



STATE OF ILLINOIS  
**OFFICE OF THE  
AUDITOR GENERAL**

William G. Holland, Auditor General

**SUMMARY REPORT DIGEST**

**STATE OF ILLINOIS STATEWIDE SINGLE AUDIT REPORT**

**SINGLE AUDIT**

**For the Year Ended June 30, 2010**

**Release Date: July 28, 2011**

**Summary of Findings:**

<b>Total this audit:</b>	<b>103</b>
<b>Total last audit:</b>	<b>93</b>
<b>Repeated from last audit:</b>	<b>64</b>

**SYNOPSIS**  
**Background**

- The State expended approximately \$29.3 billion from federal awards in FY10.
- A total of 33 programs or program clusters were classified and audited as major programs at sixteen (16) State agencies. These programs constituted approximately 96% of all federal spending, or about \$28.2 billion.
- Overall, 44 State agencies expended federal financial assistance in FY10. Eleven (11) State agencies accounted for about 98.5% of federal dollars spent.

**Statewide Finding – Financial Reporting**

- The State of Illinois does not have an adequate process in place to permit the timely completion of a complete and accurate scheduled of federal awards. As a result, the State has a *material weakness* on all federal programs for financial reporting.

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

- The Department of Human Services (DHS) has *material weaknesses* for:
  - failing to perform eligibility redeterminations within the timeframes prescribed by regulation for the Temporary Assistance for Needy Families (TANF), Children's health Insurance Program (CHIP), and Medicaid Cluster programs.
  - weaknesses over maintaining and controlling beneficiary case file documents of the TANF, CHIP and Medicaid Cluster programs.
  - an inadequate process to prevent individuals convicted of drug felonies from receiving benefits under the TANF program.
  - failing to locate case file documentation supporting eligibility determinations for beneficiaries of the CHIP and Medicaid Cluster programs.
- The Department of Healthcare and Family Services (HFS) has *material weaknesses* for:
  - using a passive process in its eligibility redeterminations for the Children's Health Insurance Program (CHIP) and Medicaid Cluster programs.

- lack of documentation evidencing performance of eligibility determination of the CHIP and Medicaid programs.
- failure to pay practitioner medical claims within prescribed timeframes of the CHIP and Medicaid Cluster programs regulations.
- The Department of Children and Family Services has *material weaknesses* for:
  - failing to locate case file documentation to support eligibility determinations for beneficiaries of the Adoption Assistance and Foster Care programs.
  - failing to ensure adoption assistance recertifications were performed on a timely basis for children receiving recurring adoption assistance benefits.
- The Department on Aging has a *material weakness* for:
  - not adequately monitoring subrecipient audit reports for federal programs.
- The State Board of Education has *material weaknesses* for:
  - not sanctioning a Local Education Agency that did not meet the comparability of services requirement under the Title I Part A Cluster program.
  - not having adequate procedures in place to ensure the maintenance of effort requirements for subrecipients of the Title I, Part A Cluster and Improving Teacher Quality State Grants programs.
  - not having 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 Title I, Part A Cluster, Special Education Cluster and State Fiscal Stabilization Fund Cluster programs.

### **Findings Involving Multiple Agencies**

- The Department of Children and Family Services (DCFS), Aging (DOA), Public Health (DPH), Illinois State Board of Education (ISBE), Commerce and Economic Opportunity (DCEO) and Transportation (DOT) have a *material weakness* due to inadequate and/or lack of on-site monitoring of subrecipients of federal awards.

### **Findings Regarding American Recovery and Reinvestment Act (ARRA)**

- The Department of Commerce and Economic Opportunity (DCEO), Transportation (DOT), Environmental Protection Agency (EPA) and the Governor’s Office of Management and Budget (GOMB) failed to communicate ARRA information and requirements to subrecipients.
- The Department of Commerce and Economic Opportunity (DCEO) and the Environmental Protection Agency (EPA) did not accurately report expenditures in the quarterly ARRA 1512 report.

Note: Summary definitions (in order of significance) of key terms used in the findings.

*Material weakness (financial):* A material weakness is a deficiency, or combination of deficiencies, in internal control, 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.

*Material weakness (compliance):* 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.

*Significant Deficiency:* 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.

