in the USDE report to ensure their compliance with comparability requirements. For fiscal year 2010, the LEA has revised their process for determining comparability to exclude longevity pay, as required. In addition, this LEA's comparability report for 2010 did not show any noncomparable schools.

ISBE also acknowledges that an error occurred with the release of an LEA's Title I, Part A, program funds, when the funds were frozen. Since this occurred, ISBE has revised its procedures for freezing and releasing funds to ensure that all division requests for freezing funds are honored.

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State Agency: Illinois State Board of Education (ISBE)
Federal Agency: US Department of Education (USDE)
Program Name: Title I, Part A Cluster
Special Education Cluster
Career and Technical Education – Basic Grants to States
Twenty-First Century Community Learning Centers
Reading First State Grants
Improving Teacher Quality State Grants

CFDA # and Program Expenditures: 84.010/84.389ARRA (\$770,220,000)
84.027/84.173/84.391ARRA (\$519,504,000)
84.048 (\$44,229,000)
84.287 (\$38,473,000)
84.357 (\$44,415,000)
84.367 (\$135,525,000)

Award Numbers S010A050013/S010A060013/S010A070013/S010A080013/
(CFDA Number) S389A090013 (84.010/84.389ARRA)
H027A050072/H027A060072/H027A070072/H027A080072/
H173A050101/H173A060101/H173A07070101/H173A080101/
H394A090014 (84.027/84.173/84.391ARRA)
V048A050013/V048A060013/V048A070013/V048A080013 (84.048)
S287C050013/S287C060013/S287C070013/S287C080013 (84.287)
S357A050014/S357A060014/S357A070014/S357A080014 (84.357)
S367A050012/S367A060012/S367A070012/S367A080012 (84.367)

Questioned Costs: None

Finding 09-49 Inadequate On-Site Fiscal Monitoring of Subrecipients

ISBE is not adequately performing on-site fiscal monitoring reviews of subrecipients of the Title I, Part A Cluster, Special Education Cluster, Career and Technical 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 years, and every 3 years) 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.

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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:

Program	Number of Subrecipients Scheduled but not Reviewed
Title I, Part A Cluster	15
Special Education Cluster	16
Career and Technical Education - Basic Grants to States	28
Twenty-First Century Community Learning Centers	19
Reading First State Grants State Grants	16
Improving Teacher Quality State Grants	13

Additionally, we noted in both the Special Education Cluster and the Twenty-First Century Community Learning Centers programs, one subrecipient included in our procedures was not included in subrecipient monitoring cycles established by ISBE. Therefore, it appears that ISBE does not have an adequate process for ensuring that all subrecipients are properly evaluated for monitoring purposes.

Finally, we noted the monitoring tools used by ISBE for on-site reviews of subrecipients do not include any procedures designed to ensure 1) compliance with providing access to federal funding for new or significantly expanded charter schools, and 2) accuracy of information reported by the LEAs that is used by ISBE in the calculation of adequate yearly progress in order to properly identify LEAs and schools in need of improvement.

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

In discussing these conditions with ISBE officials, they stated the level of External Assurance staffing continues to impact the ability of the division to meet scheduled monitoring visits. External Assurance has not been able to obtain additional positions, and economic conditions make staff additions unlikely in the near future. Many new field auditors have limited previous experience (recent college graduates) and require time to become proficient in the monitoring process. In addition, External Assurance tends to see turnover in positions due to travel requirements and movement of staff to higher level positions elsewhere. In addition to scheduled monitoring events, External Assurance visits school districts at the request of management and others when issues are discovered; reducing the time available for scheduled visits.

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 09-49, 08-55, 07-53)

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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 to ensure that all subrecipients are properly considered when developing the monitoring plan. Finally, ISBE review and update its monitoring instruments to ensure they include procedures for all direct and material compliance requirements.

ISBE Response:

The Agency agrees that not all scheduled on-site fiscal monitoring visits included in the fiscal year 2009 monitoring plan occurred. ISBE is considering contracting out a portion of the monitoring schedule to CPA firms in order to accomplish scheduled monitoring visits. The firms would perform agreed-upon procedures consisting of the monitoring steps currently performed by External Assurance.

With regard to the quality of data submitted by districts and used by ISBE in the calculation of adequately yearly progress, ISBE will not include steps for ensuring the accuracy of student data as part of the External Assurance monitoring tool. Rather, data quality, including the accuracy of district supplied data used in determining adequate yearly progress, will be analyzed by Data Stewards. The Data Stewards are working in conjunction with the development of a data warehouse and longitudinal data system and are responsible for working directly with school districts on data quality issues in order to ensure that data are accurate and timely.

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State Agency: Illinois State Board of Education (ISBE)

Federal Agency: US Department of Education (USDE)

Program Name: Title I, Part A Cluster
Improving Teacher Quality State Grants

CFDA # and Program Expenditures: 84.010/84.389ARRA (\$770,220,000)
84.367 (\$135,525,000)

Award Numbers S010A050013/S010A060013/S010A070013/S010A080013
(CFDA Number) S389A090013 (84.010/84.389ARRA)
S367A050012/S367A060012/S367A070012/S367A080012 (84.367)

Questioned Costs: None

Finding 09-50 *Inadequate On-Site Programmatic Monitoring of Subrecipients*

ISBE is not adequately performing on-site programmatic monitoring reviews of subrecipients of the Title I, Part A Cluster and Improving Teacher Quality State Grants programs.

On-site programmatic reviews for subrecipients of the Title I, Part A Cluster 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 6 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, and 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.

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During our audit, we selected a sample of 30 subrecipients for both Title I, Part A Cluster and Improving Teacher Quality State Grants 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.

Program	Total Number of Subrecipients Scheduled, but not Reviewed
Title I Cluster	15
Improving Teacher Quality State Grants	13

Additionally, the USDE performed a review of ISBE's administration of the Title I, Part A Cluster 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. These instances of non-compliance at the subrecipient level were noted in the following areas:

- Parental involvement,
- Parental notification of school choice,
- The provision of supplemental educational services,
- The administration of schoolwide programs,
- Compliance with earmarking requirements relating to choice-related transportation and parental involvement at private schools,
- Services for private school children,
- Compliance with supplement not supplant requirements, and
- The use of non-highly qualified teachers.

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 ISBE officials, they stated the level of External Assurance staffing continues to impact the ability of the division to meet scheduled monitoring visits. External Assurance has not been able to obtain additional positions, and economic conditions make staff additions unlikely in the near future. Many new field auditors have limited previous experience (recent college graduates) and require time to become proficient in the monitoring process. In addition, External Assurance tends to see turnover in positions due to travel requirements and movement of staff to higher level positions elsewhere. In addition to scheduled monitoring events, External Assurance visits school districts at the request of management and others when issues are discovered; reducing the time available for scheduled visits.

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 09-50, 08-56, 07-54).

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For Year Ended June 30, 2009

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 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 programmatic monitoring visits included in the fiscal year 2009 monitoring plan occurred. ISBE is considering contracting out a portion of the monitoring schedule to CPA firms in order to accomplish scheduled monitoring visits. The firms would perform agreed-upon procedures consisting of the monitoring steps currently performed by External Assurance.

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For Year Ended June 30, 2009

State Agency: Illinois State Board of Education (ISBE)

Federal Agency: US Department of Education (USDE)

Program Name: Title I, Part A Cluster
Special Education Cluster
State Fiscal Stabilization Fund Cluster

CFDA # and Program Expenditures: 84.010/84.389ARRA (\$770,220,000)
84.027/84.173/84.391ARRA (\$519,504,000)
84.394 ARRA (\$1,038,988,000)

Award Numbers: S010A050013/S010A060013/S010A070013/S010A080013/
(CFDA Number) S389A090013 (84.010/84.389ARRA)
H027A050072/H027A060072/H027A070072/H027A080072/
H173A050101/H173A060101/H173A070101/H173A080101/
H394A090014 (84.027/84.173/84.391ARRA)
S394A090014 (84.394ARRA)

Questioned Costs: None

Finding 09-51 *Inadequate Cash Management Procedures for Subrecipients*

ISBE 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 Title I, Part A Cluster, Special Education Cluster, and the State Fiscal Stabilization Fund (SFSF) Cluster programs.

ISBE passes through federal funding to Local Education Agencies (subrecipients) throughout the State to support education programs. A payment schedule (i.e. monthly or quarterly, or upon request) is established by the subrecipients and ISBE during the grant application and budgeting process. ISBE makes payments to the subrecipients based upon the established payment schedule. During our testwork, we noted ISBE is not monitoring the cash position of the subrecipients throughout the year to ensure that the subrecipients do not have excess federal cash on-hand at the time of each payment.

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, 34 CFR 80.37 requires the 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 ISBE officials, they stated the cash management issue was first raised in the U.S. Department of Education (ED) Office of the Inspector General Report on Systems of Internal Control Over Selected ARRA Funds in the State of Illinois issued February 23, 2010. This report states that ISBE did not have an adequate system for monitoring excess cash balances.

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Failure to monitor the cash position of subrecipients could result in advances in excess of 30 days cash needs and in additional costs of financing for the US Treasury. (Finding Code 09-51)

Recommendation:

We recommend ISBE establish procedures to monitor the cash position of subrecipients. These procedures should be designed to ensure subrecipients receive no more than 30 days of funding on an advance basis.

ISBE Response:

The Agency agrees that procedures for ensuring appropriate cash management of Federal funds by subrecipients can be improved. ISBE has improved its procedures and is requiring that subrecipients provide quarterly expenditure reports 20 days after the end of the quarter. This will allow for a determination to be made as to whether the subrecipient has expended previously received Federal funds prior to the distribution of additional Federal funds.

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For Year Ended June 30, 2009

State Agency: Illinois State Board of Education (ISBE)

Federal Agency: US Department of Agriculture (USDA)

Program Name: Child Nutrition Cluster
Child and Adult Care Food Program

CFDA # and Program Expenditures: 10.553/10.555/10.556/10.559 (\$456,159,000)
10.558 (\$115,444,000)

Award Numbers: 9N1099 (10.553/10.555/10.556/10.559)
9N1099 (10.558)

Questioned Costs: None

Finding 09-52 *Inaccurate Reporting of the Financial Status Report*

ISBE did not accurately report federal expenditures in the quarterly financial status reports during the year ended June 30, 2009.

ISBE is required to submit a quarterly financial status report within 30 days after the end of each reporting period which identifies the expenditures incurred to date under the federal award. The financial status report requires ISBE to report expenditures under various categories, such as meal service, sponsor administration, audit, start-up and expansion, cash for commodities, inspection, state administrative expenditures, and expenditures specifically related to the special milk, school lunch, school breakfast, and school cash for commodities or summer cash for commodities programs.

During our testwork over the financial status report for the quarter ended December 31, 2008, we noted current period federal expenditures for the category "audit" and the resulting total expenditures were overstated by \$1,315,084. The overstatement was also carried forward to the financial status report for the quarter ended March 31, 2009 and reported as federal expenditures previously reported. In addition, we noted the current period federal expenditures for the category "audit" was understated by \$570,027 in the financial status report for the quarter ended March 31, 2009.

Following is a table summarizing the expenditures reported and the actual expenditures that should have been reported in the financial status reports for the quarters ended December 31, 2008 and March 31, 2009:

Quarter Ended December 31, 2008					
Report Line Item	Audit Expenditures		Total Expenditures		Difference
	As Reported	Actual	As Reported	Actual	
Net Outlays Previously Reported (line a)	-	-	-	-	-
Total Outlays this Report Period (line b)	1,471,900	156,816	92,057,002	90,741,918	1,315,084
Net Outlays to Date	1,471,900	156,816	92,057,002	90,741,918	1,315,084
Total Federal Share of Outlays	1,471,900	156,816	92,057,002	90,741,918	1,315,084

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Quarter Ended March 31, 2009					
Report Line Item	Audit Expenditures		Total Expenditures		Difference
	As Reported	Actual	As Reported	Actual	
Net Outlays Previously Reported (line a)	1,471,900	156,816	92,057,002	90,741,918	1,315,084
Total Outlays this Report Period (line b)	-	570,027	143,358,815	143,928,842	(570,027)
Net Outlays to Date	1,471,900	726,843	235,415,817	234,670,760	745,057
Total Federal Share of Outlays	1,471,900	726,843	235,415,817	234,670,760	745,057

According to 7 CFR 3016.41(b)(4) and the OMB Circular A-133 compliance supplement, ISBE is required to submit quarterly financial status reports within 30 days after the reporting period. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure timely and accurate reporting of expenditures in the financial status reports.

In discussing these conditions with ISBE officials, they stated that the initial error resulted from a figure used on the December 31, 2008 financial status report (FSR) being entered to the wrong cell on the FSR spreadsheet. This error was carried forward to the March 31, 2009 FSR spreadsheet.

Failure to accurately report expenditures in the financial status reports prevents the USDA from effectively monitoring the Child Nutrition Cluster and the Child and Adult Care Food Program. (Finding Code 09-52)

Recommendation:

We recommend ISBE review the process and procedures in place to prepare the quarterly financial status reports and implement procedures necessary to ensure these reports are accurate.

ISBE Response:

The Agency agrees that an error was made on the December 31, 2008 and carried forward to March 31, 2009 FSR. Once identified, the March 31, 2009 FSR was corrected and resubmitted to the U.S. Department of Agriculture. The U.S. Department of Agriculture acknowledged the corrected FSR and stated: "This is to confirm that your revision of the 2nd quarter, FY 2009 SF-269, which corrected the erroneous CACFP Audit outlays that were reported on the 1st quarter's SF-269, was acceptable, since the SF-269s are cumulative throughout the fiscal year and a final reconciliation is not completed until the fiscal year ends." ISBE will enhance FSR review procedures to ensure accuracy of the FSR prior to submittal.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

State Agency: Illinois State Board of Education (ISBE)

Federal Agency: US Department of Education (USDE)

Program Name: Title I, Part A Cluster
Special Education Cluster
State Fiscal Stabilization Fund

CFDA # and Program Expenditures: 84.010/84.389ARRA (\$770,220,000)
84.027/84.173/84.391ARRA (\$519,504,000)
84.394ARRA (\$1,038,988,000)

Award Numbers: S010A050013/S010A060013/S010A070013/S010A080013
(CFDA Number) S389A090013 (84.010/84.389ARRA)
H027A050072/H027A060072/H027A070072/H027A080072/
H173A050101/H173A060101/H173A070101/H173A080101/
H394A090014 (84.027/84.173/84.391ARRA)
S394A090014 (84.394ARRA)

Questioned Costs: None

Finding 09-53 *Failure to Perform Central Contractor Registration (CCR) Checks*

ISBE did not communicate the requirement to register, or verify whether subrecipients were registered, with the Central Contractor Registration (CCR) database prior to making subawards for programs under the American Recovery Reinvestment Act (ARRA).

Under ARRA, recipients (i.e. the State of Illinois) must report various information on their first-tier contracts and awards (i.e. subrecipients) on a quarterly basis. To facilitate this reporting, subrecipients are required to register in the CCR database as a way to help ensure consistent reporting of data about each entity and thereby make the data more useful to the public. During our review of subrecipient awards, we noted ISBE did not communicate the requirement to register with the CCR database, including obtaining a Dun and Bradstreet Data Universal Numbering Systems (DUNS) number. Additionally, ISBE did not perform a verification check with the CCR to ensure the subrecipients were properly registered prior to making subawards or disbursing funds.

According to the American Recovery Reinvestment Act Section 1512(h) and the OMB Circular A-133 Compliance Supplement Addendum #1, dated June 2009, recipients of ARRA funding must register with the CCR database. Additionally, pass-through entities must communicate the requirement to register, and verify whether subrecipients are registered with the CCR database. 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 subrecipients are registered with the CCR data base prior to making subawards for programs under ARRA.

In discussing these conditions with ISBE officials, they stated there was initially no guidance and then limited and conflicting guidance related to the need for subrecipients to register with CCR. ISBE began distribution of ARRA funds in April 2009. The U.S. Department of Education (ED)

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acknowledged the need for subrecipients to be registered with CCR just prior to September 30, 2009 ARRA reporting period, they had previously stated CCR registration was not needed for subrecipients. Once it was confirmed that CCR registration was needed, ISBE communicated the need for subrecipients to register with CCR in numerous webinars, instructions on ISBE's website, the Superintendent's Weekly Message, and IWAS blasts (electronic announcement).

