



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, 2011

Release Date: July 10, 2012

Summary of Findings:

Total this audit:	101
Total last audit:	103
Repeated from last audit:	71

SYNOPSIS
Background

- The State expended approximately \$28.1 billion from federal awards in FY11.
- A total of 31 programs or program clusters were classified and audited as major programs at thirteen (13) State agencies. These programs constituted approximately 95% of all federal spending, or about \$26.8 billion.
- Overall, 45 State agencies expended federal financial assistance in FY11. Eleven (11) State agencies accounted for about 98.7% of federal dollars spent.

Statewide Finding – Financial Reporting

- The State of Illinois does not have an adequate process in place to permit the timely completion of a complete and accurate schedule of 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.
 - failing to locate case file documentation supporting eligibility determinations for beneficiaries of the TANF, CHIP and Medicaid Cluster programs.
 - charging unallowable Home Services expenditures to the Social Services Block Grant (Title XX) program.

- 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 determinations 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 of Public Health has a *material weaknesses* for:
 - inadequately monitoring providers under the Immunization Grants program.
- 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 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 and Special Education Cluster programs.
- The Department of Employment Security has a *material weaknesses* for:
 - not verifying social security numbers with the U.S. Social Security Administration for new Unemployment Insurance (UI) program claimants.
- The Department of Transportation has *material weaknesses* for:
 - not retaining documentation for construction projects in the Highway Planning and Construction Cluster (Highway Planning) program in accordance with federal regulations.
 - not obtaining certified payrolls prior to making payments to contractors for the Highway Planning program.
- The Governor’s Office of Management and Budget has a *material weaknesses* for:
 - not maintaining adequate documentation to support that the State met its maintenance of effort (MOE) requirement for the Education Jobs Fund (Ed Jobs) program.

Findings Involving Multiple Agencies

- The Department of Human Services (DHS), Children and Family Services (DCFS), 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), and the Environmental Protection Agency (EPA) failed to communicate ARRA information and requirements to subrecipients.
- The Department of Transportation 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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's schedule of expenditures over financial reporting will not be prevented, or detected and corrected on a timely basis.

Material weakness (compliance): A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Significant Deficiency (compliance): A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Control Deficiency: A deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