*Control Deficiency:* A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

{Expenditures and Activity Measures are summarized on the next page. }

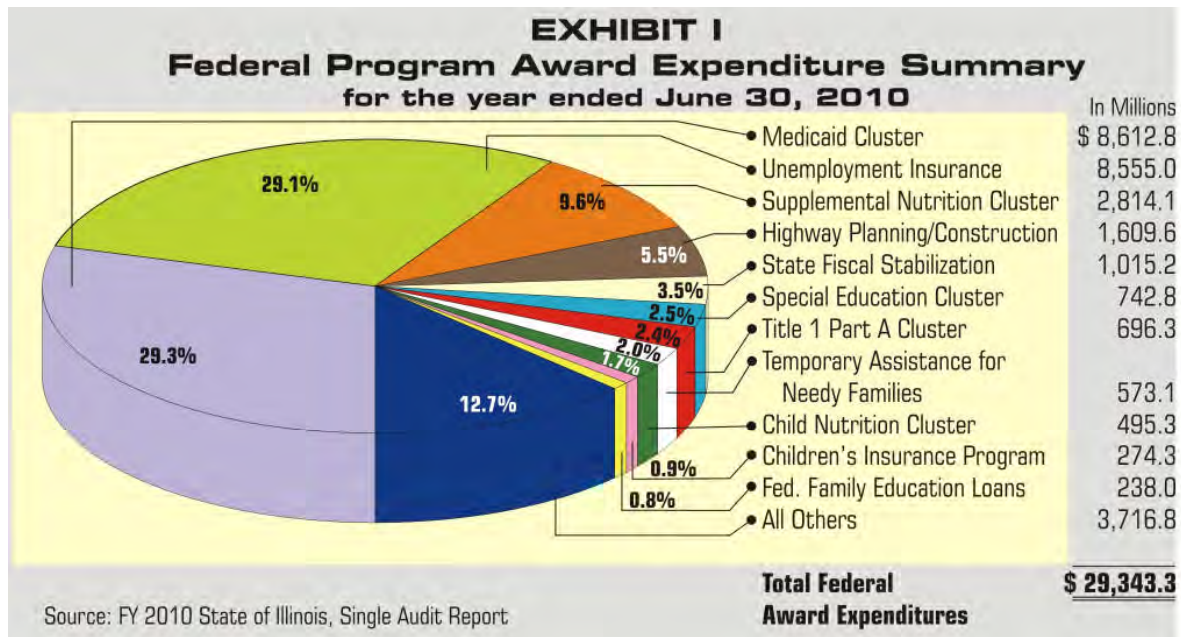
<b>FINANCIAL ACTIVITIES</b>		<b>(In Thousands of Dollars)</b>		<b>FY 2010</b>	
<b>EXPENDITURES BY PROGRAM</b>		<b>Amount</b>		<b>Percent</b>	
Major Programs					
Medicaid Cluster.....		\$8,612,823		29.4%	
Unemployment Insurance.....		8,554,955		29.2%	
Supplemental Nutrition Assistance Program (SNAP Cluster).....		2,814,110		9.6%	
Highway Planning and Construction.....		1,609,558		5.5%	
State Fiscal Stabiliation Fund.....		1,015,227		3.5%	
Special Education Cluster.....		742,808		2.5%	
Title I Grants to Local Educational Agencies.....		696,276		2.4%	
Temporary Assistance for Needy Families.....		573,086		2.0%	
Child Nutrition Cluster.....		495,332		1.7%	
Children's Health Insurance Program.....		274,279		0.9%	
Federal Family Education Loans.....		238,016		0.8%	
Low-Income Home Energy Assistance.....		237,689		0.8%	
Child Care Development Funds Cluster.....		234,446		0.8%	
Workforce Investment Act Cluster.....		231,737		0.8%	
Special Supplemental Nutrition Program for Women, Infants & Children.....		230,403		0.8%	
Foster Care - Title IV-E.....		197,283		0.7%	
Child Support Enforcement.....		141,897		0.5%	
Child and Adult Care Food Program.....		116,208		0.4%	
Social Services Block Grant.....		109,613		0.4%	
Improving Teacher Quality State Grants.....		106,583		0.4%	
Adoption Assistance.....		106,425		0.4%	
Immunization Grants.....		94,937		0.3%	
Rehabilitation Services - Vocational Rehabilitation Grants to States.....		94,080		0.3%	
Capitalization Grants for Clean Water State Revolving Funds.....		92,121		0.3%	
Homeland Security .....		84,892		0.3%	
Social Security Disability Insurance.....		78,512		0.3%	
Airport Improvement Program.....		73,551		0.3%	
Public Health Emergency Preparedness .....		73,334		0.2%	
Weatherization Assistance for Low-Income Persons.....		69,126		0.2%	
Black Grants for Prevention and Treatment of Substance Abuse.....		63,779		0.2%	
Community Services Block Grant.....		61,943		0.2%	
Capitalization Grants for Drinking Water State Revolving Funds.....		61,829		0.2%	
Aging Cluster.....		52,083		0.2%	
Total Major Programs.....		\$28,238,941		96.2%	
Non-Major Programs.....		1,104,400		3.8%	
TOTAL EXPENDITURE.....		\$29,343,341		100.0%	
					<b>Major Program</b>
<b>Federal Agencies Proving Funding:</b>		<b>Total</b>		<b>Expenditures</b>	
U.S. Department of Health and Human Services.....		\$11,052,621		\$10,559,338	
U.S. Department of Labor.....		8,851,562		8,786,692	
U.S. Department of Agriculture.....		3,712,343		3,656,053	
U.S. Department of Education.....		3,182,410		2,892,990	
U.S. Department of Transportation.....		1,766,055		1,683,109	
U.S. Environmental Protection Agency.....		207,170		153,950	
U.S. Department of Homeland Security.....		141,149		84,892	
U.S. Department of Energy.....		87,818		69,126	
Social Security Administration.....		78,894		78,512	
All Other Federal Agencies.....		263,319		0	
TOTAL EXPENDITURES.....		\$29,343,341		\$27,964,662	
<b>STATISTICAL INFORMATION</b>		<b>FY 2010</b>			
Total Number of Programs in the Schedule of Expenditures of Federal Awards.....		402			
Number of Federal Programs or Program Clusters Audited.....		33			
Total Number of State Agencies Spending Federal Funds.....		44			
Number of State Agencies for Single Audit Requirements.....		16			
Total American Recovery and Reinvestment Act (ARRA) Expenditures.....		7,428,967			
Percentage of ARRA Expenditures.....		25.3%			

## INTRODUCTION

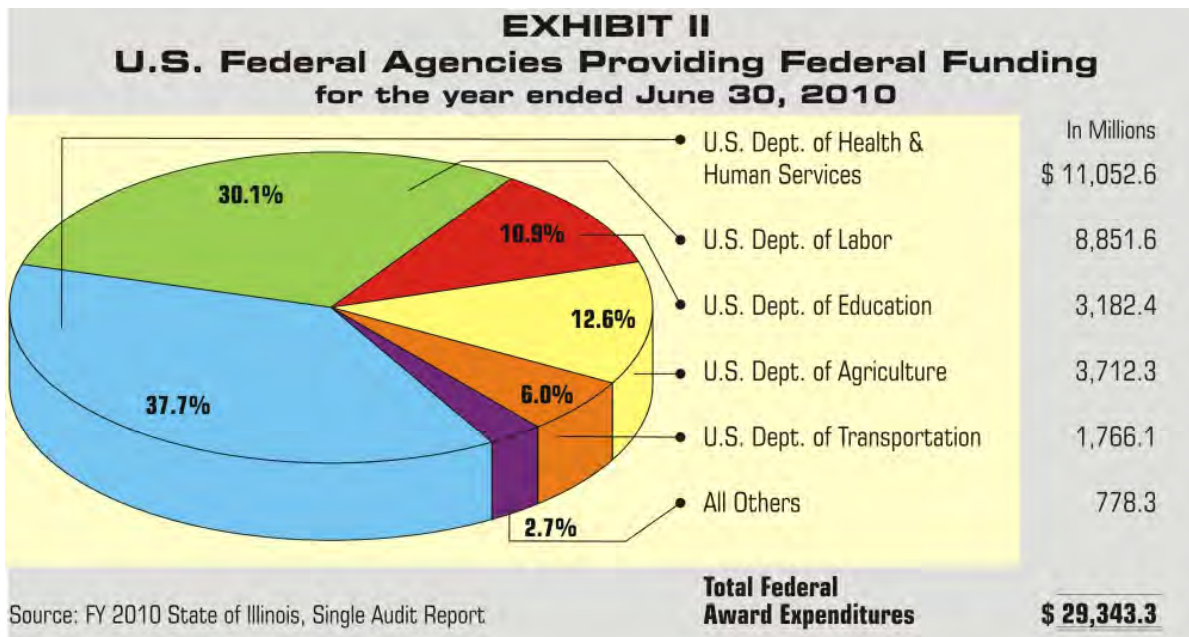
The Illinois Office of the Auditor General conducted a Statewide Single Audit of the FY10 federal grant programs. The audit was conducted in accordance with the federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133.