Failure to communicate the requirement to register, or verify whether subrecipients are registered, with the Central Contractor Registration (CCR) database prior to making subawards could result in the inconsistent reporting of information and inhibit the ability of federal agencies to monitor the performance of the programs under ARRA. (Finding Code 09-53)

Recommendation:

We recommend ISBE establish procedures to ensure subrecipients register with the CCR database prior to making subawards.

ISBE Response:

The Agency disagrees with the statement that ISBE did not communicate the requirement for CCR registration to ARRA subrecipients. ISBE communicated the need for subrecipients to register with CCR in numerous webinars, instructions on ISBE's website, the Superintendent's Weekly Message, and IWAS blasts (electronic announcement). The Agency agrees that it did not verify subrecipient's CCR registration prior to making subawards or distributing funds. However, communication and guidance from the U.S. Office of Management and Budget and ED was not clear on the need for subrecipients to register with CCR. In fact, final clarification was not received from ED until a September 18, 2009 email that stated:

"I'm writing to bring an important piece of information to your attention. During the July OMB webinars, OMB presented a data architecture model that indicated only prime recipient CCR registration is part of the Recovery.gov architecture. We indicated during our August 10th webinar that sub-recipients do not need to register in CCR for reporting purposes. However, the 'Frequently Asked Questions' document published on Recovery.gov subsequent to those webinars says that sub-recipients must register in CCR (see <http://www.recovery.gov/?q=content/frequently-asked-questions#recipients>). Specifically, the relevant FAQ reads:

Q: Are there any Registration Pre-Requisites for Recipients?

A: Yes, to register as a Recipient, you will need:

- a. Email address – Recipients must enter a valid email address to register as a user.
- b. DUNS number – Prime and Sub Recipients must know their organization's DUNS number to register. If you need a DUNS number, visit D&B at <http://fedgov.dnb.com/webform>.
- c. Central Contractor Registration (CCR) – Prime and Sub Recipients of financial assistance (i.e. loans and grants) must be registered in CCR. Register at <http://www.ccr.gov>.

I highlighted the relevant section in red. Although subrecipient CCR numbers are not currently part of the FederalReporting.gov architecture, all Recovery Act grantees are required to register in CCR. This requirement is a condition attached to each Recovery Act grant that we make. Prime recipients should include CCR registration (which requires a DUNS number) as a condition of the sub-awards

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issued with Education Department Recovery Act grants, and promote timely CCR registration among these sub-recipients.

I apologize for the confusion this has caused. However, I wanted to get this information to you as soon as possible so that you may notify your subrecipients.”

Thus, although the June 30, 2009 OMB Circular A-133 Compliance Supplement Addendum # 1 indicates that auditors should determine and test that subrecipients were registered in CCR prior to award and distribution of ARRA funds, from a practical standpoint this was not realistic.

ISBE would like to note, that with the assistance of ED, the Agency was able to compare ARRA subrecipients (Local Education Agencies) to CCR registrations. ISBE followed up with each LEA that was identified as not having a current CCR registration.

Auditors' Comment:

As discussed above, ISBE did not communicate the requirement to resister, or verify whether subrecipients were registered, with the CCR database prior to making subawards in April 2009. Additionally, the requirement for reporting and registration with the CCR was included in section 1512(h) of the American and Recovery Investment Act issued in February 2009, prior to the subawards made by ISBE.

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For Year Ended June 30, 2009

State Agency: Illinois Community College Board (ICCB)

Federal Agency: US Department of Education (USDE)

Program Name: Career and Technical Education – Basic Grants to States

CFDA # and Program Expenditures: 84.048 (\$44,229,000)

Award Numbers V048A050013/V048A060013/V048A070013/V048A080013

Questioned Costs: None

Finding 09-54 *Inadequate Cash Management Procedures for Subrecipients.*

ICCB 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 Career and Technical Education – Basic Grants to States program.

ICCB passes through federal funding to community colleges (subrecipients) throughout the State to establish career and technical education programs. A payment schedule, (i.e. monthly or quarterly, or upon request), is established by the subrecipients and ICCB during the grant application and budgeting process. ICCB makes payments to the subrecipients based upon the established payment schedule. During our testwork, we noted ICCB is not monitoring the cash position of the subrecipients throughout the year to ensure that the subrecipients do not have excess federal cash on-hand at the time of each payment.

Total federal awards passed through to subrecipients of the Career and Technical Education program was \$17,569,000 during the year ended June 30, 2009.

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, 34 CFR 80.37 requires the 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 ICCB officials, they stated the fiscal year 2008 finding for cash management procedures for subrecipients was not received in enough time to implement the changes for fiscal year 2009 but the changes have been implemented for fiscal year 2010.

Failure to monitor the cash position of subrecipients could result in advances in excess of 30 days cash needs and in additional costs of financing for the US Treasury. (Finding Code 09-54, 08-60)

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For Year Ended June 30, 2009

Recommendation:

We recommend ICCB establish procedures to monitor the cash position of subrecipients. These procedures should be designed to ensure subrecipients receive no more than 30 days of funding on an advance basis.

ICCB Response:

The first year available to implement this change was in fiscal year 2010. In fiscal year 2010, the ICCB implemented a web based system for request basis of disbursement. This requires the providers to verify the request is necessary to meet immediate cash needs for expenditures already paid or to be paid within 30 days.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

State Agency: Illinois Community College Board (ICCB)

Federal Agency: US Department of Education (USDE)

Program Name: Career and Technical Education – Basic Grants to States

CFDA # and Program Expenditures: 84.048 (\$44,229,000)

Award Numbers V048A050013/V048A060013/V048A070013/V048A080013

Questioned Costs: None

Finding 09-55 *Failure to Follow Up On Monitoring Findings*

ICCB did not follow up on programmatic on-site monitoring review findings for subrecipients receiving federal awards under the Career and Technical Education – Basic Grants to States (Perkins IV) program.

ICCB passed through approximately \$17,569,000 in Perkins IV funding to community colleges during the year ended June 30, 2009. ICCB's subrecipient monitoring process includes performing on-site reviews, inspections, implementation visits, examining annual external audit reports, and comparing budget to actual expenditures. During our review of the programmatic monitoring procedures performed by ICCB, we noted ICCB does not have an adequate process in place to follow up on programmatic on-site monitoring findings or require subrecipients to submit corrective action plans. For 30 subrecipients selected for testwork, we noted thirteen programmatic on-site reviews performed during the year for which ICCB reported findings but did not obtain or require subrecipients to submit corrective action plans.

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

In discussing these matters with ICCB officials, they stated the regional consultants have extensive informal follow-up with their providers. However, a formal follow-up procedure is not developed.

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 09-55)

Recommendation:

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

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ICCB Response:

During fiscal year 2011, the Illinois Community College Board Career and Technical Education (CTE) staff will develop a procedure to ensure that feedback is provided related to the programmatic findings for the CTE monitoring process.

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For Year Ended June 30, 2009

State Agency: Illinois Community College Board (ICCB)

Federal Agency: US Department of Education (USDE)

Program Name: Career and Technical Education – Basic Grants to States

CFDA # and Program Expenditures: 84.048 (\$44,229,000)

Award Numbers: V048A050013/V048A060013/V048A070013/V048A080013

Questioned Costs: None

Finding 09-56 *Inadequate Documentation of 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 Career and Technical Education – Basic Grants to States (post-secondary education) program.

ICCB reviews 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 programs that are Type A programs (as defined by OMB Circular A-133) are being audited at least every three years.

Total federal awards passed through to subrecipients of the Career and Technical Education program were \$17,569,000 during the year ended June 30, 2009.

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 2009, a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipients 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 subrecipients audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipients audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. According to 34 CFR Sections 80.20 and 80.40, ICCB is required to have an effective internal control structure in place to ensure proper monitoring of subrecipients.

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In discussing these conditions with ICCB officials, they stated they have a well documented A-133 checklist but will update it to include the additional items.

Failure to adequately obtain, review, and perform follow-up procedures on subrecipient OMB Circular A-133 audit reports 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 09-56, 08-59, 07-56, 06-54)

Recommendation:

We recommend ICCB:

- Update its checklist to include additional criteria to ensure that a sufficient review is performed over the reports,
- Establish a process for updating the subrecipient 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 Illinois Community College Board (ICCB) will update its checklist to verify audits were performed in accordance with OMB Circular A-133 and the funds expended reconcile to funding notifications. The ICCB will add a verification to its checklist that previous year findings were not repeated. The ICCB currently gathers a certification from providers who expend less than \$500,000 in federal awards.

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For Year Ended June 30, 2009

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 (\$245,224,000)

Award Numbers: None

Questioned Costs: None

Finding 09-57 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 collection attorneys 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 4 instances where borrower payments were not deposited into the federal fund within the required 48 hours. The delays were approximately 3 to 24 days. ISAC is aware of the delay, and, as a result, calculates interest on funds remitted outside of the 48 hour requirement. During the year ended June 30, 2009, ISAC transferred approximately \$7,838 from the operating fund to the federal fund as interest payments on untimely remittances.

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 business 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 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 09-57, 08-61, 07-59, 06-58, 05-71)

Recommendation:

We recommend ISAC establish procedures to ensure borrower payments from outside collection attorneys 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.

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As of July 1, 2009, ISAC implemented a new process for one of its outside legal collection agencies. This agency is depositing the checks directly into ISAC's designated clearing account. This process change should result in fewer untimely deposits.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

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 (\$245,224,000)

Award Numbers: None

Questioned Costs: Cannot be determined

Finding 09-58 *Inadequate Process to Verify Unreported Loans*

ISAC does not have an adequate process to verify unreported loans.

ISAC maintains loan level information in its guaranty loan subsidiary ledger (guaranty system) for all loans guaranteed by ISAC through the Federal Family Education Loans program. This information is reported to the National Student Loan Data System (NSLDS). The information in the guaranty system is updated by lenders primarily through an electronic lender manifest (update file) submitted to ISAC on a quarterly basis.

In addition to lender manifests, ISAC has additional processes in place to identify and adjust the guaranty system records for loans with no activity reported from lenders. The first process is the “presumed paid” process. Through this process, ISAC runs a semi-annual report that identifies loans in the guaranty system that have been in repayment status for twelve years, and that have not been updated through any lender reporting in the past four years. These criteria are consistent with criteria established by the USDE for identifying loans that have been presumed paid. The status of these loans is then changed from repayment to paid in full, and reported as such to the NSLDS.

The second process is called the “unreported loans” process. Through this process, ISAC runs a semi-annual report that identifies loans in the guaranty system that have not been updated through the lender manifest reporting process during the previous 180 days. Any loans included on this listing are sent to the lenders with instructions to review the loan information and update as appropriate in the next lender manifest. However, ISAC has limited means to follow-up with the lenders to verify that the lenders have made the appropriate changes. The primary mechanism available to ISAC is the bi-annual compliance reviews of the lenders performed by ISAC personnel, in which the status of the unreported loans list is noted.

During our testwork over the accuracy of the loan information included in the guaranty system, we selected a sample of 100 student loans to confirm the accuracy of the loan information with the lender. For three loans in our sample, the lender indicated the loans were cancelled prior to disbursement in October 2003 and August 2007, respectively. Upon further review, the loan information had not been updated by the lenders since July 6, 2006, October 30, 2003 and August 3, 2007, respectively. We noted that both of these loans were included in November 2008 and May 2009 “unreported loans” report provided to lenders. However, no follow up was performed by ISAC to determine whether the lenders properly investigated the status of these loans.

In accordance with 34 CFR Section 682.404(a)(4) and (b)(4)(ii)(G)(3) and (c), a guaranty agency shall accurately complete and submit to the Secretary Form 2000 report as the Secretary uses the ED

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Form 2000 report for the previous September 30 to calculate the amount of loans in repayment at the end of the preceding fiscal year.

In discussing these conditions with ISAC officials, they state that there is not a federal requirement for lenders to respond to the unreported loans report. The industry standard requests that lenders review the loans on the report and make the necessary corrections to ensure that those unreported loans are included in the lenders next monthly lender manifest submission.

An inadequate process to verify loan information in the guaranty system could result in inaccurate reporting to the NSLDS. (Finding Code 09-58, 08-64)

Recommendation:

We recommend ISAC review its process to ensure that loan information is properly verified and reported to the NSLDS.

ISAC Response:

ISAC recognizes the importance of obtaining accurate and timely data from its lenders.

The following business processes will continue to be in place to accept changes and updates to loan records:

- ISAC will continue to process monthly lender manifest submissions.
- ISAC will continue its “presumed paid” process which is a method to change the loan status to presumed paid for loans that have been in repayment status for twelve years and that have not been updated through any lender reporting in the past four years. This is an industry practice used with the approval of the Department of Education to help with the requirement of maintaining accurate records.
- ISAC will continue to create the semi-annual unreported loans report as the means for lenders to report changes and updates to loan records.
- ISAC will consistently initiate an unreported loans follow up process in May 2010 as described below.

Staff will make follow up contact with lenders to determine their progress on resolving reporting issues for loans sent to them on the NSLDS Lender Manifest Report of Unreported Loans.

- 60-days following the distribution of the report - e-message sent to remind lenders/servicers to make the necessary corrections and report loans on their Lender Manifest submission.
- 120-days following the distribution of the report - spot check loan updates and lender manifest submission for loans on the report. Phone call to lenders with little or no progress. Provide assistance where applicable.
- 150 days or 30 days prior to next Unreported loan report - e-message to make sure reporting loans and that issues for loans on the last report were resolved as a new Unreported report is upcoming.

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For Year Ended June 30, 2009

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 (\$245,224,000)

Award Numbers: None

Questioned Costs: Cannot be determined

Finding 09-59 *Incomplete Lender Agreements*

ISAC does not have a process to ensure lender agreements are complete and enforceable.

ISAC works directly with eligible lenders to provide individuals subsidized and unsubsidized Federal Stafford loans and Federal PLUS loans. All lenders must execute an ISAC lender agreement prior to participating in the Federal Family Education Loans (FFEL) program through ISAC. During an internal review of twenty lender agreements, ISAC identified 3 lender agreements that did not specify the loan programs ISAC authorized and guaranteed. In addition, ISAC noted 1 lender agreement wherein the lender's authorization signature was not dated on the lender agreement. However, no follow up was performed by ISAC to review the remaining population of lender agreements to ensure they were complete and enforceable.

In accordance with 34 CFR Section 682.503(a)(1), to participate in the Federal Guaranteed Student Loan Programs, a lender must have a guarantee agreement with the Secretary. The Secretary will not guarantee a loan unless it is covered by such an agreement. 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 all lender agreements are complete and enforceable.

In discussing these conditions with ISAC officials, they stated they disagree with this finding regarding incomplete lender agreements.

Failure to ensure lender agreements are complete and enforceable could result in the payment of claims to ineligible lenders, which are unallowable costs. (Finding Code 09-59)

Recommendation:

We recommend ISAC review its process to ensure that lender agreements are executed fully and the lender agreements specify the loan programs for which the agreement is being executed. Further, ISAC should have a process in place to periodically review lender agreements in order to ensure they are complete and enforceable.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

ISAC Response:

ISAC has a process in place to ensure lender agreements are complete and enforceable at the time of execution. The Compliance area has been responsible for this activity since 2003 and uses an Agreement Check List to ensure that all agreements are properly executed.

Furthermore, an additional procedure has been in place since the 1980's in order to correctly update the lender database in the guaranty system regarding the programs in which the lender wanted to participate. The procedure calls for a lender data sheet to accompany the Lender Agreement. The lender data sheet contains specific contact information along with a notation of the programs for which the lender is/was to participate. When the Lender Agreement and data sheet arrived at ISAC, the data sheet would be forwarded to the data management department for the loading of the lender information in the lender database. If there was any question as to which programs were to be loaded to the system, staff would follow up with the lender, usually via phone call, to determine in what programs they were agreeing to participate. The correct loan types would then be updated in the lender database.

Although the above procedures have been in place and as of July 1, 2010, ISAC will not be executing any new lender participation agreements due to the fact that recent passage of the Health Care and Education Reconciliation Act of 2010 will eliminate the Federal Family Education Loan Program (FFEL) with no new disbursements after that date, ISAC will conduct a reconciliation of Lender Agreements. The review will ensure the agreements for lenders who will be exercising their guarantees in the future are complete.

Auditors' Comment:

As discussed above, three out of 20 lender agreements tested during an internal review did not specify the loan programs ISAC authorized or guaranteed. After identification of this issue of incomplete lender agreements, ISAC failed to follow up on the remaining population of lender agreements to ensure they were complete and enforceable.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225/17.225 ARRA (\$5,163,450,000)

Award Numbers: UI144320555/UI151190655/UI157960755/UI167440855A17/UI180180955A17

Questioned Costs: Cannot be determined

Finding 09-60 *Failure to Obtain Refusal to Work Certifications*

IDES does not obtain continuing certifications that claimants have not refused suitable work offers throughout the eligibility period prior to the payment of benefits under the Unemployment Insurance (UI) Program.