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

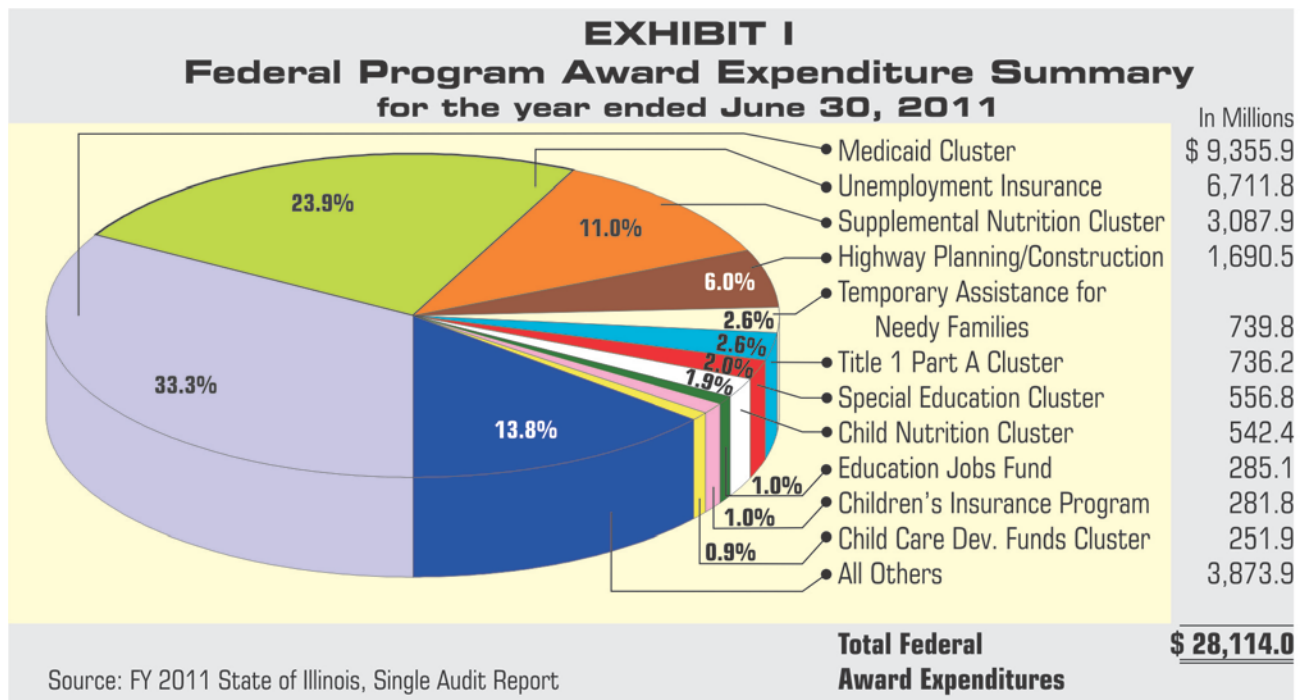
FINANCIAL ACTIVITIES		(In Thousands of Dollars)		FY2011	
EXPENDITURES BY PROGRAM		Amount		Percent	
Major Programs					
Medicaid Cluster.....		\$9,355,906		33.3%	
Unemployment Insurance.....		6,711,775		23.9%	
Supplemental Nutrition Assistance Program (SNAP Cluster).....		3,087,881		11.0%	
Highway Planning and Construction.....		1,690,501		6.0%	
Temporary Assistance for Needy Families.....		739,806		2.6%	
Title I Grants to Local Educational Agencies.....		736,180		2.6%	
Special Education Cluster.....		556,784		2.0%	
Child Nutrition Cluster.....		542,422		1.9%	
Education Jobs Fund.....		285,059		1.0%	
Children's Health Insurance Program.....		281,837		1.0%	
Child Care Development Funds Cluster.....		251,920		0.9%	
Federal Family Education Loans.....		234,413		0.8%	
Special Supplemental Nutrition Program for Women, Infants & Children.....		225,992		0.8%	
Foster Care - Title IV-E.....		196,164		0.7%	
Capitalization Grants for Clean Water State Revolving Funds.....		194,432		0.7%	
Low-Income Home Energy Assistance.....		189,280		0.7%	
Workforce Investment Act Cluster.....		146,065		0.5%	
Weatherization Assistance for Low-Income Persons.....		134,318		0.5%	
Child Support Enforcement.....		127,015		0.4%	
Child and Adult Care Food Program.....		124,474		0.4%	
Adoption Assistance.....		101,268		0.4%	
Improving Teacher Quality State Grants.....		110,746		0.4%	
Immunization Grants.....		103,831		0.4%	
Social Services Block Grant.....		99,130		0.3%	
Rehabilitation Services - Vocational Rehabilitation Grants to States.....		94,070		0.3%	
Homeland Security.....		85,536		0.3%	
Airport Improvement Program.....		83,401		0.3%	
High Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants.....		81,641		0.3%	
Social Security Disability Insurance.....		81,198		0.3%	
Block Grants for Prevention and Treatment of Substance Abuse.....		78,204		0.3%	
Capitalization Grants for Drinking Water State Revolving Funds.....		73,269		0.3%	
Total Major Programs.....		\$26,804,518		95.3%	
Non-Major Programs.....		\$1,309,439		4.7%	
TOTAL EXPENDITURE.....		\$28,113,957		100.0%	
Federal Agencies Proving Funding:		Total		Major Program Expenditures	
U.S. Department of Health and Human Services.....		\$11,873,393		\$11,524,361	
U.S. Department of Labor.....		6,972,843		6,857,840	
U.S. Department of Agriculture.....		4,030,288		3,980,769	
U.S. Department of Education.....		2,260,601		2,017,252	
U.S. Department of Transportation.....		1,928,146		1,855,543	
U.S. Environmental Protection Agency.....		318,609		267,701	
U.S. Department of Energy.....		195,573		134,318	
U.S. Department of Homeland Security.....		160,079		85,536	
Social Security Administration.....		81,450		81,198	
All Other Federal Agencies.....		292,975		0	
TOTAL EXPENDITURES.....		\$28,113,957		\$26,804,518	
STATISTICAL INFORMATION		FY 2011			
Total Number of Programs in the Schedule of Expenditures of Federal Awards.....		422			
Number of Federal Programs or Program Clusters Audited.....		31			
Total Number of State Agencies Spending Federal Funds.....		45			
Number of State Agencies for Single Audit Requirements (including finding follow up).....		17			
Total American Recovery and Reinvestment Act (ARRA) Expenditures.....		5,161,822			
Percentage of ARRA Expenditures.....		18.4%			