The Statewide Single Audit includes State agencies that are a part of the primary government and expend federal awards. In total, 44 State agencies expended federal financial assistance in FY10. A separate supplemental report has been compiled by the Illinois Office of the Auditor General. This report provides summary information on federal spending by State agency. The Statewide Single Audit does not include those agencies that are defined as component units such as the State universities and finance authorities. The component units continue to have separate OMB Circular A-133 audits.

The Schedule of Expenditures of Federal Awards (SEFA) reflects total expenditures of approximately \$29.3 billion for the year ended June 30, 2010. Overall, the State participated in 402 different federal programs, however, 11 of these programs or program clusters accounted for approximately 87.3% of the total federal award expenditures. (See Exhibit I)



The funding for the 402 programs was provided by 23 different federal agencies. Exhibit II shows that five federal agencies provided Illinois with the vast majority of federal funding in FY10.

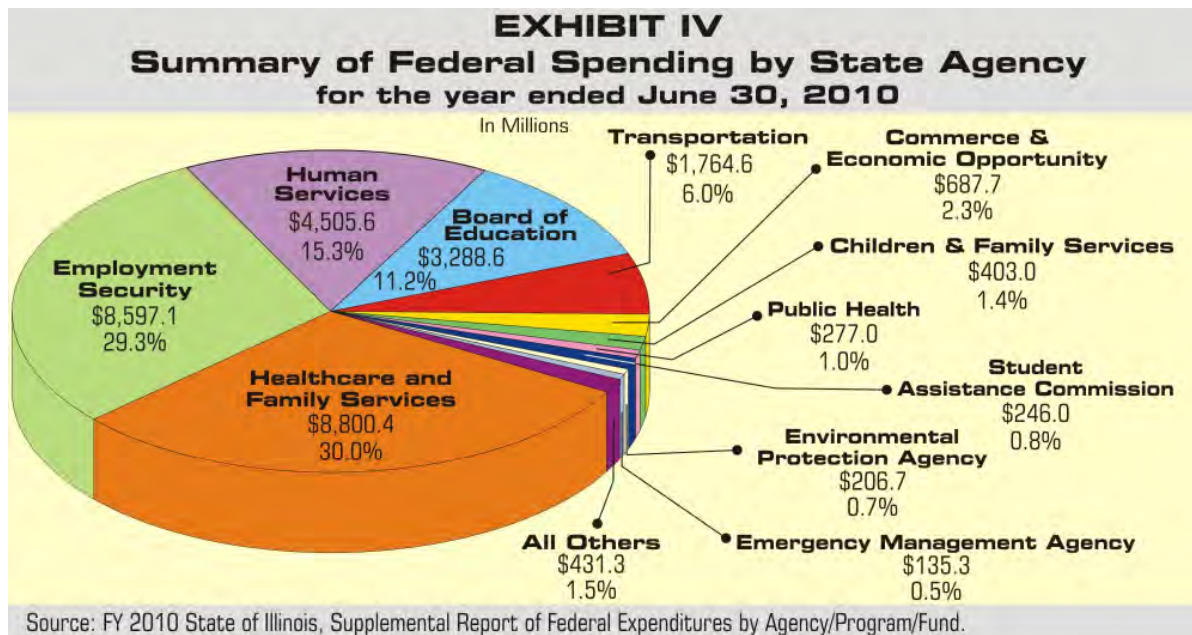


A total of 33 federal programs or program clusters were identified as major programs in FY10. A major program was defined in accordance with Circular A-133 as any program with federal awards expended that meets certain criteria when applying the risk-based approach. Exhibit III provides a brief summary of the number of programs classified as “major” and “non-major” and related federal award expenditures.

**EXHIBIT III**  
**Classification of Federal Programs**  
**“Major vs. Non-Major”**  
**and Related Federal Award Expenditures**  
**for the year ended June 30, 2010**

Audit Coverage	No.	Expenditures (in millions)	%
Major Programs	33	\$28,238.9	96.2%
Non-Major Programs	369	1,104.4	3.8%
Total	402	\$29,343.3	100.0%

Eleven State agencies accounted for approximately 98.5% of all federal dollars spent during FY10 as depicted in Exhibit IV.



**AUDITORS' REPORT**  
**ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND**  
**MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER**  
**COMPLIANCE**

The auditors' report contained qualifications on compliance as summarized below. The complete text of the Auditors' Report may be found on pages 25-29 of the audit.

**Qualifications (Noncompliance)**

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

State Agency	Federal Program	Compliance Requirement	Finding Number	Page Numbers
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	10-03	47-49
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	10-03	47-49
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	10-03	47-49
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	10-04	50-51
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	10-04	50-51
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	10-04	50-51
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	10-05	52-53
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	10-06	54-56

IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	10-06	54-56
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	10-13	71-72
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	10-13	71-72
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	10-14	73-74
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	10-14	73-74
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost principles and Period of Availability	10-15	75-77
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Period of Availability	10-15	75-77
IL Department of Children and Family Services	Temporary Assistance for Needy Families	Subrecipient Monitoring	10-37	121-124
IL Department of Children and Family Services	Foster Care - Title IV-E	Subrecipient Monitoring	10-37	121-124
IL Department of Children and Family Services	Adoption Assistance	Subrecipient Monitoring	10-37	121-124
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	10-38	125-126
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	10-39	127-128
IL Department of Children and Family Services	Foster Care – Title IV-E	Allowable Costs/Cost Principles and Eligibility	10-40	129-131
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	10-43	136-137
IL Department on Aging	Aging Cluster	Subrecipient Monitoring	10-44	138-139
IL Department of Public Health	Public Health Emergency Preparedness	Subrecipient Monitoring	10-48	146-147
IL State Board of Education	Title I, Part A Cluster	Allowable Costs/Cost Principles and Special Tests and Provisions	10-53	157-158
IL State Board of Education	Title I, Part A Cluster	Subrecipient Monitoring	10-54	159-161
IL State Board of Education	Special Education Cluster	Subrecipient Monitoring	10-54	159-161
IL State Board of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	10-54	159-161
IL State Board of Education	Title I, Part A Cluster	Subrecipient Monitoring	10-55	162-164
IL State Board of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	10-55	162-164
IL State Board of Education	State Fiscal Stabilization Fund Cluster	Subrecipient Monitoring	10-56	165-166
IL State Board of Education	Title I, Part A Cluster	Maintenance of Effort	10-57	167-168
IL State Board of Education	Improving Teacher Quality State Grants	Maintenance of Effort	10-57	167-168
IL State Board of Education	Title I, Part A Cluster	Cash Management	10-58	169-170
IL State Board of Education	Special Education Cluster	Cash Management	10-58	169-170
IL State Board of Education	State Fiscal Stabilization Fund Cluster	Cash Management	10-58	169-170
IL Department of Commerce and Economic Opportunity	Weatherization Assistance for Low Income Persons	Subrecipient Monitoring	10-77	209-210