The 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 in Chapter 820, Act 405 of the Illinois Compiled Statutes (ILCS). 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. According to these policies and procedures, a claimant is required to complete an application for benefits which includes, among other things, an initial certification that the claimant has not refused any suitable work offers. Additionally, a claimant must certify his or her continuing eligibility status on a weekly basis prior to receiving UI benefits using IDES' telephone application, Teleserve. The certification (via Teleserve) requires the claimant to answer questions certifying their eligibility for the period benefits will be received, including whether the claimant was able and available for work and whether the claimant actively sought work during the certification period. However, the claimant is not required to certify whether he or she refused any suitable work offers. Accordingly, IDES does not have adequate procedures to determine on a continuing (prospective) basis whether claimants have refused suitable work offers during the period for which benefits are received.

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 eligibility criteria.

According to 820 ILCS 405/603, an individual shall be ineligible for benefits if he has failed, without good cause, either to apply for available, suitable work when so directed by the employment office or Director, or to accept suitable work when offered him by the employment office or an employing unit.

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 all eligibility certifications are made on a continuing basis throughout the period for which benefits are paid.

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For Year Ended June 30, 2009

In discussing these conditions with IDES officials, they stated claimants were previously required to certify that they had not refused suitable work through Teleserve on a weekly basis; however, the refusal to work certification was removed twelve years ago due to a perceived confusion from the claimants in answering the question.

Failure to obtain adequate certifications supporting the claimants' eligibility status could result in the payment of UI benefits to ineligible claimants, which are unallowable costs. (Finding Code 09-60, 08-65)

Recommendation:

We recommend IDES implement procedures to ensure adequate eligibility certifications are obtained from all claimants on a continuing basis throughout the period for which benefits are paid.

IDES Response:

We agree. The refusal of work question will be added to the TeleServe Interactive Voice Response (IVR) System and the Internet claims bi-weekly certification when Release 4 of IBIS is implemented. The system will record the claimant's response to the question.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance Program

CFDA # and Program Expenditures: 17.225/17.225ARRA (\$5,163,450,000)

Award Numbers: UI144320555/UI151190655/UI157960755/UI167440855A17/UI180180955A17

Questioned Costs: None

Finding 09-61 Failure to Issue Eligibility Determinations within Prescribed Timeframes

IDES is not issuing eligibility determinations for individuals applying for Unemployment Insurance (UI) benefits in accordance with timeframes required by the State Plan.

UI eligibility determinations are made during the initial intake of the claim and are monitored throughout the benefit payment period. If the claimant does not meet certain eligibility criteria either during the initial intake of the claim or throughout the benefit payment period, or if an employer disagrees with the initial eligibility determination, an issue is identified in the system and the claim appears on a pending adjudication report. The claim is then assigned to a claims adjudicator for resolution. The pending adjudication report monitors the number of days the claim has been outstanding since the initial detection date, which is the date on which IDES detected an issue on the claim which could affect past, present, or future benefit rights.

During our test work we conducted unannounced site visits to three local offices and requested the most recent pending adjudication report as of the date of our visit. We noted a significant backlog in the resolution status of claims in the adjudication process. Specifically, we noted a total of 512 claims at the three local offices were outstanding for time periods ranging from 22 to 133 days as of the date of our visits.

Additionally, during our review of the fiscal year 2010 State Quality Service Plan (Plan) submitted by IDES to the USDOL, we noted IDES did not meet the acceptable level of performance for issuing eligibility determinations on certain disqualifying issues as defined by the USDOL (non-monetary issues) for the federal fiscal year 2009, resolving only 55.8% of these determinations within 21 days of the detection date.

According to 20 CFR Part 640.3, state laws are required to include provisions for such methods of administration as will reasonably insure the full payment of unemployment benefits for eligible claimants with the greatest promptness that is administratively feasible. According to the Unemployment Insurance Program Letter No. 14-05, Attachment C, issued by the Employment and Training Administration Advisor System of the USDOL, 80% of non-monetary determinations must be made by state workforce agencies within 21 days of the detection date.

In discussing these conditions with IDES officials, they stated the significant increase in the volume of claims and the under-funding of the UI program in recent years have worsened the situation.

Failure to issue eligibility determinations within prescribed timeframes could result in the untimely and/or improper payment of unemployment benefits. (Finding Code 09-61, 08-66)

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For Year Ended June 30, 2009

Recommendation:

We recommend IDES implement procedures to ensure all eligibility determinations are made within the prescribed timeframes.

IDES Response:

We agree. Adjudication backlog continues to be the primary reason the state is not issuing eligibility determinations within 21 days of the issue detection date. The Department continues to address the backlog with both 75 day appointments and new staff. However, there is a learning curve associated with new staff completing adjudication cases. The new benefit system, IBIS, will help improve the process. We are investigating the root cause of productivity issues and creating action plans to address the backlog.

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For Year Ended June 30, 2009

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225/17.225 ARRA (\$5,163,450,000)

Award Numbers: UI144320555/UI151190655/UI157960755/UI167440855A17/UI180180955A17

Questioned Costs: \$25,599

Finding 09-62 *Inadequate Procedures for Follow-up of Invalid Social Security Numbers*

IDES does not have adequate procedures to follow up on invalid social security numbers for claimants of the Unemployment Insurance (UI) program.

To be eligible to receive UI benefits, claimants must be in the labor force, unemployment must be caused by lack of suitable work, and the claimant must be legally authorized to work. In determining whether claimants are legally authorized to work, IDES sends a file containing all UI applications to the Social Security Administration (SSA) on a daily basis to verify whether the applicant has a valid social security number. The file is returned and uploaded into the Benefit Information System (BIS), which is the information system used by IDES to determine eligibility, initiate unemployment benefit payments, and maintain a history for all UI claimants. If the number is deemed invalid by the SSA, an automatic stop is placed on the claimant's account during the upload process and benefit payments cease. A letter is sent to the claimant requesting an in-person interview at one of the local offices. Benefits will not be reinstated until the claimant appears for the interview and presents evidence of a valid social security number.

During our testwork over the eligibility of UI benefit payments, we selected a sample of 60 claimants from a listing of invalid social security numbers and noted four did not have the automatic stop applied and as such, were not properly investigated by IDES. Total benefits paid to the four claimants were \$25,599 during the year ended June 30, 2009. During the year ended June 30, 2009, a total of 2,046 out of 849,406 social security numbers were reported as potentially invalid by the Social Security Administration for which benefits paid to 143 claimants were approximately \$717,000.

In accordance with 42 U.S.C. Section 1320b-7(a)(1), IDES shall require, as a condition of eligibility for unemployment benefits, that each claimant for benefits furnish to the agency his/her social security number (or numbers if he/she has more than one such number), and IDES shall utilize such numbers in the administration of the unemployment compensation program so as to associate the agency's records pertaining to each claimant with the claimant's social security number(s). If IDES determines that a claimant has refused or failed to provide a Social Security Number, then that individual shall be ineligible to participate in the unemployment compensation program. Any claimant held ineligible for not supplying a social security number may become eligible upon providing IDES with such number retroactive to the extent permitted under State law.

In accordance with 820 ILCS 405/614, an alien shall be ineligible for UI benefits unless the alien was an individual who was lawfully admitted for permanent residence at the time such services were performed or otherwise was permanently residing in the United States under color of law at the time

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such services were performed (including an alien who was lawfully present in the United States as a result of the application of the provisions of Section 212(d) (5) of the Immigration and Nationality Act).

The A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure adequate follow up of invalid social security numbers.

In discussing these conditions with IDES officials, they stated two numbers were submitted to the SSA but were not returned on the file and as such, had not been uploaded into BIS. The other two invalid social security numbers were claims which were in the process of being transferred between local offices, and a system edit prevented the issue from posting due to the change in local office.

Failure to adequately follow up on invalid social security numbers could result in the payment of UI benefits to ineligible claimants, which are unallowable costs. (Finding Code 09-62)

Recommendation:

We recommend IDES implement additional procedures to ensure the automated stop is generated for all invalid social security numbers to prevent payment of benefit to ineligible claimants, and to ensure all requests are returned from the SSA.

IDES Response:

We agree. The implementation of our new benefit system, IBIS, should resolve the issue of lack of stops as social security number validation will be on-line and a change in local office will not prevent a stop from being posted.

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For Year Ended June 30, 2009

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225/17.225 ARRA (\$5,163,450,000)

Award Numbers: UI144320555/UI151190655/UI157960755/UI167440855A17/UI180180955A17

Questioned Costs: Cannot be determined

Finding 09-63 *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)(820 ILCS 405). 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 100 beneficiary payments to review for compliance with eligibility requirements and for the allowability of the related benefits, and noted the following exceptions:

- In three cases, the UI application could not be located. In each case, we were able to verify each of the eligibility criteria through information in the electronic files.
- In eighteen 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.

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.

According to 820 ILCS 405/700, 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 new claimant to complete an application for benefits.

According to 820 ILCS 405/500-C, 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.

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

In discussing these conditions with IDES, they stated the two applications not located may have been misfiled or mislabeled when they were microfilmed. The third instance was a transitional claim and the original application was purged in accordance with the Department's record retention policy. Claimants are advised to register in the Skills Match System, but do not always do so.

Failure to maintain complete supporting documentation for eligibility determinations could result in the payment of UI benefits to ineligible claimants, which are unallowable costs. (Finding Code 09-63, 08-68, 07-62, 06-61)

Recommendation:

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

IDES Response:

We agree. In regards to the missing claim applications, our process for filing the claim applications is the following: After we enter the claim application, each program representative that entered the claim retains their batch till the end of the day. At the end of the day, the representative assigns a designated batch ticket to their day's claim entries. Those are turned into a designated person who in turn holds them to verify against the next day's report. After the previous day's claims are verified, they are filed by claim entry date and held in the local office according to file retention guidelines. Those procedures will be reinforced. In regards to claimants not registered in Illinois Skills Match, claimants will be automatically registered in Illinois Skills Match when IBIS is implemented.

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For Year Ended June 30, 2009

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225/17.225 ARRA (\$5,163,450,000)

Award Numbers: UI144320555/UI151190655/UI157960755/UI167440855A17/UI180180955A17

Questioned Costs: None

Finding 09-64 *Inadequate Monitoring of Unemployment Insurance Service Organization*

IDES does not adequately monitor a service organization of the Unemployment Insurance (UI) program.

In September 2008, IDES began utilizing debit cards to pay UI benefits. IDES has contracted with a third party service provider (financial institution) to administer the debit card processing of UI benefits. The third party processor is responsible for performing several internal control procedures over the debit card process which include monitoring and processing ACH files based upon a schedule determined by IDES; processing incoming and outgoing wires transfers on a daily basis; balancing the debit card activity to the associated account; establishing customer accounts with the debit card processor; coordinating new card production with the debit card processor, and providing daily monitoring reports to IDES.

During our audit, we noted IDES does not require its service provider to obtain an independent examination of the operating effectiveness of internal controls during the year (commonly referred to as a Type II SAS 70 report). As a result, IDES is not able to adequately monitor its third party service provider to determine whether internal controls that are essential to compliance with federal requirements of the UI program are operating effectively.

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 controls should include procedures in place to ensure third party service providers have appropriate internal controls to process transactions accurately and in compliance with federal regulations.

In discussing these conditions with IDES officials, they stated they received a Type I SAS 70 report which provided a description of the internal controls and reasonable assurance that the controls were properly designed.

Failure to ensure service organizations obtain an annual independent auditors' report on the design and tests of operating effectiveness of those controls could lead to the improper payment of unemployment insurance benefits. (Finding Code 09-64)

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For Year Ended June 30, 2009

Recommendation:

We recommend IDES review its procedures for monitoring its third party servicers and implement any changes necessary to ensure significant internal controls at the service organizations are operating effectively.

IDES Response:

Lack of any SAS 70 report for this provider was part of a finding in the compliance audit for fiscal year 2004/2005; the compliance auditors subsequently accepted the Type I SAS 70 report as sufficient to resolve that aspect of the finding. The majority of the risk is with the debit card provider, which has undergone a Type II SAS 70 review. Controls were most recently reviewed as part of the compliance audit for fiscal year 2008/2009 with a different audit firm concluding that control procedures are in place to detect or prevent exceptions. With the transition of this activity to a new service organization during fiscal year 2011, these review procedures will be reassessed.

Auditors' Comment:

The finding referred to in IDES' response above from a State compliance audit in 2005 did not relate to the use of debit cards and is not relevant to the finding reported in the current year.

As discussed above, the debit card processor (or provider) relies upon the completeness and accuracy of data transmitted from the third party service organization (financial institution) in order to effectively administer the debit card program. The financial institution is responsible for performing several internal control procedures to determine the completeness and accuracy of data it receives from IDES prior to, during, and after the transmission of data to the debit card provider. These internal control procedures are not tested for control effectiveness in the Type I SAS 70 report.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225/17.225 ARRA (\$5,163,450,000)

Award Numbers: UI144320555/UI151190655/UI157960755/UI167440855A17/UI180180955A17

Questioned Costs: None

Finding 09-65 *Inadequate Documentation of Resolution of Exceptions and Supervisory Review of the Claim Exception and Monitoring Reports*

The IDES 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.

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- 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.
- 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 Claims Deletion 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 retains claim exception and monitoring reports (except for the sensitive changes report) for a period of three months after the end of the quarter.

We 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 timely follow up and documentation of review of claim exception reports.

In discussing these conditions with IDES officials, they stated not all reports and/or items on reports require resolution and supervisory review; therefore, formal procedures have not been established for all reports.

Failure to adequately 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 09-65, 08-70, 07-63, 06-62, 05-88)

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For Year Ended June 30, 2009

Recommendation:

We recommend IDES complete and document the resolution of each claim in a timely manner on the exception and monitoring report (including supervisory review), and retain the reports as considered necessary to facilitate completion of the audit. IDES should also automate 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

IDES Response:

We agree. We have created an action plan to ensure the local offices are following appropriate policies and procedures. IDES has created an internal review program that will require a review of each document by the local office manager, who in turn will document the status on a weekly report that goes to the region. The region will then be responsible for a random monthly audit that ensures the reports are accurate and following the correct policy and procedure for handling. The action plan includes a “refresher” report training class for field office supervisory staff demonstrating the appropriate way to document the reports for resolution and proper handling.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225/17.225 ARRA (\$5,163,450,000)

Award Numbers: 09-A220-TGEU-4123-5TW01-000

Questioned Costs: \$9,424

Finding 09-66 *Inaccurate Benefit Payment Calculations*

IDES did not accurately calculate benefit payments for the Alternative Trade Adjustment Assistance (ATAA) grant administered under the Unemployment Insurance Program.

The ATAA grant is available to a subset of beneficiaries who were eligible for benefits under the Trade Readjustment Assistance (TRA) grant, which is also administered under the Unemployment Insurance Program. The objective of the TRA grant is to provide benefit payments 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 objective of the ATAA grant is to provide workers 50 years of age or older with the option of receiving a temporary wage subsidy upon prompt reemployment at lower pay than their previous adversely affected employment as an alternative to other TRA benefits. The ATAA wage subsidy must be evaluated on a monthly basis to determine whether the subsidy should be adjusted to accommodate pay changes resulting from changes in employment or shift differentials. Total expenditures for the ATAA program were \$575,971 for the year ended June 30, 2009.

During our test work of the ATAA program, we selected 10 weekly beneficiary payments (totaling \$1,511) to review for compliance with eligibility requirements and for the allowability of the related benefits, and noted the following exceptions:

- In two cases (with sampled weekly payments of \$208), the ATAA weekly benefit amount was not accurate due to changes in pay rates. As a result, one beneficiary was underpaid by \$1,416 and one beneficiary was overpaid by \$549 during the year ended June 30, 2009.
- In one case (with a sampled weekly payment of \$165), the individual returned to work to the employment from which the worker was separated and was improperly paid benefits totaling \$8,875 during the year ended June 30, 2009.
- In two cases (with sampled weekly payments of \$457), the individuals were not paid at least monthly. Payments made to these individuals were for periods ranging from two to five months.

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 accurately calculated and paid in accordance with Federal guidelines.