INTRODUCTION

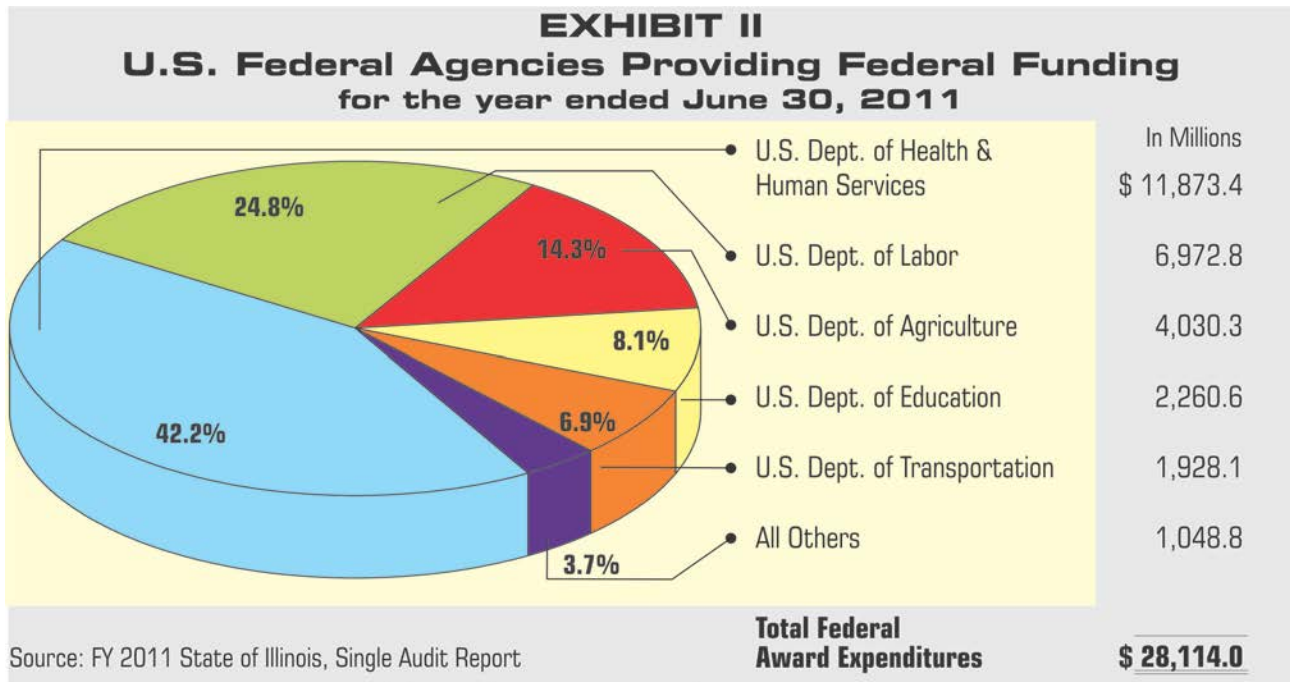
The Illinois Office of the Auditor General conducted a Statewide Single Audit of the FY11 federal grant programs. The audit was conducted in accordance with the federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133.