IL Department of Commerce and Economic Opportunity	Low Income Home Energy Assistance Program	Suprecipient Monitoring	10-77	209-210
IL Department of Transportation	Airport Improvement Program	Subrecipient Monitoring	10-81	217-218

**Internal Control Over Financial Reporting**

We noted a matter involving internal control over financial reporting for the Schedule of Expenditures of Federal Awards (Schedule) that was considered to be a material weakness. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s Schedule of Federal Awards will not be prevented, or detected and corrected on a timely basis. The auditors noted that during the past eight years there have been various errors identified and reported on the audits of State agencies and the Office of the State Comptroller (IOC) in its annual data gathering on the SCO forms that are used to present the Schedule. Thus, the auditors recommended the Office of the Governor and the Illinois Office of the Comptroller work together with the State agencies to establish a corrective action plan to address the quality and timeliness of the accounting information provided to and maintained by the IOC as it relates to year end preparation of the Comprehensive Annual Financial Report and the Schedule.

**Internal Control Over Compliance**

We noted certain matters involving internal control over compliance that were considered to be significant deficiencies. 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. Overall, 37 of the 103 findings reported in the single audit were classified as compliance significant deficiencies.

Material weaknesses were also disclosed in our report. 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. Overall, 66 of the 103 findings reported in the single audit were classified as a material weakness.



## **FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

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

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

<b>State Agency</b>	<b>Number of Findings</b>	<b>Number of Repeat Findings</b>	<b>Page References to Findings</b>
State Comptroller/Office of the Governor	1	1	33-36
Human Services	10	7	44-67
Revenue	1	1	68-70
Healthcare and Family Services	24	14	71-120
Children and Family Services	6	4	121-135
Aging	5	3	136-145
Public Health	5	4	146-156
State Board of Education	6	4	157-170
Community College Board	1	1	171-172
Board of Higher Education	1	0	173-174
Student Assistance Commission	7	3	175-189
Employment Security	9	9	190-208
Commerce and Economic Opportunity	4	1	209-216
Transportation	9	6	217-234
Emergency Management Agency	6	4	235-246
State Police	1	1	247-248
Environmental Protection Agency	4	0	249-256
Governor's Office of Management and Budget	2	0	257-260
Central Management Services	<u>1</u>	<u>1</u>	261-265
Totals	<u>103</u>	<u>64</u>	

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

### **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 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.

### **State has not solved the problems**

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.

### **Highly decentralized financial reporting process**

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.

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

Examples include the following: 1) expenditures for the Medicaid Cluster were understated in 2010, 2) expenditures for the Homeland Security Cluster were not appropriately clustered and were overstated in 2009, 3) expenditures for the Highway Planning and Construction Cluster were overstated in 2009, 4) expenditures for the Airport Improvement Program were improperly identified as being funded by the American Recovery and Reinvestment Act and expenditures for the Foster Care and Adoption Assistance programs were not identified as being funded by the American Recovery and Reinvestment Act in 2009, 5) expenditures for the Public Assistance Grants (2006 and 2007), the Early Intervention Program (2003, 2004 and 2005), and the Highway Planning and Construction Cluster program (2004 and 2005) were not reported in the appropriate fiscal year, 6) correcting entries and/or restatements were required to accurately state the financial information, 7) major programs were not identified until six or more months subsequent to the end of the year by several agencies, and 8) preparation of the SEFA has not been completed by the State prior to March 31<sup>st</sup> in the past eight years.

**Untimely preparation of SEFA continues to be problematic**

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

Agencies having problems in one or more of the above noted areas during the past eight years were:

Agency

**Errors, deficiencies, omissions and delays in financial reporting**

- (1) Healthcare and Family Services
- (2) Children and Family Services
- (3) Public Health
- (4) State Board of Education
- (5) IL Student Assistance Commission
- (6) Employment Security
- (7) IL Community College Board
- (8) Commerce and Economic Opportunity
- (9) Natural Resources
- (10) IL Environmental Protection Agency
- (11) Corrections
- (12) IL Criminal Justice Information Authority
- (13) Emergency Management Agency

**Auditors continue to report problems year after year and corrective action continues to be problematic**

- (14) Human Services
- (15) Transportation

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.

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

As a result of the errors, deficiencies and omissions noted throughout the process used by the State in its financial reporting process, along with the inability to meet the required filing deadline of March 31, 2011, the auditors identified the inadequacies as a material weakness for all federal programs administered by the State. (Finding 10-1, pages 33-36) **This finding was first reported in the Statewide Single Audit in 2002.**

We recommended 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.

**State Comptroller to assist Governor's Office by providing training and technical assistance to State agencies**

The State Comptroller's Office response states it will assist the Governor's Office in their efforts to increase the quality of the GAAP packages by providing training and technical assistance to State agencies. (For previous agency response, see Digest Footnote #1)

**Governor will continue to work with the agencies to provide as complete of information as is possible given the State's current capabilities**

The Office of the Governor's response states it has been working to solve some of these problems. The Governor's Office of Management and Budget (GOMB) and the Office of the Comptroller have developed a timeline for short term, mid-term and long range plans. However, the total implementation is expected to take several years and the Office of the Governor will continue working with the agencies to provide as complete of information as is possible given the State's current capabilities. (For previous agency response, see Digest Footnote #1)

#### **FAILURE TO PERFORM ELIGIBILITY REDETERMINATIONS WITHIN PRESCRIBED TIMEFRAMES**

**DHS delinquent in performing recipient eligibility redetermination**

The Department of Human Services (DHS ) is not performing eligibility redeterminations for individuals receiving benefits under the Temporary Assistance for Needy Families (TANF), Children's Health Insurance Program (CHIP), and Medicaid Cluster programs in accordance with timeframes required by the respective State Plans.