USDOL Training and Employment Guidance Letter (TEGL) 2-03 requires the ATAA benefit calculation to be repeated if, as a result of the monthly verification exercise, the claimant's hourly

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wage and/or hours are determined to have changed in such a way as to affect the ATAA wage subsidy. Further, TEGL 2-03 states that a worker is ineligible to receive an ATTA wage subsidy if the worker returns to work to the same employment from which the worker was separated. TEGL 2-03 also requires the benefits to be paid on a weekly, biweekly, or other payment frequency not to exceed monthly.

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 benefit payments are accurately calculated and paid in accordance with Federal guidelines.

In discussing these conditions with IDES officials, they stated benefit payments were manually calculated without the use of a spreadsheet.

Failure to accurately calculate and pay benefits could result in unallowable costs. (Finding Code 09-66, 08-67)

Recommendation:

We recommend IDES implement procedures to ensure the ATAA benefit payments are properly calculated and paid on at least a monthly basis.

IDES Response:

We agree. IDES has trained two additional staff to process ATAA payments. In addition, the program was transferred to Springfield in January 2009, under the direction of the Special Programs Manager. Payments are now calculated on a spreadsheet. Formulas to ensure accurate calculations were incorporated into the spreadsheet.

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State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225/17.225 ARRA (\$5,163,450,000)

Award Numbers: UI44320555/UI151190655/UI157960755/UI167440855A17/UI180180955A17

Questioned Costs: None

Finding 09-67 *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 by the USDOL to measure program activities and to allocate program and administrative funds to the state agencies administering the Alternative Trade Adjustment Assistance grant under the Unemployment Insurance (UI) program.

During our review of the four quarterly reports submitted for the fiscal year ended June 30, 2009, we noted IDES did not reconcile the total expenditures reported for the ATAA to the general ledger for the September 30, 2008 quarterly ATAA Special Report. As such, the amount reported to the USDOL was understated by \$16,571. We also noted that the ATAA special report for the quarter ended September 30, 2008 was prepared and submitted by the same individual and was not sufficiently reviewed by a supervisor prior to submission.

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. USDOL 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.

In discussing these conditions with IDES officials, they stated as a result of this repeat finding, the responsibility for payment processing and reporting was reassigned and procedures changed, but the first quarter report had already been submitted.

Failure to accurately report information regarding ATAA participation in the State of Illinois prevents the USDOL from effectively monitoring the Alternative Trade Adjustment Assistance grant under the UI program. (Finding Code 09-67, 08-73, 07-66)

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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. Quarterly reconciliations have been prepared since the 4th quarter of calendar year 2008. Procedures are in place to ensure a reconciliation of expenditures to the General Ledger is completed. The State UI Program Manager signs off on the Reconciliation prior to submission of the report data.

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For Year Ended June 30, 2009

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225/17.225 ARRA (\$5,163,450,000)

Award Numbers: UI144320555/UI151190655/UI157960755/UI167440855A17/UI180180955A17

Questioned Costs: Cannot be determined

Finding 09-68 *Improper System Configuration for Offset of Overpayments*

IDES has not configured its information technology systems to properly offset overpayments related to the Federal Additional Compensation (FAC) and the Emergency Unemployment Compensation (EUC08) programs, which were established by the American Recovery and Reinvestment Act and administered as a part of the Unemployment Insurance (UI) Program.

The FAC program provides a \$25 weekly supplement to the unemployment compensation of eligible claimants, and is 100% funded from Federal general revenues. FAC overpayments may only be offset by FAC payments. Other federally funded benefits, such as EUC08 benefits, can also be used to offset FAC overpayments.

The EUC08 program is a federally funded benefit extension program which provides up to 33 weeks of benefits to claimants who have exhausted their benefit rights to regular compensation in an applicable benefit year. In the event that an EUC08 overpayment is made to a claimant, states are allowed to recover the overpayment by deducting the amount from future benefits payable to the claimant under any state or Federal UC law in the three-year period following the date that the claimant received the improper payment. However, no single EUC08 offset may exceed 50 percent of the EUC08 weekly benefit amount payable to the claimant for the week.

Based on a review performed by the U.S. Department of Labor – Employment and Training Administration and discussion with management, we noted the following:

- IDES had not properly configured its information technology system to offset the FAC overpayments with FAC benefits. IDES' information technology system was configured to offset the FAC overpayments against the EUC08 benefit payments and other federally funded benefits, which resulted in slower collections of FAC overpayments. Total FAC payments made during the fiscal year ended June 30, 2009 were \$172,530,475, of which \$1,481,000 or 0.9% consisted of overpayments.
- IDES had not properly configured its information technology system to offset EUC08 fraud overpayments to a maximum of 50% against the weekly benefit amount. The system is currently programmed to offset EUC08 fraud overpayments with 100% of the EUC08 weekly benefit amount. Total EUC08 benefits paid during the fiscal year ended June 30, 2009 were \$1,204,960,432, of which \$379,774 or 0.03%, consisted of overpayments related to fraud.

According to Unemployment Insurance Program Letter (UIPL) 11-09, Attachment A, Section D, FAC may only be used to offset FAC overpayments. According to UIPL 23-08 Attachment A, page A-13, #3(B)(i) and UIPL Change 1, Section K titled Overpayments, Q&A #2, EUC08 offsets for EUC08 fraud overpayments are limited to 50% of the EUC08 weekly benefit amount.

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Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure system configurations are in place to properly offset benefit overpayments in accordance with the Federal regulations.

In discussing these conditions with IDES officials, they stated they were following past practices on previous federal extension programs by following state law which provides for a higher recoupment rate for fraud overpayments. Concerning the failure to offset a FAC overpayment with a FAC payment, it was assigned a lower priority compared to other requirements of the American Recovery and Reinvestment Act that significantly expanded the Unemployment Insurance Program. In addition, resources have mainly been diverted to performing tasks related to the implementation of the new benefit system (IBIS).

Failure to properly offset benefit payment overpayments could result in inaccurate benefit payments. (Finding Code 09-68)

Recommendation:

We recommend IDES implement procedures to ensure the information technology systems are properly configured to offset overpayments in accordance with the Federal regulations.

IDES Response:

We agree. Changes to ensure that Fraud EUC overpayments are only recouped at a rate of 50% have been implemented. The ability to use a FAC payment to offset a FAC overpayment will be implemented in IBIS, scheduled to be implemented the summer of 2010.

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For Year Ended June 30, 2009

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225/17.225 ARRA (\$5,163,450,000)

Award Numbers: UI144320555/UI151190655/UI157960755/UI167440855A17/UI180180955A17

Questioned Costs: None

Finding 09-69 *Untimely Verification of Out-of-State Wages for EUC08 Beneficiaries*

IDES did not perform all required out-of-state wages verification procedures for Emergency Unemployment Compensation (EUC08) beneficiaries.

The EUC08 program was established by the American Recovery and Reinvestment Act and is administered as a part of the Unemployment Insurance (UI) Program. The EUC08 program is a federally funded benefit extension program which provides up to 33 weeks of benefits to claimants who have exhausted their benefit rights to regular unemployment compensation under the applicable state law with respect to the applicable benefit year. The benefit year is the one year period beginning with the Sunday of the week in which the worker first files a valid claim for benefits.

A claimant eligible for regular UI benefits in another state is considered to have established a new benefit year and has not exhausted all rights to regular benefits and, therefore, is not eligible for EUC08 benefits.

Based on a review performed by the U.S. Department of Labor – Employment and Training Administration and discussion with management, we noted IDES does not examine out-of-state wages at the beginning of the initial EUC08 and initial extended benefit claim or at the end of each quarter to determine if UI eligibility could be established in another state. IDES procedures for verifying whether a claimant has exhausted all rights to regular benefits only include examining out-of-state wages each time a claimant establishes new benefit year.

According to Unemployment Insurance Program Letter (UIPL) No. 23-08, Attachment A, page A-3, #1(b)(2), at each quarter change, a state must check to see if an individual meets the state's requirements to establish a new benefit year. 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 perform verification procedures related to claimant eligibility in accordance with Federal regulations.

In discussing these conditions with IDES officials, they stated there is no efficient process to check out state wages on a quarterly basis. Using the Interstate Benefits Inquiry Database (IBIQ) system would be completely manual for every claim filed and is limited to checking five states at a time to determine if wages are reported in those five states.

Failure to perform required out of state wage verifications could result in the payment of EUC08 benefits to ineligible recipients. (Finding Code 09-69)

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Recommendation:

We recommend IDES establish procedures to perform out of state wage verifications at the beginning of the initial EUC08 and extended benefit periods, and at the end of each quarter to determine if UI eligibility could be established in another state.

IDES Response:

IDES checks for out-of-state wages when a new benefit year is established. There is no other effective or efficient process for checking out-of-state wages. The IBIQ system, which was suggested in the USDOL EUC review, is a real time system and does not maintain a data base. USDOL has not identified any other viable alternative.

Auditors' Comment:

We recommend IDES work with the USDOL to identify appropriate sources to perform the required out of state wage verifications.

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For Year Ended June 30, 2009

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: 17.258/17.258 ARRA/17.259/17.259 ARRA/17.260/
17.260 ARRA (\$138,395,000)

Award Numbers: AA-15477-06-55/AA-16026-07-55/AA-17119-08-55/AA-17119-08-55-A-17

Questioned Costs: None

Finding 09-70 *Failure to Communicate ARRA Information and Requirements to Subrecipients*

DCEO did not communicate American Recovery and Reinvestment Act (ARRA) information and requirements to subrecipients of the Workforce Investment Act (WIA) Cluster program.

During our testwork over disbursements to subrecipients of the WIA Cluster program, we noted DCEO did not identify the federal award number, catalog of federal domestic assistance (CFDA) number, or the amount attributable to ARRA at the time of each disbursement. Additionally, DCEO's grant agreements did not identify the requirement for subrecipients to separately report ARRA program expenditures on their schedule of expenditures federal awards (SEFA) and data collection form. DCEO passed through approximately \$4,296,000 of ARRA funding to 20 subrecipients of the WIA Cluster.

According to the American Recovery and Reinvestment Act, Federal Agencies must require recipients to agree to: (1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal Award number, CFDA number, and the amount of ARRA funds; and (2) require their subrecipients to provide similar identification in their SEFA and data collection form.

In discussing these conditions with DCEO officials, they stated they assumed that they were in compliance with the ARRA requirements based on the general provisions relating to federal awards and ARRA contained in their existing grant agreement for subrecipients.

Failure to communicate required ARRA information could result in subrecipients not properly administering the federal programs in accordance with federal regulations. (Finding Code 09-70)

Recommendation:

We recommend DCEO implement procedures to ensure ARRA information and requirements are properly communicated to its subrecipients.

DCEO Response:

The Department agrees with the recommendation and will ensure ARRA information and requirements are properly communicated to ARRA subrecipients. The Department has revised the

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audit provisions in the grant agreement to include the specific requirement for subrecipients to separately report ARRA expenditures on their SEFA and data collection forms. The Department will also include the required ARRA information on disbursements to the subrecipients.

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For Year Ended June 30, 2009

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

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

Program Name: CDBG – State-Administered Small Cities Program Cluster

CFDA # and Program Expenditures: 14.228 (\$30,637,000)

Award Numbers: B-05-DC-17-0001/B-06-DC-17-0001/B-07-DC-17-0001/B-08-DC-17-0001/
B-09-DC-17-001

Questioned Costs: None

Finding 09-71 *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 December 31, 2008, 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-05-DC-17-0001

Title	As Reported	Actual	Variance
Part 2. National Objectives:			
Section B - Amount Used To			
Benefit to Low/Moderate Income Persons	\$ 32,645,596	32,682,590	36,994
Local Administration	1,966,429	1,929,435	(36,994)

Grant Number B-00-DC-17-0001

Title	As Reported	Actual	Variance
Part 2. National Objectives:			
Section B - Amount Used To			
Benefit to Low/Moderate Income Persons	\$ 34,837,464	34,833,279	(4,185)
Local Administration	1,879,575	1,883,760	4,185

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

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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 errors in the 2008 Performance and Evaluation Report resulted from an inadvertent misclassification of local administrative costs allocated to the low to moderate income objective.

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 09-71, 08-75, 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.

DCEO Response:

The Department agrees with the finding. For future reporting years, DCEO will not be required to manually submit a Performance and Evaluation Report as the US Department of Housing and Urban Development will use the data maintained in their information system to satisfy this reporting requirement.

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For Year Ended June 30, 2009

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: 17.258/17.258 ARRA/17.259/17.259 ARRA/17.260/
17.260 ARRA (\$138,395,000)

Award Numbers: AA-15477-06-55/AA-16026-07-55/AA-17119-08-55/AA-17119-08-55-A-17

Questioned Costs: None

Finding 09-72 Untimely Communication of On-Site Monitoring Findings

DCEO did not communicate the resulting findings on a timely basis for the Workforce Investment Act Cluster (WIA) program.

DCEO passes through federal funding to 55 formula and discretionary grantees (subrecipients) throughout the State. Each of these agencies works with DCEO to develop an annual area plan detailing how funds will be used to meet the goals and objectives of the WIA program. DCEO has established policies and procedures for monitoring its subrecipients, which includes: performing fiscal and programmatic on-site reviews, reviewing periodic financial, programmatic, and single audit reports, and providing training and guidance to subrecipients as necessary.

During our testwork of fourteen subrecipients of the WIA program with total expenditures of \$80,279,000, we noted:

- The findings and management recommendations for eleven fiscal on-site monitoring reviews were not communicated to the subrecipients as of the date of our testwork.
- The findings and management recommendations for one programmatic on-site monitoring review was not communicated to the subrecipients in a timely manner. The number of days elapsed between the exit conference and the communication of the findings was 94 days.

Total awards passed through to subrecipients of the WIA program were approximately \$121,981,000 during the year-ended June 30, 2009.

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 findings are communicated to subrecipients on a timely basis.

In discussing these conditions with DCEO officials, they stated the one programmatic monitoring communication was sent out four days late as a result of workload issues from an unexpected vacancy and additional monitoring for the new American Recovery and Reinvestment Act grants. The late

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communications for fiscal monitoring were a result of four vacancies and staff resources that were allocated to assist the reorganization of a local Workforce Investment Act area.

Failure to communicate the findings may result in subrecipients not properly administering federal programs in accordance with laws, regulations, and grant agreements. (Finding Code 09-72, 08-77)

Recommendation:

We recommend DCEO communicate findings and management recommendations for on-site reviews on a timely basis.

DCEO Response:

The Department agrees with the recommendation and has hired two fiscal monitors and continues to evaluate staffing plans to ensure monitoring requirements are met. The Department has also revised monitoring procedures and trained staff. Recent implementation of a manager's notification procedure for upcoming deadlines will help to assist them in staying timely with communication of findings and management recommendations for on-site reviews.

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For Year Ended June 30, 2009

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 (\$82,973,000)

Award Numbers: Various

Questioned Costs: None

Finding 09-73 *Inadequate On-Site Monitoring of Subrecipients*

IDOT is not performing on-site reviews and has not developed formal policies and procedures for on-site reviews for locally-let projects awarded to subrecipients receiving federal awards under the Airport Improvement program.

IDOT passed through approximately \$30,156,000 to 34 subrecipients of the Airport Improvement program during the year ended June 30, 2009. Of this amount, IDOT passed through approximately \$3,719,000 in subawards for which IDOT was responsible for performing procurement of the underlying goods and services and approximately \$26,437,000 in subawards in which the subrecipients were responsible for procurement of the underlying goods and services (locally-let subawards). The majority of the subrecipient grants pertain to construction projects for airport improvement or noise abatement projects. In our prior year report, it was reported that IDOT was not performing any on-site reviews of subrecipients of the Airport Improvement program. During the current year, IDOT implemented procedures to perform on-site reviews of subrecipients in which IDOT is responsible for performing the procurement of the underlying goods and services. However, IDOT did not perform any on-site reviews of subrecipients for locally-let subawards. IDOT management stated that they plan to perform on-site reviews for these subawards beginning in fiscal year 2010.

According to the OMB Circular A-133 Compliance Supplement, dated March 2009, 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 these conditions, IDOT officials stated they monitored subrecipients by reviewing grant applications, receiving periodic expenditure reports, reviewing invoices for noise abatement projects, and reviewing OMB Circular A-133 audit reports. Based on the prior finding, they have also implemented on-site monitoring procedures beginning in fiscal year 2009 for subawards in which IDOT is responsible for procurement and will implement on-site monitoring procedures beginning in fiscal year 2010 for locally-let subawards.

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 09-73, 08-78, 07-70, 06-71, 05-76)

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Recommendation:

We recommend IDOT develop formal policies and procedures to perform periodic on-site reviews to ensure subrecipients are administering the federal program in accordance with the applicable laws and regulations.