The Statewide Single Audit includes State agencies that are a part of the primary government and expend federal awards. In total, 45 State agencies expended federal financial assistance in FY11. 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 when required.

The Schedule of Expenditures of Federal Awards (SEFA) reflects total expenditures of approximately \$28.1 billion for the year ended June 30, 2011. Overall, the State participated in 422 different federal programs, however, 11 of these programs or program clusters accounted for approximately 86.2% of the total federal award expenditures. (See Exhibit I)



The funding for the 422 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 FY11.

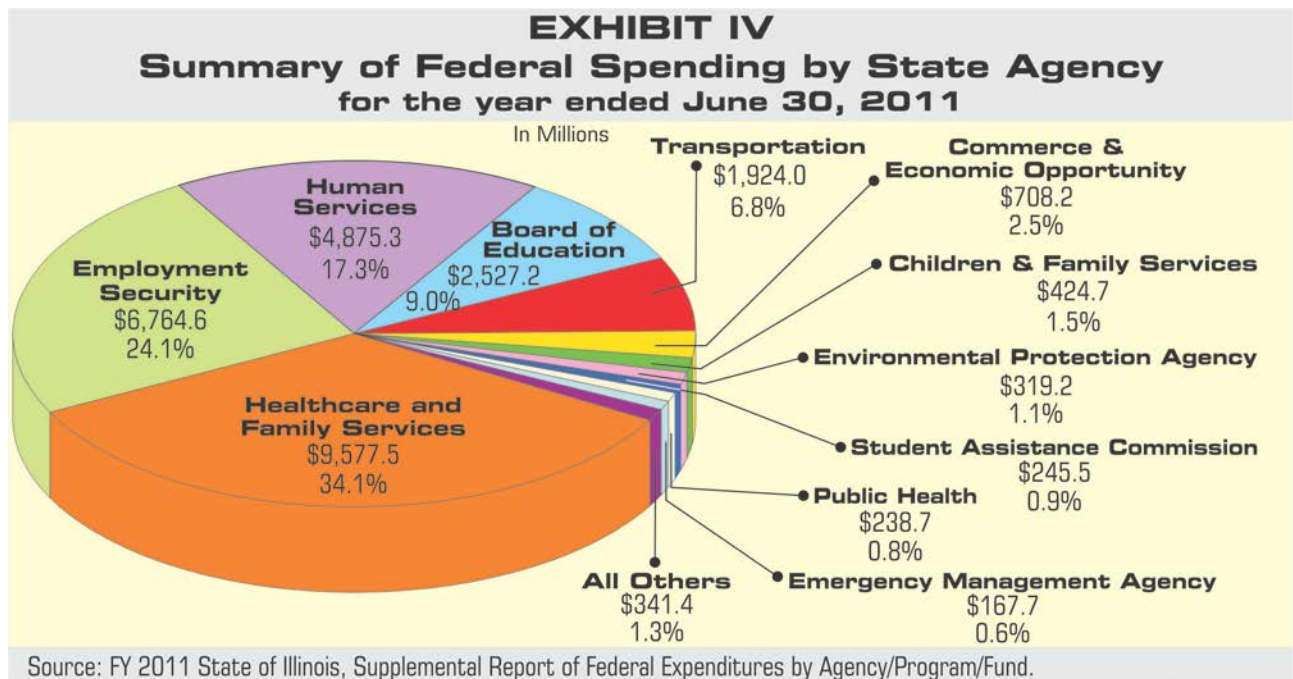


A total of 31 federal programs or program clusters were identified as major programs in FY11. A major program was defined in accordance with Circular A-133 as any program with federal awards expended that meets certain criteria when applying the risk-based approach. Exhibit III provides a brief summary 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, 2011

Audit Coverage	No.	Expenditures (in millions)	%
Major Programs	31	\$26,804.5	95.3%
Non-Major Programs	391	1,309.5	4.7%
Total	<u>422</u>	<u>\$28,114.0</u>	<u>100.0%</u>