During our testwork of required eligibility criteria, we noted the State was delinquent (overdue) in performing the

eligibility redeterminations of individuals for the three programs during June 2010 as follows:

TANF	1,501 of 33,029 cases	4.54%
CHIP	30,636 of 746,276 cases	4.11%
Medicaid	47,729 of 455,965 cases	10.47%

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 10-03, pages 47-49) **This finding was first reported in the Statewide Single Audit in 2003.**

**Auditor qualification due to untimely eligibility redeterminations**

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

We recommended 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.

**DHS accepted the auditors recommendation**

DHS officials accepted the recommendation and stated they will continue to work with the Department of Healthcare and Family Services to review current processes for performing eligibility redeterminations and consider changes necessary to ensure all redeterminations are performed within the prescribed timeframes. (For previous agency response, see Digest Footnote #2)

**FAILURE TO PROPERLY MAINTAIN AND CONTROL CASE FILE RECORDS**

**Inadequate control over beneficiary records**

The Department of Human Services (IDHS) does not have appropriate controls over case file records maintained at its local offices for beneficiaries of the Temporary Assistance for Needy Families Cluster (TANF), Children's Health Insurance Program (CHIP), and Medicaid Cluster (Medicaid) programs.

During our testwork at five separate local offices, we noted the procedures in place to maintain and control beneficiary case file records do not provide adequate safeguards against the potential for loss of such records. Specifically, in the five local offices, case files 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. The amount of questioned costs that may be assessed the State due to loss or misplaced beneficiary files could not be determined for these four major

programs whose total beneficiary spending exceeds \$8.5 billion in the aggregate.

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 10-04, pages 50-51) **This finding was first reported in the Statewide Single Audit in 2007.**

**Auditor qualification due to shortfall in control over case file records**

As a result of DHS's failure to properly maintain and control case file records of beneficiaries, the auditors qualified their opinion on the TANF, CHIP and Medicaid Cluster programs.

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

**DHS accepted the auditors recommendation**

DHS officials agreed with the recommendation stating the they are in the process of implementing a document management system that will capture much of the information that is currently printed and placed in a paper file, and route it to an electronic file which will reduce the overwhelming size and amount of filed in the offices and allow for better tracking of the location of case file information. (For previous agency response, see Digest Footnote #3)

**INADEQUATE PROCESS FOR PREVENTING INDIVIDUALS CONVICTED OF DRUG FELONIES FROM RECEIVING TANF BENEFITS**

**DHS fails to prohibit individuals with Class 1 or X felony drug convictions from receiving TANF benefits**

The Department of Human Services (DHS) does not have adequate procedures in place to ensure individuals convicted of Class 1 or Class X drug felonies, probation and parole violators, and fugitive felons 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. One of the criteria is that individuals convicted of a Class 1 or Class X felony are prohibited from receiving TANF benefits.

During our testwork over the TANF program, we noted IDHS' process for determining whether TANF applicants have been convicted of a Class 1 or Class X felony consists of applicants answering questions on the standard application which require a yes or no response to if they have been convicted of a Class 1 or Class X felony. DHS does not have

procedures in place to corroborate the applicant's statements through cross matches with the Illinois Department of Corrections, Illinois State Police, or other mechanisms.

In accordance with federal regulations, Section II.G of the current State Plan prohibits individuals convicted of a Class 1 or Class X felony for an Act occurring after August 21, 1996, involving the possession, use, or distribution of a controlled substance are ineligible to receive TANF. (Finding 10-05, pages 52-53) **This finding was first reported in the Statewide Single Audit in 2006.**

**Auditor qualification**

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

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

**DHS accepted the auditors recommendation**

DHS officials agreed with our recommendation and stated they are currently discussing the possibility of implementing a cross match with the Illinois State Police to better identify convicted Class 1 or X drug felons. (For previous agency response, see Digest Footnote #4)

**INADEQUATE PROCEDURES FOR PERFORMING ELIGIBILITY REDETERMINATIONS**

**HFS eligibility determinations are inadequate**

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

**Effective February 2006, HFS revised procedures for performing redeterminations to a "passive procedure"**

Effective in February 2006, DHFS revised its procedures for performing eligibility redeterminations for children receiving services under the CHIP and Medicaid 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.

**Redeterminations do not require positive confirmation of current beneficiary requirements**

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 behalf of beneficiaries of the Medicaid and CHIP programs totaled \$8.5 billion in FY2010.

**State Plan requires annual eligibility determinations**

Federal regulations require redetermination of client eligibility as defined in the State Plans. The State Plans require an annual eligibility redetermination. In addition, federal regulations require the State to have procedures designed to ensure recipients make timely and accurate reports of any change in the circumstances that may affect their eligibility. (Finding 10-13, pages 71-72) **This finding was first reported in the Statewide Single Audit in 2007.**

**Auditors qualified their report on Medicaid and CHIP programs**

As a result of HFS' inadequate procedures for performing eligibility redeterminations of beneficiaries of the Medicaid and CHIP programs in accordance with the federal regulations and the State Plans, the auditors qualified their report on the Medicaid Cluster and CHIP programs.

We recommended HFS 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.

**HFS accepted the auditors recommendation**

HFS officials accepted the finding and stated the Medicaid Reform Act requires the Department to verify one month's income at renewal in order for children to remain enrolled in the program. The Department has submitted clarification to the federal government regarding implementation of the reform legislation which is required to be implemented no later than October 1, 2011. This is anticipated to be implemented unless denial is received from the federal government. (For previous agency response, see Digest Footnote #5)

**MISSING DOCUMENTATION IN BENEFICIARY ELIGIBILITY FILES**

**Case file documentation to support eligibility could not be located**

The Department of Humans Services (DHS) and the Department of Healthcare and Family Services (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 testwork of 65 CHIP and 125 Medicaid beneficiary payments for compliance with eligibility requirements and the allowability of the relevant benefits provided we noted the following exceptions:

Department of Human Services

- In 24 CHIP and 7 Medicaid case files, DHS could not locate the supporting documentation of the



redetermination completed and signed by the beneficiary in the case file.