IDOT Response:

The Department agrees with the finding. Although all IDOT let projects have a formal policy and procedure for on-site monitoring, a policy was not in place for locally let projects prior to June 30, 2009. This has since been rectified. It must be noted that although a policy was not strictly in place, on-site monitor did occur for nearly every locally let project.

Auditors' Comment:

IDOT stated above they will implement on-site monitoring procedures beginning in fiscal year 2010 for locally-let subawards. IDOT could not provide documentation that on-site monitoring was performed for locally-let projects administered by subrecipients during the year ended June 30, 2009.

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For Year Ended June 30, 2009

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 Cluster
Homeland Security Cluster
Disaster Grants – Public Assistance

CFDA # and Program Expenditures: 20.106 (\$82,973,000)
20.205/20.205 ARRA/20.219 (\$1,248,995,000)
97.004/97.053/97.067/97.073/97.074 (\$75,797,000)
97.036 (\$57,466,000)

Award Numbers: Various (20.106)
(CFDA Number) Various (20.205/20.205 ARRA/20.219)
2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T70022/2008-GE-T8-0012
(97.004/97.053/97.067/97.073/97.074)
IL021416/1513DRILP00000001/3230EMILP00000001/1633DRILP00000001/
3269EMILP00000001/1681DRILP00000001/3283EMILP00000001/1771D
RILP00000001/1800DRILP00000001/1826DRILP00000001 (97.036)

Questioned Costs: None

Finding 09-74 *Inaccurate Reporting of Federal Expenditures*

IDOT did not accurately report Federal expenditures under the Airport Improvement Program, the Highway Planning and Construction Cluster, the Homeland Security Cluster, and the Disaster Grants – Public Assistance (Public Assistance) programs.

During our audit, we noted IDOT inaccurately reported federal expenditures to the Illinois Office of the Comptroller (IOC) using an estimate based on revenues and receipts, instead of actual expenditures. Additionally, expenditures for the Airport Improvement Program were incorrectly identified as being funded by the American Reinvestment Recovery Act.

Specifically, we noted the following differences for the year ended June 30, 2009:

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Program	Original Federal Expenditures Reported	Actual Federal Expenditures	Difference
Airport Improvement Program	89,164,000	82,973,000	6,191,000
Highway Planning and Construction Cluster	1,355,546,000	1,248,995,000	106,551,000
Homeland Security Cluster	3,249,000	814,000	2,435,000
Public Assistance	-	2,435,000	(2,435,000)

Adjustments were subsequently made after these differences were identified during the audit to accurately report federal expenditures in the schedule of expenditures of federal awards (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. Effective internal controls should include procedures to ensure federal expenditures are accurately reported in the SEFA based on actual expenditures.

In discussing this with IDOT officials, they stated due to the unexpected loss of key personnel during the GAAP and SEFA reporting process, a different methodology was used to report federal expenditures in the GAAP packages for these programs. The inaccuracies in the SEFA reporting were due mainly to lack of experience with this process. The process has since been revised and will provide supporting documentation to accurately report federal expenditures.

Failure to accurately report federal expenditures prohibits the completion of an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 09-74)

Recommendation:

We recommend IDOT establish procedures to accurately report Federal expenditures to the IOC.

IDOT Response:

The Department agrees with the finding. After completion of the fieldwork, department staff identified additional reporting processes in order to provide the necessary documentation to support federal expenditure reporting. In addition, cross training of personnel is being implemented in the Fiscal Operations Unit in order to insure complete and accurate reporting of federal expenditures in the future. All revised processes are being documented and the appropriate accounting procedure manuals will be updated as required.

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For Year Ended June 30, 2009

State Agency: Illinois Department of Transportation

Federal Agency: US Department of Transportation (USDOT)

Program Name: Highway Planning and Construction Cluster

CFDA # and Program Expenditures: 20.205/20.205 ARRA/20.219 (\$1,248,995,000)

Award Numbers: Various

Questioned Costs: None

Finding 09-75 *Inadequate Contract Provisions For Projects Subject to Davis-Bacon and Department of Labor (DOL) Requirements*

IDOT did not include provisions in the construction contracts requiring the contractors and subcontractors to comply with the Davis-Bacon Act and Department of Labor Regulations for the Highway Planning and Construction Cluster program.

Non-federal entities are required to comply with the requirements of the Davis-Bacon Act and the Department of Labor regulations applicable to contracts governing federally financed and assisted construction. These regulations require, in part, that all laborers and mechanics employed by contractors or subcontractors who work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid prevailing wage rates established for the locality of the project. IDOT's process to comply with these requirements includes informing their contractors of the applicability of these requirements through communications in the bid documents and obtaining weekly certified payroll reports from contractors. However, IDOT did not include in all of their contracts a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and related DOL regulations. Specifically, we noted 20 of 40 contracts selected for test work did not contain the Davis Bacon Act requirements. IDOT paid approximately \$1.098 million for construction contracts subject to the Davis-Bacon Act during the year ended June 30, 2009.

According to 29 CFR Section 5.5 (a), non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations. 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 provisions for the Davis-Bacon Act and the DOL regulations are included in contracts subject to those requirements.

In discussing these conditions with IDOT officials, they stated that the "Required Contract Provisions Federal-Aid Construction Contracts" document was being removed from Federal-Aid contracts due to a misguided directive.

Failure to include the Davis-Bacon Act and DOL regulations in the construction contracts could result in contractors not paying the prevailing wage rate to employees. (Finding Code 09-75)

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For Year Ended June 30, 2009

Recommendation:

We recommend IDOT establish procedures to ensure the provisions requiring the contractors and subcontractors to comply with the Davis-Bacon Act and Department of Labor Regulations are included in all executed contracts.

IDOT Response:

The Department agrees with the finding. The document "Required Contract Provisions Federal-Aid Construction Contracts" was only being removed and replaced by the Davis Bacon wage rates on the paper copies of the contract. The electronic version of the proposal still contained the required document. This was immediately addressed on or about October 23rd, 2009, the document is no longer being removed after that time. However, in order to insure that the contractor paid the correct prevailing wage rate to employees, the actual Davis Bacon wage rates for that specific contract were being added as a material part of the contract in replacement of the document that was being removed.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

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 Cluster
Homeland Security Cluster

CFDA # and Program Expenditures: 20.106 (\$82,973,000)
20.205/20.205 ARRA/20.219 (\$1,248,995,000)
97.004/97.053/97.067/97.073/97.074 (\$75,797,000)

Award Numbers: Various (20.106)
(CFDA Number) Various (20.205/20.205 ARRA/20.219)
2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T70022/2008-GE-T8-0012
(97.004/97.053/97.067/97.073/97.074)

Questioned Costs: None

Finding 09-76 *Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports*

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

IDOT passed through approximately \$30,156,000, \$113,227,000, and \$32,500 to subrecipients of the Airport Improvement, Highway Planning and Construction Cluster, and Homeland Security Cluster programs, respectively, during the year ended June 30, 2009. During our testwork, we noted the checklist used by IDOT to perform A-133 desk reviews does not include procedures to reconcile federal funds spent by IDOT to the schedule of expenditures of federal awards reported by the subrecipient. As a result, IDOT is not able to determine whether federal awards passed through to subrecipients have been properly included in the subrecipients' OMB Circular A-133 audits.

Per OMB Circular A-133 Compliance Supplement, dated March 2009, 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 take timely and corrective action on all audit findings.

In discussing these conditions with IDOT officials, they stated the Department is revising procedures to reconcile federal funds passed through by IDOT to the schedule of expenditures of federal awards reported by the subrecipients; however, the procedures were not fully implemented in the audit period.

Failure to reconcile federal funds passed through by IDOT to the schedule of expenditures of federal awards reported by the subrecipient could result in subrecipients reporting incorrect federal expenditures and receiving inadequate OMB Circular A-133 audits. (Finding Code 09-76, 08-80, 07-72, 06-72, 05-77, 04-62, 03-54, 02-48)

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

Recommendation:

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. We believe we have developed a method to aid with reconciling payments reported by subrecipients over various fiscal year bases with departmental records. The new protocol will be adopted and included as part of the subrecipient monitoring programs, as applicable.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Airport Improvement Program
Highway Planning and Construction Cluster

CFDA # and Program Expenditures: 20.106 (\$82,973,000)
20.205/20.205 ARRA/20.219 (\$1,248,995,000)

Award Numbers: Various (20.106)
(CFDA Number) Various (20.205/20.205 ARRA/20.219)

Questioned Costs: None

Finding 09-77 *Failure to Notify Subrecipients of Federal Funding*

IDOT did not provide required program information relative to federal funds passed through to the subrecipients of the Airport Improvement Program and Highway Planning and Construction Cluster programs for the year ended June 30, 2009.

During our testwork of thirty grant awards to 18 subrecipients who received approximately \$32,315,000 in Highway Planning and Construction Cluster program funds and thirty grant awards to 18 subrecipients who received approximately \$21,580,000 of the Airport Improvement program funds, we noted the following:

- Twenty grant award notices for the Airport Improvement Program did not communicate the specific program or CFDA number under which federal funding had been provided.
- Twenty-eight grant award notices for the Highway Planning and Construction Cluster did not communicate the specific program or CFDA number under which federal funding had been provided.
- Nineteen grant award notices for the Airport Improvement Program did not communicate program regulations or the need for an audit in accordance with OMB Circular A-133.
- Twenty-one grant award notices for the Highway Planning and Construction Cluster did not communicate program regulations or the need for an audit in accordance with OMB Circular A-133.

Subrecipient expenditures under the federal programs for the year ended June 30, 2009 were as follows:

Program	Total Fiscal Year 2009 Subrecipient Expenditures	Total Fiscal Year 2009 Program Expenditures	%
Airport Improvement Program	\$30,156,000	\$82,973,000	36.3%
Highway Planning and Construction Cluster	\$113,227,000	\$1,248,995,000	9.1%

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According to OMB Circular A-133 __.400(d), a pass-through entity is required to identify federal awards made by informing each subrecipient of the CFDA title and number, award name and number, and award year. The 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 stated the projects identified were initiated before the prior year corrective action that revised the agreements had been fully implemented.

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 09-77, 08-81, 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. The Department revised the Local Agency Agreement for Federal Participation (BLR 05310) to include the CFDA number and single audit instructions. The City of Chicago Individual Project Agreement (IPA) has also been revised to include the CFDA number and audit instructions. Again we believe any IPA's reviewed in this audit were initiated prior to the incorporation of the language into the boilerplate.

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For Year Ended June 30, 2009

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Highway Planning and Construction Cluster

CFDA # and Program Expenditures: 20.205/20.205 ARRA/20.219 (\$1,248,995,000)

Award Numbers: Various

Questioned Costs: None

Finding 09-78 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 Highway Planning and Construction Cluster program.

During our review of 30 grant agreement notifications to subrecipients of the Highway Planning and Construction Cluster program, we noted IDOT did not include a suspension and debarment certification in one of the grant agreements. As a result, IDOT did not receive a certification that this subrecipient of the Highway Planning and Construction Program was 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, 2009, IDOT passed through approximately \$113,227,000 to approximately 310 subrecipients of the Highway Planning and Construction Cluster 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 stated one division was using an outdated grant agreement that did not include the suspension and debarment certifications.

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 09-78, 08-79)

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.

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For Year Ended June 30, 2009

IDOT Response:

The Department agrees with the finding. Since the audit, the Department has added suspension and debarment clauses and certifications to the Rail Safety agreement template. The agreement cited was initiated prior to this change.

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For Year Ended June 30, 2009

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Highway Planning and Construction Cluster

CFDA # and Program Expenditures: 20.205/20.205 ARRA/20.219 (\$1,248,995,000)

Award Numbers: Various

Questioned Costs: None

Finding 09-79 *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 Cluster program in accordance with their approved sampling and testing program.

The Highway Planning and Construction Cluster 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) and the Manual for Materials Inspection (the Manual) 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 120 materials from ongoing (open) construction projects and noted three instances where materials were accepted using a method of acceptance that was not in accordance with the Manual.

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.

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In discussing these conditions with IDOT officials, they stated two of the three exceptions identified occurred prior to the publishing of a major update to the Manual for Materials Inspection in the spring of 2009. Fields inspectors might not have had current information about the correct method of acceptance. The final item exception, a completed sign panel, appears to have been caused by a misunderstanding as to how the component materials need to be inspected prior to the final product being manufactured.

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 09-79)

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 the finding. Based on the possible cause for this finding, the department published an updated Manual for Materials Inspection in March 2009 and June 2009 and an updated Project Procedures Guide in June 2009. Also, the department met with the appropriate staff in February 2010 and discussed these findings and stressed how to avoid these in the future. With correct method of acceptance information now readily available the number of audit exceptions should decrease in future audits.

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For Year Ended June 30, 2009

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.053/97.067/97.073/97.074 (\$75,797,000)

Award Numbers: 2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012

Questioned Costs: Cannot be determined

Finding 09-80 *Failure to Account For and Remit Interest Earned on Advance Funding*

IDOT did not account for and remit interest earned on advance funding received under the Homeland Security Cluster program.

During the year ended June 30, 2009, IDOT received approximately \$814,000 in advance funding under the Homeland Security Cluster program. During our audit, we noted IDOT deposited the advance funding into an interest-bearing account with the State Treasurer which is commingled with other funds. However, IDOT did not account for and remit interest earned on the Homeland Security Cluster program funds to the U.S. Treasury.

According to the OMB Circular A-133 Compliance Supplement dated March, 2009, grantees are permitted to draw down funds up to 120 days prior to expenditure/disbursement, but must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury. Additionally, Chapter III.B of the 2005 Homeland Security Program Guidelines and Application Kit (HSP Guidelines), Chapter II.C.3 of the 2006 HSP Guidelines, and Appendix B, Section B, of the 2007 HSP Guidelines, and Appendix F, Section C, of the 2008 HSP Guidelines applicable to the Homeland Security Cluster Grants state that funds received by both grantees and subgrantees must be placed in an interest-bearing account.

In discussing these conditions with IDOT personnel, they stated that during the audit period, the corrective action which created a separate appropriation to reimburse Homeland Security expenditures to vendors prior to drawing down any federal funds had not been fully implemented. In order to minimize and marginalize any material interest issues, it had been the practice during the audit period to process payments to vendors in conjunction with any draw down of federal Homeland Security funds.

Failure to account for and remit interest earned results in lost interest earnings to the U.S. Treasury. (Finding Code 09-80, 08-82, 07-75, 06-76)

Recommendation:

We recommend IDOT account for and remit interest earned on the Homeland Security Cluster program funds to the U.S. Treasury.

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IDOT Response:

The Department agrees with the finding. A separate appropriation was created in 2009 to reimburse Homeland Security expenditures to vendors prior to drawing down any federal funds. This corrective action had unfortunately not been fully implemented during the audit period. We believe that the new appropriation and protocols will alleviate the concern noted in the finding.

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For Year Ended June 30, 2009

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Airport Improvement Program
Highway Planning and Construction Cluster

CFDA # and Program Expenditures: 20.106 (\$82,973,000)
20.205/20.205 ARRA/20.219 (\$1,248,995,000)

Award Numbers: Various (20.106)
Various (20.205/20.205ARRA/20.219)

Questioned Costs: None

Finding 09-81 *Inadequate Controls over Information Systems*

IDOT does not have adequate access, change management, and computer operations controls over the key systems that support the IDOT Integrated Transportation Project Management system.

The information technology systems that support the IDOT Integrated Transportation Project Management system include the following:

- The Electronic Contract Management System (ECM)
- The Electronic Letting Management System (ELM)
- The Illinois Construction Records System (ICORS)
- The Bureau of Contract Management System (BCM)
- The Fiscal Operations and Administration System (FOA)
- The Federal Payment Control System (FPC)

The ECM and ELM systems are used during the initial letting stages of the construction contract. The ECM houses the estimates made for the projects and the ELM system stores the bids from the contractors. The ICORS system is used by the resident engineers to record the progress of each job for billing purposes, which is interfaced with the BCM system. The data from the BCM system is interfaced with the FOA system to generate the payment to the contractor, and is also interfaced with the FPC system to generate the federal billing.

Requests for new system access, modification of current system access, or termination of access are initiated by the bureau chief designated as the Security Software administrator via the "User Request Form." This form is forwarded to the system owner who must review and approve the form, which is then sent to the Bureau of Information Processing for action. The change management and program development requests are initiated using an "Action Request" form, and require approval from the manager of the requesting user. Application enhancements or maintenance require testing prior to migration into the production environment. Frequency of backup for the systems is documented in the Disaster Recovery Plan.