Eleven State agencies accounted for approximately 98.7% of all federal dollars spent during FY11 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 24-28 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	11-02	43-45
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	11-02	43-45
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	11-02	43-45
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	11-03	46-48
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	11-03	46-48
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	11-03	46-48
IL Department of Human Services	Temporary Assistance for Needy Families	Allowable Costs/Cost Principles and Eligibility	11-04	49-51
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	11-04	49-51

IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	11-04	49-51
IL Department of Human Services	Temporary Assistance for Needy Families	Subrecipient Monitoring	11-06	55-56
IL Department of Human Services	Social Service Block Grant Program	Allowable Costs/Cost Principles and Eligibility	11-07	57-58
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	11-16	77-78
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	11-16	77-78
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	11-17	79-80
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	11-17	79-80
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost principles and Period of Availability	11-18	81-82
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Period of Availability	11-18	81-82
IL Department of Children and Family Services	Temporary Assistance for Needy Families	Subrecipient Monitoring	11-38	122-125
IL Department of Children and Family Services	Foster Care - Title IV-E	Subrecipient Monitoring	11-38	122-125
IL Department of Children and Family Services	Adoption Assistance	Subrecipient Monitoring	11-38	122-125
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	11-39	126-127
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	11-40	128-129
IL Department of Children and Family Services	Foster Care – Title IV-E	Allowable Costs/Cost Principles and Eligibility	11-41	130-131
IL Department of Public Health	Immunization Cluster	Special Tests and Provisions	11-50	148-149
IL State Board of Education	Title I, Part A Cluster	Allowable Costs/Cost Principles and Special Tests and Provisions	11-56	161-162
IL State Board of Education	Title I, Part A Cluster	Subrecipient Monitoring	11-57	163-165
IL State Board of Education	Special Education Cluster	Subrecipient Monitoring	11-57	163-165
IL State Board of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	11-57	163-165
IL State Board of Education	Title I, Part A Cluster	Subrecipient Monitoring	11-58	166-168
IL State Board of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	11-58	166-168
IL State Board of Education	Title I, Part A Cluster	Cash Management	11-59	169-170
IL State Board of Education	Special Education Cluster	Cash Management	11-59	169-170
IL Department of Employment Security	Unemployment Insurance	Allowable Costs/Cost Principles and Eligibility	11-64	179-180
IL Department of Commerce and Economic Opportunity	Weatherization Assistance for Low Income Persons	Subrecipient Monitoring	11-71	194-195
IL Department of Commerce and Economic Opportunity	Low Income Home Energy Assistance Program	Subrecipient Monitoring	11-71	194-195
IL Department of Transportation	Airport Improvement Program	Subrecipient Monitoring	11-75	202-203
IL Department of Transportation	Highway Planning and	Allowable Costs/Cost	11-76	204-205

	Construction Cluster	Principles and Procurement		
IL Department of Transportation	Highway Planning and Construction Cluster	Allowable Costs/Cost Principles and Davis Bacon	11-77	206-207
IL Department of Transportation	High Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants	Subrecipient Monitoring	11-85	222-224
IL Governor's Office of Management and Budget	Education Jobs Fund	Allowable Costs/Cost Principles and Maintenance of Effort	11-99	250-251

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 nine 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 and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. Overall, 28 of the 101 findings reported in the single audit were classified as compliance significant deficiencies.

Material weaknesses were also disclosed in our report. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. Overall, 73 of the 101 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

State Agency	Number of Findings	Number of Repeat Findings	Page References to Findings
State Comptroller/Office of the Governor	1	1	32-35
Human Services	13	6	43-73
Revenue	1	1	74-76
Healthcare and Family Services	22	17	77-121
Children and Family Services	9	6	122-141
Aging	3	3	142-147
Public Health	6	4	148-160
State Board of Education	4	4	161-170
Student Assistance Commission	4	3	171-178
Employment Security	7	5	179-193
Commerce and Economic Opportunity	4	2	194-201
Transportation	14	8	202-230
Emergency Management Agency	5	5	231-239
State Police	1	1	240-241
Environmental Protection Agency	4	4	242-249
Governor's Office of Management and Budget	2	1	250-253
State Treasurer's Office	<u>1</u>	<u>0</u>	254-255
Totals	<u>101</u>	<u>71</u>	

Exhibit VI summarizes the total number of findings, number of repeated findings and the percentage of repeated findings for the past ten years.