- In 2 CHIP case files, DHS could not locate adequate documentation supporting required cross match procedures were performed.
- In 5 CHIP case files, DHS could not locate adequate documentation supporting income verification procedures were performed.

#### Department of Healthcare and Family Services

- In 1 CHIP case file, HFS could not locate adequate documentation supporting income verification procedures were performed.
- In 10 CHIP case files, HFS could not locate the supporting documentation of the redeterminations completed and signed by the beneficiary in the case file.

#### **Auditors qualified their report on CHIP and Medicaid programs**

As a result of DHS and HFS' failure to locate case file documentation supporting eligibility determinations for beneficiaries, the auditors qualified their report on the CHIP and Medicaid Cluster programs. (Findings 10-6 and 10-14, pages 54-56 and 73-74, respectively). **These findings were first reported in the Statewide Single Audit in 2001 and 2009, respectively.**

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

#### **DHS accepted the auditors recommendation**

DHS officials accepted our recommendation and stated the Department will continue to ensure staff understands the importance of proper and accurate filing processes. In addition, DHS officials stated they are planning to pilot a document management system that will capture much of the information that is currently printed and placed in a paper file and route it to an electronic file. (For previous agency response, see Digest Footnote #6)

#### **DHFS accepted the auditors recommendation**

DHFS officials accepted the finding and stated the Medicaid Reform Act requires the Department to verify one month's income at renewal in order for children to remain enrolled in the program. The Department has submitted clarification to the federal government regarding implementation of the reform legislation which is required to be implemented no later than October 1, 2011. This is anticipated to be implemented unless denial is received from the federal government.

## **FAILURE TO PAY MEDICAL CLAIMS WITHIN PRESCRIBED TIMEFRAMES**

### **HFS makes untimely payment of practitioner claims**

The Department of Healthcare and Family Services (HFS) is not paying practitioner medical claims for individuals receiving benefits under the Children's Health Insurance Program (CHIP) and Medicaid Cluster 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. Once a medical payment has been approved for payment, it is adjudicated, vouchered and submitted to the Office of the Comptroller for payment.

### **HFS monitors compliance with medical payments timeframe**

During our review of the analysis covering practitioner medical payments during state fiscal year 2010, we noted medical payments were not made within the payment timeframes required by federal regulations. Management's daily analysis of claims processed after the enactment of ARRA identified 24 days in which the State was not in compliance with the claims processing requirements. The State received claims totaling \$353,022,405 on those days, resulting in \$41,048,595 of lost federal reimbursement.

### **Federal reimbursement totaling \$41,048,595 lost due to not paying claims on time**

Federal regulations 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. The State must pay all other claims within twelve months of the date of receipt. (Finding 10-15, pages 75-77) **This finding first reported in the Statewide Single Audit in 2008.**

### **Auditor qualification**

As a result of HFS' failure to pay within the timeframes as prescribed in program regulations, the auditors qualified their report on the Medicaid Cluster program.

We recommended 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.

**HFS accepted the auditors recommendation**

HFS officials accepted our recommendation and stated the number of instances where timely payment did not occur was not considered significant and the Department will continue to process medical claims within the timeframe required under federal regulations, although they may be held for payment until cash is available.

**MISSING DOCUMENTATION IN ADOPTION ASSISTANCE ELIBILITY FILES**

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

**Adoption Assistance and Foster Care Client files missing certain documentation**

During our testwork of 65 case files for eligibility requirements and allowability for the Adoption Assistance program, we noted the Department could not locate documentation supporting a criminal background check and child abuse and neglect registry check were performed on the prospective adoptive parents evidencing the placement would be in the best interest of the child. Additionally, the temporary custody order for this case did not contain the probable cause finding for removing the child from the home and did not give guardianship of the child to DCFS. As such, the case file did not contain adequate documentation to support that placement or the initial removal of the child from the home were in the best interest of the child. DCFS claimed reimbursement for adoption assistance benefits made on behalf of this child totaling \$3,017 during the year ended June 30, 2010.

**Case file documentation missing for Adoption Assistance program**

During our testwork of 65 for eligibility requirements and allowability of related benefits for the Foster Care program we noted the case file for one beneficiary did not include adequate documentation supporting the initial removal of the child from the home was in the best interest of the child and the case file for one beneficiary did not include evidence supporting the annual guardianship recertification was performed. DCFS claimed reimbursement for Foster Care benefits made on behalf of these two children totaling \$9,984 during the year ended June 30, 2010.

**Audit qualification due to missing eligibility documentation**

As a result of DCFS' missing eligibility documentation, the auditors qualified their report for the Adoption Assistance and Foster Care programs. (Findings 10-38 and 10-40, pages 125-126 and 129-131, respectively) **These findings were first reported in the Statewide Single Audit in 2005 and 2010, respectively.**

We recommended DCFS review its procedures for retaining and documenting how beneficiaries have met eligibility requirements and implement changes necessary to ensure documentation supporting eligibility criteria exists for all children whom benefits are claimed.

**DCFS accepted the auditors recommendation**

DCFS officials agreed proper documentation should be obtained and retained for all cases. The Department will make a claiming adjustment for the actual amount claimed during the fiscal year. (For previous agency response for finding 10-38, see Digest Footnote #7)

**FAILURE TO ENSURE THAT ADOPTION ASSISTANCE RECERTIFICATIONS ARE PERFORMED ON A TIMELY BASIS**

**Adoption recertifications not performed timely**

The Department of Children and Family Services (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.

During our review of the eligibility for 65 beneficiaries receiving recurring subsidy payments under the Adoption Assistance program, we noted two instances in which DCFS could not locate a recertification form submitted by the adoptive parent within the most recent two year period. (Finding 10-39, pages 127-128) **This finding first reported in the Statewide Single Audit in 2006.**

As a result of DCFS' failure to ensure adoption assistance recertification were performed timely the auditors qualified their report for the Adoption Assistance program.