During our test work over the access, program change and development, and computer operations controls of the systems, we selected 25 employees hired during the fiscal year ended June 30, 2009

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and noted seven had not completed the security awareness program training. We also noted four of 25 terminated users still had active RACF IDs.

During our test work over access to specific applications, we obtained an overall list of users with access to the ELM, BCM, FOA and FPC systems and noted the following exceptions:

- Four users had access to the ELM system but did not have any job responsibilities related to the bidding process that would require such access.
- Six users had access to the BCM system, however it appears access may not be necessary as the IDs had not been used over an extended period of time, for more than 24 months.
- Eight users had access to the FOA system, however it appears access may not be necessary as the IDs had not been used over an extended period of time, for more than 24 months.

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 stated during scheduled system access reviews with business users, the Department did not specifically address individuals that had not accessed a RACF system for an extended period of time. The Security Awareness program has a process in place to address individuals who do not complete the training in a reasonable amount of time. Those users that do not complete the Security Awareness program are reviewed and the individual's manager is notified to assist in obtaining completion of the program by the individual.

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 09-81, 08-84, 07-77, 06-81, 05-82)

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 review, analyze and improve IT processes and controls. The Department has improved processes related to RACF ID's during FY10 through improved system access reviews with business users, improved communication with Personnel relating to terminated employees, and an annual review of users that have not utilized their RACF ID within the prior 365 days. The Department has noted that after 30 days the passwords are revoked and users would not have access to these systems. Further, access to the mainframe systems can only occur from an IDOT computer connected to the network providing an extra layer of security. The Department continues to work with other Bureaus to improve communication from business areas when individuals change roles within their Bureaus that may require changes to their system access levels.

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For Year Ended June 30, 2009

State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.053/97.067/97.073/97.074 (\$75,797,000)

Award Numbers: 2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012

Questioned Costs: None

Finding 09-82 *Inadequate Process to Identify Programs Reported under the Homeland Security Cluster*

IEMA does not have an adequate financial reporting process to identify programs reported under the Homeland Security Cluster program.

Beginning in 2005, USDHS began to grant awards under the Homeland Security Grant Program (HSGP) using one catalog of federal domestic assistance (CFDA) number. The HSGP combines several USDHS programs under which awards were granted in previous fiscal years, and prior to fiscal year 2005, each of these programs had their own CFDA number. Entities receiving awards under the USDHS programs included in the HSGP had expenditures related to multiple award years, which resulted in expenditures for the same program being associated with awards granted under different CFDA numbers and as such, would not be included in the HSGP program. As these programs were intended to be included in the HSGP, in 2005 the Office of Management and Budget (OMB) created the Homeland Security Cluster and provided guidance as to which programs should be included in the Homeland Security Cluster for determining program expenditures.

During our review of IEMA's financial reporting process, we noted that the information provided by IEMA to the Illinois Office of the Comptroller (IOC) did not properly identify the program expenditures which should have been included as a part of the Homeland Security Cluster program. Specifically, expenditures of approximately \$49 million were reported on the schedule of expenditures of federal awards (SEFA) using an incorrect CFDA number, and adjustments were required to accurately state the Homeland Security Cluster expenditures in the SEFA.

According to OMB Circular A-133 § __.300(d) and (e), a recipient of federal awards is required to prepare the SEFA 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. Effective internal controls should include procedures to ensure all federal expenditures are reported in the SEFA under the correct CFDA number and program name.

In discussing these conditions with IEMA personnel, they stated that the original GAAP package listed the correct CFDA numbers. However, an external vendor hired to assist in the preparation of the GAAP packages changed the CFDA numbers and resubmitted them to the IOC in a subsequent revision without the knowledge of IEMA.

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During the GAAP process the Comptroller's staff conducts two reviews of each package and, if necessary, sends questions they have back to the agency. Since an accounting firm had been contracted by the Public Safety Shared Services Center (PSSSC) to prepare and submit all IEMA packages, the questions were sent to the "preparer", the accounting firm. After the first review the firm changed many CFDA numbers without consulting with IEMA staff or forwarding a copy of their responses to IEMA for review. The Agency understands that failing to post accurate CFDA numbers to the IL Office of the Comptroller translates to errors in Sub-Recipient, Agency, State and Federal reporting.

Failure to properly identify and report expenditures under the Homeland Security Cluster prohibits the completion of an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 09-82)

Recommendation:

We recommend IEMA establish procedures to properly identify and report expenditures under the Homeland Security Cluster to the IOC.

IEMA Response:

IEMA accepts this finding.

The correct catalog of federal domestic assistance (CFDA) numbers were provided by IEMA for the GAAP packages. However, the vendor hired by the Public Safety Shared Services Center (SS) to complete IEMA's GAAP package made changes to the CFDA numbers after the first round of comments from the Illinois Office of the Comptroller without consultation or notification to IEMA. A document sent to IEMA from the vendor in December and returned with corrections, shows IEMA's attempt to inform the vendor that the CFDA numbers in one of their worksheets were incorrect. There was no mention of the changes to the GAAP packages in reference to these numbers until IEMA received draft findings from the single audit.

IEMA will research the processes employed by Shared Services and work to ensure this situation does not occur in the future.

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State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.053/97.067/97.073/97.074 (\$75,797,000)

Award Numbers: 2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012

Questioned Costs: Cannot be determined

Finding 09-83 Failure to Deposit Funds in an Interest-Bearing Account

IEMA did not deposit Homeland Security Cluster program funds received in advance of issuing warrants into an interest-bearing account.

During the year ended June 30, 2009, IEMA received approximately \$67,385,000 in draws under the Homeland Security Cluster program that were not deposited into an interest bearing account. Additionally, IEMA did not calculate or remit any potential interest liability owed to the U.S. Treasury on funds received in advance of disbursement.

According to the OMB Circular A-133 Compliance Supplement dated March, 2009, grantees are permitted to draw down funds up to 120 days prior to expenditure/disbursement, but must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury. Additionally, Chapter III.B of the 2005 Homeland Security Program Guidelines and Application Kit (HSP Guidelines), Chapter II.C.3 of the 2006 HSP Guidelines, Appendix B, Section B, of the 2007 HSP Guidelines, and Appendix F, Section C, of the 2008 HSP Guidelines applicable to the Homeland Security Cluster Grants state that funds received by both grantees and subgrantees must be placed in an interest-bearing account.

In discussing these conditions with IEMA personnel, they stated federal funds are currently not being deposited into an interest-bearing account. IEMA understands that Federal funds drawn for non-immediate spending can be placed in an interest bearing account for up to 120 days, as long as all interest proceeds are returned to the Federal Government. IEMA will pursue legislation to create an interest bearing account.

Failure to deposit federal advances in an interest-bearing account results in lost interest earnings to the U.S. Treasury. (Finding Code 09-83, 08-85)

Recommendation:

We recommend IEMA deposit all federal funds received in an interest-bearing account and calculate and remit interest owed to the U.S. Treasury.

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For Year Ended June 30, 2009

IEMA Response:

IEMA accepts this finding. The Agency will pursue the legislation needed to create interest-bearing accounts. However, monitoring over 30 grant accounts on a daily basis in order to track the amount of interest owed may require an additional full time headcount. This employee would track all federally drawn funds from each program account, track the number of days from receipt to expenditure and complete payment forms for voucher processing at the Public Safety Shared Services Center for the accumulation of interest payment back to the Federal Government. IEMA will also pursue an additional headcount; however, we estimate the cost to hire an individual to be more than five times the amount of interest that would be returned to the federal government.

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For Year Ended June 30, 2009

State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.053/97.067/97.073/97.074 (\$75,797,000)

Award Numbers: 2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012

Questioned Costs: None

Finding 09-84 Failure to Obtain Suspension and Debarment Certifications from Vendors

IEMA did not obtain required certifications that vendors were not suspended or debarred from participation in Federal assistance programs for the Homeland Security Grant program.

During our review of 30 expenditures to 4 vendors of the Homeland Security Grant program, we noted IEMA did not include a suspension and debarment certification in its vendor agreements. As a result, IEMA did not receive certifications that the vendors of the Homeland Security Grant program were not suspended or debarred from participation in Federal assistance programs. Additionally, IEMA did not perform a verification check with the "Excluded Parties List System" (EPLS) maintained by the General Services Administration for its vendors. During the year ended June 30, 2009, IEMA expended approximately \$538,000 to vendors of the Homeland Security Grant program.

According to 44 CFR 17.200, 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 IEMA personnel, they stated that when the auditors originally notified IEMA of this finding, the Agency's legal opinion was that appropriate debarment language already existed; however, they agreed to add additional language to all contracts. This language was added after notification by the auditors, which was not until after the beginning of the 2009 audit period.

Failure to obtain the required certifications or perform verification procedures with the EPLS could result in the payment of Federal funds to vendors that are suspended or debarred from participation in Federal assistance programs. (Finding Code 09-84, 08-86)

Recommendation:

We recommend IEMA establish procedures to either ensure vendors certify that their organization is not suspended or debarred or otherwise excluded from participation in Federal assistance programs, or perform verification procedures with the EPLS.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

IEMA Response:

While the Agency believes appropriate debarment language existed prior to the Agency's audit for the period ending June 30, 2008, the Agency agreed to add additional language to all contracts to address the auditors' concerns. However, this language was not able to be added until the Agency was notified, which did not occur until after the beginning of this audit period.

Auditors' Comment:

The language which was included in the vendor contracts prior to the modification made by IEMA did not refer to the federal suspension and debarment requirements.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.053/97.067/97.073/97.074 (\$75,797,000)

Award Numbers: 2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012

Questioned Costs: None

Finding 09-85 *Inadequate On-Site Monitoring of Subrecipients*

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

The Illinois Terrorism Task Force (ITTF) within IEMA passes through Homeland Security program funding to various local governments to develop, maintain, and improve the responsiveness of Illinois local governments to terrorist acts. A significant portion of the grants made to these subrecipients was intended to fund the purchase of special equipment to be used in the event of terrorist attacks. ITTF monitors its subrecipients by reviewing invoices, expenditure reports, equipment inventory reports, and receiving OMB Circular A-133 audit reports. Effective March 19, 2008, IEMA developed a formal policy for performing on-site monitoring procedures at its subrecipients, and a monitoring template to document the on-site visits was developed during March, 2009. However, during our audit we noted IEMA did not perform on-site subrecipient monitoring procedures from July 1, 2008 through May 31, 2009. IEMA performed two on-site subrecipient monitoring visits in June, 2009, however those reviews were not fully documented.

Total federal awards passed through to subrecipients of the Homeland Security Cluster were approximately \$68,481,000 during the year ended June 30, 2009.

According to OMB Circular A-133 §__400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In discussing these conditions with IEMA personnel, they stated two on-site monitoring visits were conducted during the audit period and a more aggressive monitoring plan is being developed for state fiscal year 2010.

Failure to adequately perform subrecipient monitoring procedures could result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 09-85, 08-87)

Recommendation:

We recommend IEMA perform periodic on-site reviews to ensure subrecipients are administering the federal program in accordance with the applicable laws and regulations.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

IEMA Response:

IEMA agrees with the finding.

Although IEMA has established a comprehensive sub-recipient monitoring policy, which provides a mechanism to ensure grantee compliance with federal and state rules and requirements through multiple evaluation criteria, we agree that a limited number of on-site visits were made in State Fiscal Year (SFY) 2009. This policy was lauded by the U.S. Department of Homeland Security, Office of Inspector General as a thorough procedure to ensure programmatic compliance with federal and state policies and strategy. In SFY 2010, prior to the issuance on this finding, IEMA had already established an aggressive on-site monitoring schedule of grantees of federal preparedness funds that clearly exceeds the minimum requirements of OMB Circular A-133.

It should be noted that unlike other state grant programs, IEMA only provides funds to sub-recipients on a reimbursement basis. This means the sub-recipient must have already incurred the expense and submitted proper documentation (complete vendor invoice) to IEMA, which is immediately audited for adherence to federal and state rules and regulations that govern the grant program before any funds are drawn from the U.S. Treasury and payment issued. In our opinion, much of what would be accomplished in an on-site monitoring visit, with the exception of conducting a physical inventory, has already been completed prior to funds ever being requested from the federal government. This process, which has been in place well before SFY 2009, ensures all costs are completely documented and accounted for before the issuance of funds to the grantee.

Additionally, we believe that annual A-133 Single Audits, conducted by subject matter experts, provide a much more comprehensive and thorough review of financial documents than could be accomplished by IEMA staff. IEMA continues to closely monitor sub-grantee compliance with A-133 Single Audit requirements, which is a much more comprehensive process to ensure adherence to pertinent financial and grants management rules and regulations. To oversee this monitoring function, IEMA employs a compliance officer whose responsibility is to track the submission of jurisdictional audits, ensure appropriate federal funds are included in the audit, and follow up to resolve identified findings. All A-133 Single Audits are reviewed by IEMA in an appropriate period and follow-up letters are immediately sent to the jurisdiction.

IEMA continues to refine internal policies and procedures to strengthen our ability to ensure grantee compliance with federal and state rules and requirements. Since SFY 2009, IEMA has established several stringent procurement documentation policies directly associated with sub-recipient monitoring of organizations that receive federal preparedness funds. Additionally, IEMA has initiated the development of a web-based grants management system that will enable the agency to electronically capture the on-going project monitoring of sub-grantees that takes place on a regular basis.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

State Agency: Illinois Emergency Management Agency (IEMA)
Federal Agency: US Department of Homeland Security (USDHS)
Program Name: Disaster Grants – Public Assistance (Presidentially Declared Disasters)
CFDA # and Program Expenditures: 97.036 (\$57,466,000)

Award Numbers: IL021416/1513DRILP00000001/3230EMILP00000001/
 1633DRILP00000001/3269EMILP00000001/1681DRILP00000001/
 1729DRILP00000001/3283EMILP00000001/1771DRILP00000001/
 1800DRILP00000001/1826DRILP00000001

Questioned Costs: None

Finding 09-86 *Inaccurate Financial Status Report*

IEMA did not accurately report expenditures in the Federal Emergency Management Agency (FEMA) financial status report (FEMA Form 20-10).

The FEMA Form 20-10 report is required to be submitted on a quarterly basis to report expenditure information related to the disaster public assistance grants. During our review of 12 out of 40 quarterly FEMA Form 20-10 reports submitted during the fiscal year ended June 30, 2009, we noted IEMA incorrectly reported the amount of the recipient share of outlays in one report as follows:

<u>Quarter Ended</u>	<u>Reported Expenditures</u>	<u>Actual Expenditures</u>	<u>Variance</u>
March 31, 2009	\$ 11,605,206	8,220,182	3,385,024

According to 44 CFR 204.64, within 90 days of the performance period expiration date, the State will submit a financial status report (FEMA Form 20-10), which reports all costs incurred within the incident period and all administrative costs incurred with the performance period. 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 procedures to ensure reported expenditures are accurate.

In discussing these conditions with IEMA personnel, they stated that FEMA changed the Federal/Non-Federal cost share percentages for only one of the twenty-six open disasters. This change was in effect from June 24, 2008 thru August 6, 2008 or forty-four days. The cost share change for this disaster resulted in the submission of an inaccurate quarterly report which has been corrected.

Failure to accurately report expenditures on the FEMA Form 20-10 report prevents the USDHS from effectively monitoring the Disaster Grants Public Assistance Program. (Finding Code 09-86)

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

Recommendation:

We recommend IEMA review the process and procedures in place to prepare the FEMA Form 20-10 report to ensure expenditures are accurately reported.

IEMA Response:

IEMA accepts this finding.

It appears this finding was caused by an unusual change in the Federal/non-Federal cost share percentages under the FEMA-1771-DR-IL declaration. During this declaration, FEMA authorized a 90/10 Federal/non-Federal cost share split for a limited period for eligible Public Assistance Program projects under Category B, Emergency Protective Measures. This 90/10 cost share was just in force from the start of the incident until August 6, 2008. Any Category B project worksheets prepared for work performed during this period had this 90/10 cost share.

The typical cost share for declarations under the Public Assistance Program is 75/25. The only other declaration where we've had a 90/10 cost share was the FEMA-0997-DR-IL, 1993 Great Midwest Flood, and 90/10 was the cost share for the entire period of the disaster.

There are no known instances where a 90/10 cost share has been authorized for a short range of time within a disaster. This anomaly caused the non-Federal share number entered for the 1771 quarterly financial reports to be inaccurate. After we received notice of this discrepancy, program staff and fiscal worked together to identify payments within this time frame and submitted the corrected numbers listed above in this finding and resubmitted adjusted quarterly reports. Staff from disaster programs and fiscal will work together to insure this is not overlooked in the future.