EXHIBIT VI Ten Year Analysis of Number of Findings, Number of Findings Repeated and Percentage of Repeat Findings

Year	Number of Findings	Number of Repeated Findings	Percentage of Repeated Findings
2011	101	71	70%
2010	103	64	62%
2009	93	65	70%
2008	97	58	60%
2007	87	59	68%
2006	95	55	58%
2005	101	44	44%
2004	71	45	63%
2003	64	34	53%
2002	62	26	42%

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).

Internal control deficiencies have been identified and reported relative to the SEFA financial reporting process in each of the past nine years as a result of errors identified during the

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

external audits performed on State agencies. Examples include the following: 1) expenditures for the Special Supplemental Nutrition for Women, Infants, and Children were understated in 2011, 2) expenditures for the Guardianship Assistance program were erroneously reported under the Adoption Assistance program in 2011, 3) expenditures were reported based on cash receipts versus expenditures for the Airport Improvement Program and Highway Planning and Construction Cluster programs in 2011, 4) expenditures for the High-Speed Rail Program were not identified as being funded by the American Recovery and Reinvestment Act in 2011, 5) Medicaid Cluster expenditures were understated in 2010, 6) expenditures for the Homeland Security Cluster were not appropriately clustered and were overstated in 2009, 7) expenditures for the Highway Planning and Construction Cluster were overstated in 2009, 8) 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, 9) 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, 10) correcting entries and/or restatements were required to accurately state the financial information, 11) major programs were not identified until six or more months subsequent to the end of the year by several agencies, and 12) preparation of the SEFA has not been completed by the State prior to March 31st in the past nine 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 nine years were:

Errors, deficiencies, omissions and delays in financial reporting

Agency

- (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

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

- (9) Natural Resources
- (10) IL Environmental Protection Agency
- (11) Corrections
- (12) IL Criminal Justice Information Authority
- (13) Central Management Services
- (14) Emergency Management Agency
- (15) Human Services
- (16) 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, 2012, the auditors identified the inadequacies as a material weakness for all federal programs administered by the State. (Finding 11-01, pages 32-35) **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 accepts the recommendation and stated the IOC will continue to assist the Governor's Office in their efforts to increase the quality of GAAP packages and provide training and technical assistance to State Agencies. In addition, the State Comptroller's Office stated legislation was passed by the General Assembly, and if approved by the Governor, it would create a Financial Accounting Standards Board whose mission would be to improve the timeliness, quality and processing of financial reporting for the State. (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 agreed with the finding and stated they have been working to solve some of these problems. The Governor's Office, 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 Office of the Governor will continue working with the agencies to provide as much complete information as 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 redeterminations**

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 2011 as follows:

TANF	3,202 of 44,701 cases	7.16%
CHIP	49,866 of 767,907 cases	6.49%
Medicaid	70,577 of 477,705 cases	14.77%

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 11-02, pages 43-45) **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 Supplemental Nutrition Assistance Program (SNAP) Cluster, 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 \$12.2 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 11-03, pages 46-48) **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 they continue to place a high priority on proper case file maintenance. DHS officials also stated the Department has begun implementation of 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 paper files in the offices and allow for better tracking of the location of case file information. (For previous agency response, see Digest Footnote #3)

UNALLOWABLE COSTS CHARGED TO THE TITLE XX PROGRAM

Unallowable expenditures charged to program

The Department of Human Services (DHS) charged unallowable Home Services expenditures to the Social Services Block Grant (Title XX) program.