**Audit qualification due to untimely recertifications**

We recommended 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 accepted the auditors recommendation**

DCFS officials stated they agree to conduct further review of the recertification process and implement additional procedures to ensure reporting to the Post-Adoption Unit and the reporting of follow-up is completed. (For previous agency response, see Digest Footnote #8)

**INADEQUATE MONITORING OF SUBRECIPIENT OMB CIRCULAR A-133 AUDIT REPORTS**

**Lack of monitoring of A-133 Audit Reports**

The Department on Aging (DOA) is not adequately monitoring the OMB Circular A-133 reports submitted by its subrecipients receiving federal awards for the Aging Cluster. The DOA passes through federal funding to thirteen area agencies on aging throughout the State. During our testwork of four subrecipients of the Aging Cluster with total expenditures of approximately \$21,949,000 we noted the A-133 desk review checklist was not completed in a timely

manner and a management decision was not issued for findings reported in the audit report reviewed for one subrecipient tested. Additionally, the expenditures in the schedule expenditures of federal awards for this subrecipient were not reconciled to DOA's financial records.

Pass through entities are required to monitor their subrecipients expending more than \$500,000 in federal awards during their fiscal year to include the submission of OMB Circular A-133 reports upon completion of an audit. Program staff for each of the agencies are responsible for reviewing the reports and determining whether: 1) the audit reports meet the audit requirements of OMB Circular A-133 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 the subrecipient takes timely and appropriate corrective action on all audit findings. (Finding 10-44, pages 138-139) **This finding first reported in the Statewide Single Audit in 2006.**

As a result of DOA's failure to adequately monitor subrecipients, the auditors qualified their report for the Aging Cluster program.

**Auditor qualification pertaining to subrecipient monitoring**

We recommended DOA establish procedures to ensure desk reviews are performed on a timely basis for all subrecipients, 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 supervisory reviews are documented to evidence their completion.

DOA officials stated they have filled the position responsible for performing A-133 desk reviews, which will ensure that all A-133 desk reviews are completed timely and in accordance with the requirements of OMB Circular A-133. (For previous agency response, see Digest Footnote #9)

**DOA accepted the auditors recommendation**

**FAILURE TO SANCTION NON-COMPARABLE LOCAL EDUCATION AGENCY (LEA) AND INADEQUATE DOCUMENTATION FOR DETERMINING COMPARABILITY**

The Illinois State Board of Education (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").

**Inadequate measures to sanction LEA not meeting requirements under Title I**

We noted 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. (Finding 10-53, pages 157-158) **This finding first reported in the Statewide Single Audit in 2006.**

As a result of the ISBE not meeting the comparability of services requirement under Title I, the auditors qualified their report for the Title I, Part A Cluster program.

**Auditor qualification pertaining to comparability**

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

ISBE officials acknowledged that the LEA noted in the finding was not sanctioned when comparability requirements were not met. However, the Agency continues to work with the U. S. Department of Education and is still awaiting the final determination of corrective action. (For previous agency response, see Digest Footnote #10)

**ISBE accepted the auditors recommendation**

**INADEQUATE MONITORING OF MAINTENANCE OF EFFORT**

The Illinois State Board of Education (ISBE) does not have adequate procedures in place to ensure the maintenance of effort (MOE) requirement for subrecipients of the Title I, Part A Cluster (Title I) and Improving Teacher Quality State Grants (Title II) programs is accurately calculated.

**Inadequate procedures over maintenance of effort requirement**

ISBE passed through approximately \$689,466,000 and \$105,649,000 in Title I and Title II program funding to Local Education Agencies (LEAs) during the year ended June 30, 2010 to improve the quality of teaching for children who are at risk of not meeting academic standards and to increase academic achievement among all students. During our testwork over the MOE calculations for 40 subrecipients for the Title I and Title II programs, we noted the calculations for 20 subrecipients did not include all MOE expenditures.

As a result of the ISBE not meeting the maintenance of effort requirement under Title I and Title II programs, the auditors qualified their report for the Title I, Part A Cluster

**Auditor qualification**

and Improving Teacher Quality State Grants programs. (Finding 10-57, pages 167-168)

We recommended ISBE review its current process for calculating MOE expenditures incurred by its subrecipients to ensure all expenditure categories are properly included in the MOE calculation.

**ISBE accepted the auditors recommendation**

ISBE officials agreed with our recommendation and stated they will review the process for calculating MOE expenditures incurred by its subrecipients to ensure all expenditure categories are properly included in the MOE calculation and will strengthen their internal controls to minimize the possibility for errors in the selection of expenditure data in the calculations.

**INADEQUATE CASH MANAGEMENT PROCEDURES FOR SUBRECIPIENTS**

**Inadequate procedures to monitor cash needs of subrecipients**

The Illinois State Board of Education (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. (Finding 10-58, pages 169-170)

**Auditor qualification pertaining to cash management**

As a result of the Illinois State Board of Education not having adequate procedures to monitor the cash needs of subrecipients, the auditors qualified their report for Title I, Part A Cluster, Special Education Cluster and the State Fiscal Stabilization Fund Cluster programs.

We recommended 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 accepted the auditors recommendation**

ISBE officials agreed with our recommendation and stated they have made a major policy decision that comprehensively changes the methodology for distributing Federal grant funds to local education agencies (LEAs) beginning in FY 2012.

The LEA's will no longer receive advanced payments based on a payment schedule but rather receive payments through a modified reimbursement method.

**ISSUE INVOLVING MULTIPLE STATE AGENCIES**

**INADEQUATE ON-SITE MONITORING OF SUBRECIPIENTS**

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

**Lack of on-site monitoring of subrecipients**

Children and Family Services (DCFS)	TANF Foster Care Title IV-E Adoption Assistance	10-37 pages 121-124
Aging (DOA)	Aging Cluster	10-43 Pages 136-137
Public Health (DPH)	Public Health Emergency Preparedness Program	10-48 Pages 146-147
IL State Board of Education (ISBE)	Title I, Part A Cluster Special Education Cluster Career and Technical Ed – Basic Grants to States Twenty-First Century Community Learning Centers Reading First State Grants Improving Teacher Quality State Grants State Fiscal Stabilization Fund	10-54 Pages 159-161  10-55 Pages 162-164  10-56 Pages 156-157
Commerce and Economic Opportunity (DCEO)	Weatherization Assistance For Low Income Persons Low Income Home Energy Assistance Program	10-77 Pages 209-210
Transportation (DOT)	Airport Improvement Program	10-81 Pages 217-218

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

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



to ensure that federal awards are used for authorized purposes in compliance with laws and regulations. Also, effective internal controls should include ensuring documentation of on-site review procedures adequately supports procedures performed and the results obtained. **These findings for DCFS, DOA, DPH, ISBE, DCEO and DOT were first reported in the Statewide Single Audit in 2000, 2003, 2010, 2007, 2010 and 2005 respectively.**

**Auditor qualification pertaining to subrecipient monitoring**

As a result of these agencies' failure to adequately monitor subrecipients, the auditors qualified their report for 16 programs listed in the above table.