Additionally, the Grants Management System (GMS) currently under development should enable program and fiscal staff to share necessary information and avoid these discrepancies.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

State Agency: Illinois Emergency Management Agency (IEMA)
Federal Agency: US Department of Homeland Security (USDHS)
Program Name: Disaster Grants – Public Assistance (Presidentially Declared Disasters)
CFDA # and Program Expenditures: 97.036 (\$57,466,000)

Award Numbers: IL021416/1513DRILP00000001/3230EMILP00000001
1633DRILP00000001/3269EMILP00000001/1681DRILP00000001/
1729DRILP00000001/3283EMILP00000001/1771DRILP00000001/
1800DRILP00000001/1826DRILP00000001

Questioned Costs: None

Finding 09-87 Failure to Draw Funds Only for Immediate Cash Needs

IEMA did not minimize the time elapsing between the drawdown of federal funds from the U.S. Treasury and their disbursement for program purposes.

During our review of 30 expenditures (totaling \$12,602,386) related to the Disaster Grants Public Assistance (Presidentially Declared Disasters) program, we noted warrants were not issued for 23 expenditure vouchers, totaling \$7,148,159 within three 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 four to fourteen business days. Total expenditures for the Disaster Grants Public Assistance (Presidentially Declared Disasters) program administered by IEMA were \$57,466,000 during the year ended June 30, 2009.

According to 44 CFR 13.21(b), grantees are required to implement methods and procedures for payment which minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement of funds in accordance with the Treasury Regulations at 31 CFR part 205 (Treasury Regulations). The Treasury Regulations require programs with less than \$60 million in expenditures follow Subpart B – Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State agreement. According to 31 CFR 205.33(a), grantees following Subpart B are required to implement procedures to ensure that the timing and amount of fund transfers be as close as is administratively feasible to a State's actual cash outlay for program costs, which based on discussions with Federal agencies has been interpreted to be within 3 days of receipt of federal funds. 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 IEMA personnel, they stated the payment vouchers and federal fund draws have historically been processed simultaneously; however, processing a voucher and creating a warrant has taken more than three business days during fiscal year 2009.

Failure to draw and disburse federal funds in accordance with program regulations may result in an interest liability to the federal government. (Finding Code 09-87)

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

Recommendation:

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

IEMA Response:

IEMA accepts this finding

The Agency currently works to minimize the time between draws and payment. IEMA's current process is to submit vouchers to Shared Services where they are entered for payment. Once the vouchers are entered, grant fiscal staff submit a request for federal funds online. It then requires at most two days for the Treasurer to receive the funds and for the Comptroller to post to their appropriate fund. An additional two days are required for assembling schedules at Shared Services and delivering that information to the Comptroller. We will review our processes to identify opportunities for improvement. However, the Agency has no control over the length of time vouchers spend at the Office of the Comptroller. We will reach out to their office to determine if the timeframe can be shortened.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.053/97.067/97.073/97.074 (\$75,797,000)

Award Numbers: 2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012

Questioned Costs: None

Finding 09-88 *Failure to Follow Established Internal Control Procedures for Equipment*

IEMA did not follow their established internal control procedures to reconcile equipment expenditures to additions recorded in the property (equipment) records.

IEMA's internal control procedures to maintain accurate property records include a monthly reconciliation between expenditures for equipment recorded in their general ledger to equipment additions recorded in the property records. During our audit, we noted IEMA did not complete any of the monthly reconciliations during the year ended June 30, 2009. Subsequent to our procedures, IEMA reconciled all twelve months and noted no differences between the expenditures for equipment recorded in their general ledger and equipment added to their property records.

According to the OMB Circular A-133 Compliance Supplement dated March, 2009, a State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with the State's laws and procedures. According to the Illinois Compiled Statutes State Property Control Act, 30 ILCS 605/6.02, each responsible officer shall maintain a permanent record of all items of property under his jurisdiction and control. The listing shall include all property being acquired under agreements which are required by the State Comptroller to be capitalized for inclusion in the statewide financial statements. The A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include following established internal control procedures to reconcile equipment expenditures to additions recorded in the property records.

In discussing these conditions with IEMA personnel, they stated the reconciliation was not completed due to staffing changes created by the Public Safety Shared Services Center.

Failure to follow established internal control procedures for equipment could result in inaccurate or incomplete property records. (Finding Code 09-88)

Recommendation:

We recommend IEMA follow their established internal control procedures to reconcile equipment expenditures to additions recorded in the property records.

IEMA Response:

IEMA accepts this finding.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

The Agency internal control procedures state that expenditures for equipment recorded in the general ledger will be reconciled monthly with equipment additions recorded in the property records. Prior to Executive Order 6 (2006) which created the Public Safety Shared Services Center (SS) those reconciliations were completed monthly.

Per the executive order fixed assets were transferred to the SS at the Illinois Department of Corrections.

SS did not complete reconciliations for State fiscal year 2009 but procedures are in place to ensure that reconciliations occur in the future. The Agency will discuss with SS ways in which the process can be improved.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

State Agency: Illinois State Police (State Police)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.004/97.053/97.067/97.073/97.074 (\$75,797,000)

Award Numbers: 2005-GE-T5-0002/2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012

Questioned Costs: Cannot be determined

Finding 09-89 *Failure to Deposit Funds in an Interest-Bearing Account*

State Police did not deposit Homeland Security Cluster program funds received in advance of issuing warrants into an interest-bearing account.

During the year ended June 30, 2009, State Police received approximately \$1,509,000 in draws under the Homeland Security Cluster program that were not deposited into an interest bearing account. Additionally, State Police did not calculate or remit any potential interest liability owed to the U.S. Treasury on funds received in advance of disbursement.

According to the OMB Circular A-133 Compliance Supplement dated March, 2009, grantees are permitted to draw down funds up to 120 days prior to expenditure/disbursement, but must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury. Additionally, Chapter III.B of the 2005 Homeland Security Program Guidelines and Application Kit (HSP Guidelines), Chapter II.C.3 of the 2006 HSP Guidelines, Appendix B, Section B, of the 2007 HSP Guidelines, and Appendix F, Section C, of the 2008 HSP Guidelines applicable to the Homeland Security Cluster Grants state that funds received by both grantees and subgrantees must be placed in an interest-bearing account.

In discussing these conditions with State Police personnel, they stated individuals responsible for the draws of these funds failed to notice this requirement.

Failure to deposit federal advances in an interest-bearing account results in lost interest earnings to the U.S. Treasury. (Finding Code 09-89, 08-90)

Recommendation:

We recommend State Police deposit all federal funds received in an interest-bearing account and calculate and remit interest owed to the U.S. Treasury.

State Police Response:

Concur. We will work with the State Treasurer's Office to make the Federal Projects Fund an interest-bearing account.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

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 (\$7,418,000)

Award Numbers: None

Questioned Costs: None

Finding 09-90 *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 \$5,689,000 to subrecipients of the HAVA program during the year ended June 30, 2009. 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 2009, 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 officials, they stated that the agency is presently unable to do extensive on-site monitoring of sub-recipients due to the extremely limited staff resources available within the agency.

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 09-90, 08-91, 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.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

SBOE Response:

We have previously requested guidelines from the USEAC for performing site-visits of HAVA grant sub-recipients but to date have received no substantial guidance in this area. Despite the lack of guidance or instructional material available, the HAVA Operations Division began conducting site-visits in December of 2009 with the substantive goal of verifying equipment purchased and proper usage of HAVA grant monies by local jurisdictions. Site visits will be conducted as often as possible within the limited resources available in the HAVA Operations area – most likely one local jurisdiction per month.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

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 (\$7,418,000)

Award Numbers: None

Questioned Costs: None

Finding 09-91 Failure to Review Subrecipient OMB Circular A-133 Audit Reports

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

During our follow up testing for the HAVA program, we noted SBOE had not performed OMB Circular A-133 audit report desk reviews for any of its subrecipients. Although SBOE sent a letter requesting subrecipients submit OMB Circular A-133 audits reports, SBOE has not implemented procedures to follow up on missing reports or to perform a comprehensive desk review of the reports received. SBOE passed through approximately \$5,689,000 to subrecipients of the HAVA program during the year ended June 30, 2009.

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 2009, 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 stated that limited staffing resources have prohibited SBOE from implementing comprehensive OMB Circular A-133 desk review and follow up procedures.

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 09-91, 08-92, 07-82)

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For Year Ended June 30, 2009

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

SBOE Response:

HAVA Operations division distributed a memo to all election jurisdictions reminding them of their responsibility to have audits conducted in accordance with OMB Circular A-133 (which was also provided to them) and to submit them to the SBOE for review. If follow-up is required the HAVA Operations Manager makes contact with the jurisdiction to ensure that proper implementation of any corrective action plan has taken place.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

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: SNAP Cluster
Child Nutrition Cluster
Special Supplemental Nutrition Program for Women, Infants and Children
Child and Adult Care Food Program
CDBG – State-Administered Small Cities Program Cluster
Employment Services Cluster
Unemployment Insurance
Trade Adjustment Assistance - Workers
Workforce Investment Act Cluster
Airport Improvement Program
Highway Planning and Construction Cluster
Title I, Part A Cluster
Special Education Cluster
Federal Family Education Loans – Guaranty Program
Career and Technical Education – Basic Grants to States
Rehabilitation Services – Vocational Rehabilitation Grants to States
Early Intervention Services (IDEA) Cluster
Twenty-First Century Community Learning Centers
Reading First State Grants
Improving Teacher Quality State Grants
State Fiscal Stabilization Fund Cluster
Help America Vote Act Requirements Payments
Aging Cluster
Immunization Cluster
Centers for Disease Control and Prevention – Investigations and Technical Assistance
Temporary Assistance for Needy Families Cluster
Child Support Enforcement
Low Income Home Energy Assistance Program
Community Services Block Grant Cluster
Child Care Development Funds Cluster
Foster Care – Title IV-E
Adoption Assistance
Social Services Block Grant
Children’s Health Insurance Program
Medicaid Cluster
HIV Care Formula Grants
Block Grants for the Prevention and Treatment of Substance Abuse
Disability Insurance/SSI Cluster
Homeland Security Cluster
Disaster Grants – Public Assistance (Presidentially Declared Disasters)

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2009

CFDA # and Program Expenditures: 10.551/10.561 (\$2,212,023,000)
10.553/10.555/10.556/10.559 (\$456,159,000)
10.557/10.557 ARRA (\$218,993,000)
10.558 (\$115,444,000)
14.228 (\$30,637,000)
17.207/17.801/17.804 (\$28,497,000)
17.225/17.225 ARRA (\$5,163,450,000)
17.245 (\$11,066,000)
17.258/17.258 ARRA/17.259/17.259 ARRA/17.260/
17.260 ARRA (\$138,395,000)
20.106 (\$82,973,000)
20.205/20.205 ARRA/20.219 (\$1,248,995,000)
84.010/84.389 ARRA (\$770,220,000)
84.027/84.173/84.391 ARRA (\$519,504,000)
84.032G (\$245,224,000)
84.048 (\$44,229,000)
84.126 (\$93,627,000)
84.181/84.393 (\$26,692,000)
84.287 (\$38,473,000)
84.357 (\$44,415,000)
84.367 (\$135,525,000)
84.394 ARRA (\$1,038,988,000)
90.401 (\$7,418,000)
93.044/93.045/93.053 (\$47,868,000)
93.268 (\$80,841,000)
93.283 (\$11,641,000)
93.558 (\$545,739,000)
93.563/93.563 ARRA (\$137,228,000)
93.568 (\$219,718,000)
93.569 (\$31,124,000)
93.575/93.596 (\$204,962,000)
93.658/93.658 ARRA (\$219,135,000)
93.659/93.659 ARRA (\$91,103,000)
93.667 (\$108,690,000)
93.767 (\$242,758,000)
93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)
93.917 (\$43,777,000)
93.959 (\$64,054,000)
96.001 (\$67,964,000)
97.004/97.053/97.067/97.073/97.074 (\$83,693,000)
97.036 (\$57,466,000)

Questioned Costs: Cannot be determined

Finding 09-92 Inadequate Process for Monitoring Internal Service Fund Balances

STATE OF ILLINOIS

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For Year Ended June 30, 2009

DCMS did not establish adequate procedures to identify fund balances in excess of maximum amounts allowed under OMB Circular A-87.

Certain administrative functions of the State, including communications, statistical services, and facilities management, are coordinated on a statewide basis through the use of internal service funds. DCMS is responsible for administering the internal service funds and determining the rates to be charged for the services provided. In determining the rates, DCMS estimates the costs of providing the administrative services on a statewide basis and the level of service to be provided. Because these rates are estimates and may be charged to the State's federal programs, DCMS is required to evaluate the fund balances within the 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 2006, 2007 and 2008. Upon further review, the fiscal year 2009 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 \$9,961,000 and \$5,098,000 as of June 30, 2009 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:

- Commission income totaling \$1,400,000 earned in CRF was not reported as revenue in the 2008 GAAP basis financial statements, but was reported for federal purposes in 2008;
- Accounts payable in the SSRF and the Facilities Management Revolving Fund (FMRF) totaling \$2,566,000 and \$437,000, respectively, was reported for the 2008 GAAP basis financial statements but was not reported for federal purposes in 2008;
- Increases of \$76,000, \$196,000 and \$217,000 in the compensated absences liability balances in CRF, SSRF, and FMRF respectively, were reported in the fiscal year 2008 GAAP basis financial statements, but were not reported for federal purposes in 2008;
- Equipment totaling \$4,140,000 and \$1,453,000 purchased in the CRF and SSRF, respectively, during the fiscal year 2008 lapse period was reported in the fiscal year 2009 GAAP basis financial statements, but was expensed in fiscal year 2008 for federal purposes;
- Depreciation expense of \$519,000 and \$1,537,000 on items purchased in the SSRF and CRF, respectively, was reported for the 2008 GAAP basis financial statements but was not reported for federal purposes in 2008.

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 2009, 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

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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.

In discussing these conditions with DCMS officials, they stated that their practices are compliant with A-87 guidelines.

Failure to properly monitor fund balances of internal service funds may result in claiming of unallowable costs. (Finding Code 09-92, 08-94, 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:

Excess Balances

The Department asserts that its excess balance adjustment practices are compliant with OMB Circular A-87 guidelines.

The Department has long employed an ongoing process to evaluate allowable balances by service for its internal service funds. Our annual SWICAP Section II submission is the culmination of an ongoing annual process involving rate developments, revenue and expense projections, capturing and matching of costs and revenues by service center, and truing up revenues and expenses by service center and customer.

Further, the existence of excess balances is not a violation of A-87. The federal requirement is that excess balances be remedied. The Department asserts that its adjustment methods, Per A-87 Attachment C, G.4., which include negotiated settlements, are appropriate and allowable.

The Department does agree that adjustments should be made as timely as is feasible. DCMS continues to adjust rates annually to reduce exposure to excess balances. However, these annual adjustments cannot guarantee that excess balances will be entirely eliminated for all services in any given year, since rates and costs are projections. Billing credits, like cash refunds, require multiple years to apply, so the adjustment occurs no faster than a negotiated payback and requires significantly more up-front cash. Therefore, direct negotiated paybacks have always been, and will likely continue to be, a part of the federally provided and federally sanctioned remedy for excess balances.

The timeliness of direct paybacks is dependent on the federal review cycle. The paybacks are negotiated during the federal review of the annual SWICAP. The federal review cycle is not completed annually, and in some cases stretches out several years. The refunds, which are negotiated, are formally set through the federal letter of determination at the end of the review process.

In addition, the SWICAP Section I, as well as virtually all agency indirect cost rate proposals (ICRPs), are based on a two-year roll forward adjustment cycle, which recognizes the natural lag

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between year-end trued-up cost allocation and federal claiming. The over/under charges reported in Section II have similar FY timing limitations.

We also refer to the ASMB C-10 reference to making adjustments in the “next open fiscal period.” At the time our SWICAP Section II filing is completed, we are typically in the late third or early fourth quarter of the new FY. The State’s interpretation of the “next open fiscal period” is the next full fiscal year in which the State has the ability to adjust agency budgets to handle rate changes due to over/under billings.

Finally, the federal Dept of DHHS includes imputed interest in the payback calculations in recognition of, and as compensation for, any delay in remedying the excess balances.

All excess balances for all outstanding FYs except FY09 have been remedied and approved by DHHS.