During our testwork of 25 Home Services and 25 Early Intervention beneficiary payments for compliance with eligibility requirements and the allowability of the relevant benefits provided we noted the following exceptions

Documentation could not be located

- Documentation could not be located to support one Home Services expenditure totaling \$675 claimed under the Title XX program or one Home Services expenditure totaling \$748 to meet the Title XX earmarking requirement. In addition, documentation supporting services provided to a Home Services beneficiary did not agree to the hours reimbursed for one expenditure totaling \$260 claimed under the program.
- Documentation provided for one Early Intervention beneficiary identified the beneficiary's income exceeded 200% of the poverty level resulting in the services not be allowable.

Expenditure not allowed

Federal regulations require certain general criteria be met for expenditures to be allowable such as being adequately documented. In addition, only services provided to children or their families whose income is less than 200% of the official poverty guideline are eligible for benefits. (Finding 11-07, pages 57-58)

Auditor qualification due unallowable costs

As a result of DHS charging unallowable expenditures to the program, the auditors qualified their report on the Social Services Block Grant.

We recommended IDHS implement procedures to ensure all expenditures claimed under the Title XX program are adequately documented and agree to amounts claimed. We also recommended IDHS implement procedures to ensure only expenditures made on the behalf of families or children who meet the specified income requirements of the program are used to meet the Title XX earmarking requirement.

DHS accepted the auditors recommendation

DHS officials agreed with the recommendation stating they will continue to work with program staff to make sure every payment has been checked by staff and filed appropriately in the case file and they have changed the application used to process the expenditures to ensure only expenditures made on the behalf of families or children who meet the specified income requirements of the program are used to meet the Title XX earmarking requirement.

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.

Auditors qualified their report on Medicaid and CHIP programs

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 11-16, pages 77-78) **This finding was first reported in the Statewide Single Audit in 2007.**

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 CHIP and Medicaid Cluster 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 recommendation and stated they are working with federal CMCS to develop a redetermination plan that will insure program integrity while at the same time not violate Maintenance of Effort (MOE) requirements under the Affordable Care Act. In addition, HFS officials stated they are working with DHS to establish electronic data matches to verify eligibility and a plan to manually use available electronic databases immediately and contract with a vendor to verify eligibility within the next few months has been proposed in Senate Bill 2840, House Amendment 003. (For previous agency response, see Digest Footnote #4)

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 Temporary Assistance for Needy Families (TANF) Cluster, Children’s Health Insurance Program (CHIP) and the Medicaid Cluster programs.

During our testwork of 50 TANF, 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 1 TANF, 14 CHIP and 19 Medicaid case files, DHS could not locate the supporting documentation of the redetermination completed and signed by the beneficiary in the case file.
- In 10 CHIP and 1 Medicaid case files, DHS could not locate adequate documentation supporting income verification procedures were performed.

Department of Healthcare and Family Services

- In 5 CHIP and 1 Medicaid case files, HFS could not locate the supporting documentation of the redeterminations completed and signed by the beneficiary in the case files.
- In 2 CHIP case files, HFS could not locate adequate documentation evidencing income verification procedures were performed.
- In 1 CHIP case file, HFS could not locate adequate documentation evidencing the social security number of the beneficiary was verified.

Auditors qualified their report on TANF, 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 TANF, CHIP and Medicaid Cluster programs. (Findings 11-04 and 11-17, pages 49-51 and 79-80, 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 currently piloting a document management system that captures much of the information that is currently printed and placed in a paper file and routes it to an electronic file. (For previous agency response, see Digest Footnote #5)

HFS officials accepted the recommendation and stated they are working with DHS to establish electronic data matches for various factors of eligibility and are moving towards

HFS accepted the auditors recommendation

electronic case records. DHFS officials also stated a plan to manually use available electronic databases immediately and contract with a vendor to verify eligibility within the next few months has been proposed in Senate Bill 2840, House Amendment 003.

FAILURE TO PAY MEDICAL CLAIMS WITHIN PRESCRIBED TIMEFRAMES

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.

HFS makes untimely payment of practitioner claims

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 2011, 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 10 days in which the State was not in compliance with the claims processing requirements. The State received claims totaling \$124,365,944 on those days, resulting in \$11,475,086 of lost federal reimbursement. (Finding 11-18, pages 81-82) **This finding first reported in the Statewide Single Audit in 2008.**

Federal reimbursement totaling \$11,475,086 lost due to not paying claims on time

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 CHIP and Medicaid Cluster program.