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

DOA, DPH, ISBE, DCEO and DOT accepted our findings and recommendations. DCFS disagreed with the finding. (For previous DCFS, DOA, ISBE and DOT responses, see Digest Footnotes #11, #12, #13 and #14)

**ISSUES INVOLVING AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)**

**FAILURE TO COMMUNICATE ARRA INFORMATION AND REQUIREMENTS TO SUBRECIPIENTS**

**ARRA funds not separately identified**

We noted weaknesses in communicating ARRA information and requirements to subrecipients for the following agencies:

Commerce and Economic Opportunity (DCEO)	Workforce Investment Act Cluster (WIA) Weatherization Assistance for Low Income Persons (Weatherization) Community Service Block Grant Cluster (CSBG)	10-78 Pages 211-212
Transportation (DOT)	Airport Improvement Program Highway Planning and Construction Cluster	10-85 Pages 225-226
IL Environmental	Clean Water State Revolving Fund (SWSRF)	10-98 Pages 251-

Protection Agency (EPA)	Drinking Water State Revolving Fund (DWSRF)	252
Governor's Office of Management & Budget	State Fiscal Stabilization Fund	10-102 Pages 259-260

We noted the DCEO, DOT and EPA did not identify the federal award number, catalog of federal domestic assistance (CFDA) title and number, or the amount of the award attributable to the Recovery Act at the time of each disbursement. Additionally, DCEO and DOT grant agreements did not identify the requirements for their subrecipients to separately report the Recovery Act program expenditures on the schedule of expenditures of federal awards and the data collection form. Lastly, GOMB did not communicate ARRA information and program requirements to subrecipients of the State Fiscal Stabilization Fund.

We recommended the agencies implement procedures to ensure ARRA information and requirements are properly communicated to its subrecipients.

**Agencies accepted the auditors recommendation**

DCEO, DOT, EPA and GOMB accepted our findings and recommendations.

**INACCURATE ARRA 1512 REPORTS**

**Inaccurate federal reporting**

The Department of Commerce and Economic Opportunity and the Illinois Environmental Protection Agency did not accurately report expenditures in the quarterly American Recovery and Reinvestment Act (ARRA) 1512 report for the Weatherization Assistance for Low Income Persons (Weatherization), the Clean Water State Revolving Fund (Clean Water) and the Drinking Water State Revolving Fund (Drinking Water) programs.

**Differences noted**

We noted differences of \$41,153, \$1,721,349 and \$826,831 between the total federal amount of ARRA expenditures reported and the Agency's financial records or the program expenditures reported on the SF-425 Federal Financial Report filed for the respective quarter for the Weatherization, Clean Water, and Drinking Water programs respectively. (Findings 10-79 and 10-99, pages 213-214 and 253-254, respectively).

**Agencies accepted the auditors recommendation**

We recommended DCEO and EPA review the process and procedures in place to prepare and submit ARRA 1512 reports to ensure expenditures reported are accurate and reconcile to agency financial records.

DCEO and EPA officials accepted our finding and recommendation and will review procedures to eliminate differences due to timing issues and accounting system used.

## **OTHER FINDINGS**

The remaining findings pertain to other compliance and internal control matters. We will follow up on the status of corrective action on all findings in our next Statewide Single Audit for the year ended June 30, 2011.

## **AUDITORS' OPINION**

The auditors state the Schedule of Expenditures of Federal Awards for the State of Illinois as of and for the year ended June 30, 2010 is presented fairly in all material respects.

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WILLIAM G. HOLLAND, Auditor General

WHG:JSC:pp

## **SPECIAL ASSISTANT AUDITORS**

KPMG LLP was our special assistant auditor for this audit.

## **DIGEST FOOTNOTES**

Previous response by the Office of the Governor and the Office of the State Comptroller

### **#1 Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards**

- 2009: (Office of the Governor) 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.
- 2009: (Office of the State Comptroller) 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.

Previous responses by the Department of Human Services

**#2 Failure to Perform Eligibility Redeterminations within Prescribed Timeframes**

2009: Recommendation accepted. The Department of Human Services (DHS) will continue working with the Department of Healthcare 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.

**#3 Failure to Properly Maintain and Control Case File Records**

2009: Recommendation accepted. 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.

**#4 Inadequate Process for Preventing Individuals Convicted of Drug Felonies from Receiving TANF Benefits**

2009: Recommendation accepted. 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.

**#6 Missing Documentation in Beneficiary Eligibility Files**

2009: Recommendation accepted. 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.

Previous responses by the Department of Healthcare and Family Services

**#5 Inadequate Procedures for Performing Eligibility Redeterminations**

2009: Recommendation not accepted. The Department's administrative renewal process is performed in accordance with federal regulations and State Plans.

Previous responses by the Department of Children and Family Services

**#7 Missing Documentation in Adoption Assistance Eligibility Files**

2009: Recommendation accepted. 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.

**#8 Failure to Ensure that Adoption Assistance Recertifications Are Performed on a Timely Basis**

2009: Recommendation accepted. The Department has instituted a multi-step routine, automated adoption recertification process which should ensure that all recertifications are performed timely.

**#11 Inadequate and Untimely Fiscal Monitoring of Subrecipients**

2009: Recommendation accepted. The Department has developed and implemented procedures to address A-133 Findings noted in the sub recipients' OMB Circular A-133 reports. Future schedules for on-site reviews will prioritize visits to agencies not previously visited, or visited years ago. The Department has also begun initiatives to increase productivity by improving efficiency of its staff and seek other resources to obtain increased coverage.

Previous response by Department on Aging

**#9 Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports**

2009: Recommendation accepted. 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.

**#12 Inadequate On-Site Monitoring of Subrecipients**

2009: Recommendation accepted. 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.

Previous responses by the Illinois State Board of Education

**#10 Failure to Sanction Non-Comparable Local Education Agency (LEA)**

2009: Recommendation accepted. The Agency is still awaiting the final determination of corrective action from the U.S. Department of Education. Upon receipt the 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.

**#13 Inadequate On-Site Fiscal Monitoring of Subrecipients**

2009: Recommendation accepted. 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 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.

Previous responses by the Department of Transportation

**#14 Inadequate On-Site Fiscal Monitoring of Subrecipients**

2009: Recommendation accepted. 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 monitoring did occur for nearly every locally let project.