Reconciling Items:

Two of the items were either recorded properly or have no federal impact:

Compensated Absences: Payroll costs are recorded in the fiscal year paid for federal reporting purposes. Per A-87, when a governmental unit uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded.

Inmate Commission Income: There is no federal impact as this cost center has no federal participation.

Regarding the other three items, the State concurs.

Auditors’ Comment:

DCMS has acknowledged the existence of excess fund balances, but believes that it is not a violation of federal regulations. Specifically, they state that negotiated settlements are appropriate and allowable. However, we believe federal regulations require DCMS to adjust rates or remit excess fund balances back to the applicable federal programs on a timely basis. DCMS’ past practice of protracted negotiations and waiting for its cognizant agency to “agree to a settlement” is inconsistent with federal regulations.

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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: SNAP Cluster
Child Nutrition Cluster
Special Supplemental Nutrition Program for Women, Infants and Children
Child and Adult Care Food Program
CDBG – State-Administered Small Cities Program Cluster
Employment Services Cluster
Unemployment Insurance
Trade Adjustment Assistance - Workers
Workforce Investment Act Cluster
Airport Improvement Program
Highway Planning and Construction Cluster
Title I, Part A Cluster
Special Education Cluster
Federal Family Education Loans – Guaranty Program
Career and Technical Education – Basic Grants to States
Rehabilitation Services – Vocational Rehabilitation Grants to States
Early Intervention Services (IDEA) Cluster
Twenty-First Century Community Learning Centers
Reading First State Grants
Improving Teacher Quality State Grants
State Fiscal Stabilization Fund Cluster
Help America Vote Act Requirements Payments
Aging Cluster
Immunization Cluster
Centers for Disease Control and Prevention – Investigations and Technical Assistance
Temporary Assistance for Needy Families Cluster
Child Support Enforcement
Low Income Home Energy Assistance Program
Community Services Block Grant Cluster
Child Care Development Funds Cluster
Foster Care – Title IV-E
Adoption Assistance
Social Services Block Grant
Children’s Health Insurance Program
Medicaid Cluster
HIV Care Formula Grants
Block Grants for the Prevention and Treatment of Substance Abuse
Disability Insurance/SSI Cluster
Homeland Security Cluster
Disaster Grants – Public Assistance (Presidentially Declared Disasters)

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CFDA # and Program Expenditures: 10.551/10.561 (\$2,212,023,000)
10.553/10.555/10.556/10.559 (\$456,159,000)
10.557/10.557 ARRA (\$218,993,000)
10.558 (\$115,444,000)
14.228 (\$30,637,000)
17.207/17.801/17.804 (\$28,497,000)
17.225/17.225 ARRA (\$5,163,450,000)
17.245 (\$11,066,000)
17.258/17.258 ARRA/17.259/17.259 ARRA/17.260/
17.260 ARRA (\$138,395,000)
20.106 (\$82,973,000)
20.205/20.205 ARRA/20.219 (\$1,248,995,000)
84.010/84.389 ARRA (\$770,220,000)
84.027/84.173/84.391 ARRA (\$519,504,000)
84.032G (\$245,224,000)
84.048 (\$44,229,000)
84.126 (\$93,627,000)
84.181/84.393 (\$26,692,000)
84.287 (\$38,473,000)
84.357 (\$44,415,000)
84.367 (\$135,525,000)
84.394 ARRA (\$1,038,988,000)
90.401 (\$7,418,000)
93.044/93.045/93.053 (\$47,868,000)
93.268 (\$80,841,000)
93.283 (\$11,641,000)
93.558 (\$545,739,000)
93.563/93.563 ARRA (\$137,228,000)
93.568 (\$219,718,000)
93.569 (\$31,124,000)
93.575/93.596 (\$204,962,000)
93.658/93.658 ARRA (\$219,135,000)
93.659/93.659 ARRA (\$91,103,000)
93.667 (\$108,690,000)
93.767 (\$242,758,000)
93.775/93.777/93.778/93.778 ARRA (\$8,008,225,000)
93.917 (\$43,777,000)
93.959 (\$64,054,000)
96.001 (\$67,964,000)
97.004/97.053/97.067/97.073/97.074 (\$83,693,000)
97.036 (\$57,466,000)

Questioned Costs: Cannot be determined

Finding 09-93 Unallowable Costs Recorded in Internal Service Funds

DCMS recorded costs that are not allowed under OMB Circular A-87 in its internal service funds.

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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 120 cash disbursements (totaling \$4,583,603) from DCMS' internal service funds and found four of the disbursements tested (totaling \$11,287) 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, as summarized in the table below. Total expenditures recorded in these funds approximated \$473,121,534.

Fund	Description	Amount
SSRF	Travel to attend legislative audit committee meeting	\$457
CRF	Lodging for public information officer to assist governor's office for preparation of state budget	\$470
FMRF	Decoration of public facility – 2009 Christmas holiday decorations	\$9,861
CRF	Printing of 2000 Illinois Century Network brochures for marketing	\$499

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 these costs were allowable under A-87 guidelines.

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 09-93, 08-96, 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.

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For Year Ended June 30, 2009

DCMS Response:

The Department asserts that all of the costs identified by the auditors which were subject to cost recovery were allowable under A-87 guidelines and were charged to proper funding sources. Specifically:

- The administrative travel item had been removed from the SWICAP as demonstrated to the auditors.
- The Public Information Office (PIO) is an established communications service billed through the CRF. Its activities are specifically allowable under A-87 item 1 page 15.
- Decoration of a state building falls under item 13 p. 25 in the opinion of the State.
- The Illinois Century Network (ICN) is a communications service billed through the CRF. The associated costs are allowable under A-87 item 1 page 15 and item 34 page 35.

Auditors' Comment:

As discussed above, we believe the costs identified in this finding are unallowable as they were not reasonable or pertain to the fund in which they were reordered. Regarding DCMS' response above:

- DCMS could not provide documentation the administrative travel item was removed from the SWICAP.
- Travel expenses incurred related to the preparation of the State budget by the PIO are administrative expenses which should be allocated to all appropriate funds.
- Holiday decorations are not a reasonable or necessary cost for the administration of federal programs. DCMS' response above suggests the cost is allowable under OMB Circular A-87, Attachment B, Item 13 (Employee morale, health, and welfare costs). This item states, "The costs of employee information publications, health, or first-aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expenses incurred in accordance with the governmental units established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable. Such costs will be equitably apportioned to all activities of the governmental unit. ..." We do not believe holiday decorations are allowable under this section.
- The printing of the 2000 Illinois Century Network brochures appears to be an advertising cost, which we believe is unallowable under OMB Circular A-87. Specifically, OMB Circular A-87, Attachment B, item 1c, states "The only allowable advertising costs are those which are solely for 1) the recruitments of personnel required for the performance by the governmental unit of obligations arising under a Federal award; 2) the procurement of goods and services for the performance of a Federal award; 3) the disposal of scrap or surplus materials; and 4) other specific purposes necessary to meet the requirements of the Federal award."

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Prior Year Findings Not Repeated

For Year Ended June 30, 2009

State Agency: Illinois Department of Human Services (IDHS)

Prior Year Finding 08-06

IDHS could not provide adequate documentation that food instruments issued under the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program were properly validated and reconciled by its third party service organization in accordance with program regulations for the entire state fiscal year. In the current audit period, IDHS obtained a SAS 70 report that covered the entire year, but has not established adequate procedures to ensure controls are operating effectively at the third party service organization. See finding 09-10.

Prior Year Finding 08-09

IDHS did not determine the eligibility of beneficiaries under the Medicaid Cluster in accordance with federal regulations. Although the specific deficiencies and noncompliance matters identified in the prior year finding were not identified in the current audit period, additional exceptions have been reported over the eligibility determination process for the Medicaid Cluster. See finding 09-05, 09-06, 09-15, and 09-16.

Prior Year Finding 08-13

IDHS did not properly calculate its interest liability for the Rehabilitation Services – Vocational Rehabilitation Grants to States Program (VR), Block Grants for Prevention and Treatment of Substance Abuse (SAPT), and Social Security Disability Insurance (SSDI) programs. In the current audit period, IDHS modified the Treasury-State Agreement to conform with the Department's interest calculation practices.

Prior Year Finding 08-14

IDHS did not review OMB Circular A-133 audit reports for subrecipients of its federal programs in a timely manner. In the current audit period, IDHS issued management decisions within the required timeframes for subrecipients selected for our testwork.

Prior Year Finding 08-15

IDHS did not obtain an auditors' report on controls placed in operation and tests of operating effectiveness for the Food Stamp Cluster electronic benefits transfer (EBT) service organization that covered the entire audit period. In the current audit period, IDHS obtained a SAS 70 report for the EBT service organization that covered the entire audit period.

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

Prior Year Finding 08-18

DHFS did not determine the eligibility of beneficiaries under the State Children's Insurance Program (SCHIP) and Medicaid Cluster programs in accordance with federal regulations. Although the specific deficiencies and noncompliance matters identified in the prior year finding were not identified in the current audit period, additional exceptions have been reported over the eligibility determination process for the Medicaid Cluster. See finding 09-05, 09-06, 09-15, and 09-16.

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Prior Year Findings Not Repeated

For Year Ended June 30, 2009

Prior Year Finding 08-22

DHFS improperly reported adjustments for medical services provided under the “Unborn Amendment” waiver of the State Children’s Insurance Program (SCHIP) program. In the current audit period, DHFS modified its procedures to include a review of prior period adjustments that exceed a specified threshold.

Prior Year Finding 08-25

DHFS did not accurately report refunds from Local Administering Agencies (subrecipients) on the annual SF-269. In the current audit period, DHFS modified its procedures to report subrecipient refund information in a more timely manner.

Prior Year Finding 08-26

State funded energy assistance expenditures and certain state funded medical expenditures were improperly used to meet the maintenance of effort (MOE) requirement of the Temporary Assistance for Needy Families (TANF) program. In the current audit period, DHFS modified its procedures for identifying TANF MOE expenditures.

Prior Year Finding 08-27

DHFS did not accurately allocate costs from the “Special Assistant for Hospital Policy” cost center to its federal programs in accordance with the Public Assistance Cost Allocation Plan (PACAP). In the current audit period, DHFS modified its cost allocation procedures to conform with the PACAP.

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

Prior Year Finding 08-35

DCFS could not locate case file documentation supporting eligibility determinations for beneficiaries of the Foster Care program. In the current audit period, file documentation supporting eligibility determinations was available for the beneficiaries sampled.

Prior Year Finding 08-36

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”. In the current audit period, file documentation supporting judicial determinations was available for the beneficiaries sampled.

Prior Year Finding 08-37

DCFS did not ensure that foster care permanency hearings were performed within the federally required timeframes. In the current audit period, permanency hearings were documented during the appropriate timeframes for the beneficiaries sampled.

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Prior Year Findings Not Repeated

For Year Ended June 30, 2009

State Agency: Illinois Department of Public Health (IDPH)

Prior Year Finding 08-45

IDPH did not adequately control and account for vaccines distributed under its Immunization Grants program. In the current audit period, the management of vaccines was handled by a third party contractor of the Center for Disease Control and Prevention (CDC). As such, this requirement is no longer applicable to IDPH.

Prior Year Finding 08-46

IDPH did not monitor the HIV Care Formula Grant (HIV) program maintenance of effort (MOE) requirement. In the current audit period, IDPH modified its procedures to calculate its MOE expenditures in accordance with federal regulations. In addition, IDPH did not include expenditures incurred by IDHS in calculating its 2009 MOE expenditures.

Prior Year Finding 08-50

IDPH provided funds to subrecipients of the CDC – Investigation and Technical Assistance program in excess of their immediate needs. In the current audit period, IDPH modified its procedures to fund subrecipients of the CDC – Investigation and Technical Assistance program on a reimbursement basis.

Prior Year Finding 08-52

IDPH did not obtain written approval as required by the grant agreement for the purchase of a vehicle that was claimed as a matching expenditure under the HIV Care Formula Grants program. In the current audit period, similar exceptions were not identified in our sample of matching expenditures.

State Agency: Illinois State Board of Education (ISBE)

Prior Year Finding 08-57

ISBE did not properly monitor the maintenance of effort (MOE) requirement for the Special Education Cluster. In the current audit period, ISBE modified its procedures for monitoring the MOE requirement to include an analysis of actual expenditures used to meet the MOE requirement.

State Agency: Illinois Community College Board (ICCB)

Prior Year Finding 08-58

ICCB did not perform on-site fiscal monitoring reviews of subrecipients receiving federal awards under the Career and Technical Education – Basic Grants to States (Perkins IV) program. In the current audit period, ICCB modified its existing on-site monitoring procedures to include fiscal and administrative procedures.

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Prior Year Findings Not Repeated

For Year Ended June 30, 2009

State Agency: Illinois Student Assistance Commission (ISAC)

Prior Year Finding 08-62

ISAC did not have an adequate process to ensure all defaulted loans that met the requirements specified in 34 CFR 682.409 are assigned to the USDE. In the current audit period, the U.S. Department of Education issued a moratorium on the assignment of accounts to them which was in effect throughout the entire period. As a result, ISAC did not assign any defaulted loans during the current audit period.

Prior Year Finding 08-63

ISAC did not accurately report the amount of federal consolidation loans cancelled as of September 30, 2007 in the Guaranty Agency Annual Financial Report (Form 2000). In the current audit period, ISAC modified its procedures to properly report federal consolidation loans cancelled on the Form 2000.

State Agency: Illinois Department of Employment Services (IDES)

Prior Year Finding 08-69

IDES did not maintain documentation to support conclusions of eligibility reviews performed by the Benefits Accuracy Measurement Unit. In the current audit period, IDES documented the eligibility reviews performed by the Benefits Accuracy Measurement Unit for our sample.

Prior Year Finding 08-71

IDES did not have adequate procedures in place to ensure effort (time) reports are signed by employees. In the current audit period, IDES reemphasized its policies and procedures requiring all effort (time) reports to be signed by employees to the local offices.

Prior Year Finding 08-72

IDES did not properly calculate the earmarking requirement applicable to the Employment Services (ES) program. In the current audit period, IDES modified its procedures to calculate the earmarking requirement based on program regulations.

Prior Year Finding 08-74

IDES did not have adequate documentation of and did not consistently follow access and program development controls over the information systems that support the Unemployment Insurance (UI) program. In the current audit period, IDES documented its information system policies and procedures.

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

Prior Year Finding 08-76

DCEO did not properly issue and evaluate training waivers and did not properly calculate the job search allowance for the Trade Adjustment Assistance (TAA) Program. In the current audit

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Prior Year Findings Not Repeated

For Year Ended June 30, 2009

period, DCEO modified its procedures for issuing and evaluating waivers and calculating job search allowances in accordance with program regulations.

State Agency: Illinois Department of Transportation (IDOT)

Prior Year Finding 08-83

IDOT did not have procedures in place to ensure cash draws were performed in accordance with the Treasury-State Agreement for the Airport Improvement Program. In the current audit period, IDOT modified its cash draw procedures to conform with the Treasury-State Agreement.

State Agency: Illinois Emergency Management Agency (IEMA)

Prior Year Finding 08-88

IEMA did not provide accurate federal award information to the Illinois Department of Transportation (IDOT) resulting in an incorrect Catalog of Federal Domestic Assistance (CFDA) number being reported to subrecipients of the Homeland Security Cluster Program. In the current audit period, IEMA reported accurate federal award information to IDOT.

Prior Year Finding 08-89

IEMA provided funds to a subrecipient of the Homeland Security Cluster program in excess of its immediate cash needs. In the current audit period, IEMA modified its procedures for providing funding to subrecipients of the Homeland Security Cluster program.

State Agency: State Board of Elections (SBOE)

Prior Year Finding 08-93

SBOE failed to meet the matching requirement of its Help America Vote Act Requirements Payments (HAVA) program. In the audit current period, SBOE received the necessary State appropriation to meet the matching requirement.

State Agency: Illinois Department of Central Management Services (DCMS)

Prior Year Finding 08-95

DCMS did not have adequate supporting documentation to substantiate payroll costs paid by the Communications Revolving Fund (CRF) and the Statistical Services Revolving Fund (SSRF) which were allocated for reimbursement under federal programs operated by the State. In the current audit period, DCMS modified the Statewide Cost Allocation Plan to reflect its practices.

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Prior Year Findings Not Repeated

For Year Ended June 30, 2009

Prior Year Finding 08-97

DCMS did not have an adequate process in place to bill State agencies for the use of services from the Statistical Services Revolving Fund (SSRF). In the current audit period, DCMS modified its procedures to bill agencies for information technology services based on standardized rates.