We recommended DHFS review its current process for 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 they will continue to process medical claims within the timeframes

required under federal regulations, although they may be held for payments by the Comptroller until cash is available. (For previous agency response, see Digest Footnote #6)

MISSING DOCUMENTATION IN CASE FILES OF ADOPTION ASSISTANCE AND FOSTER CARE

Adoption Assistance and Foster Care case files missing certain documentation

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.

Case file documentation missing for Adoption Assistance program

During our testwork of 65 case files for eligibility requirements and allowability of related benefits 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. DCFS claimed reimbursement for adoption assistance benefits made on behalf of this child totaling \$5,338 during the year ended June 30, 2011.

Birth date did not agree between DCFS eligibility system and birth certificate

During our testwork of 65 for eligibility requirements and allowability of related benefits for the Foster Care program we noted one beneficiary for which the birth date recorded in DCFS' eligibility system did not agree to the beneficiary's birth certificate. Specifically, the birth year included in the eligibility system was one year later than the beneficiary's actual birth date and as a result, the beneficiary could have received benefits a year longer than permitted. DCFS claimed reimbursement for Foster Care benefits made on behalf of this child totaling \$38,254 during the year ended June 30, 2011.

Audit qualification due to missing or inaccurate eligibility documentation

As a result of DCFS' missing eligibility documentation, the auditors qualified their report for the Adoption Assistance and Foster Care programs. (Findings 11-39 and 11-41, pages 126-127 and 130-131, 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 partially accepted the auditors recommendation

DCFS officials agreed with the Adoption Assistance program exceptions and stated proper documentation should be retained for all cases. The Department will make a claiming adjustment for the actual amount claimed during the fiscal year. However, the Department disagreed with the Foster Care exceptions and stated the data entry error had no impact on eligibility as there was no improper payment made nor was

eligibility for the child incorrect for claims for the year. Department officials did agree the data entered into the automated system should be the same as on the paper documentation. (For previous agency response for finding 11-39, see Digest Footnote #7)

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

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.

Adoption recertifications not performed timely

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. DCFS claimed reimbursement for Adoption Assistance benefits made on behalf of these children totaling \$19,554 during the year ended June 30, 2011. (Finding 11-40, pages 128-129) **This finding first reported in the Statewide Single Audit in 2006.**

Audit qualification due to untimely recertifications

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

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 that annual recertification is a good business practice and has implemented 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 IMMUNIZATION PROVIDERS

Inadequate monitoring of providers

The Department of Public Health (DPH) is not adequately monitoring providers under the Immunization Grants program. DPH receives the majority of its federal Immunization Grants program funding in the form of vaccines which are distributed to medical providers throughout the State.

During our testwork over 45 providers, we noted four providers for which DPH performed on-site monitoring review of immunization records had deficiencies identified in the patient records which were not formally communicated to the provider. As a result, corrective action plans were not obtained from these providers and required follow-up procedures were not performed by DPH. In addition, during our review of enrollment forms for the 45 providers, we noted three providers for which DPH could not provide a completed enrollment form.

According to Federal regulations, a record of vaccine administered shall be in each person's permanent medical records and the State is required to perform procedures to ensure immunization records are appropriately documented by the medical providers. Additionally, effective internal controls should include ensuring all monitoring findings are communicated to providers, corrective action plans are obtained for any deficiencies noted and follow up procedures are performed. (Finding 11-50, pages 148-149)

Auditor qualification pertaining to special tests and provisions

As a result of DPH's failure to adequately monitor providers, the auditors qualified their report for the Immunization Cluster program.

We recommended DPH review its monitoring procedures for providers of Immunization Grants Program and implement changes necessary to ensure deficiencies identified are communicated and appropriate follow up procedures are performed. We also recommended DPH ensure enrollment forms are on file for all providers receiving vaccines under the Immunization Grants program.

DPH accepted the auditors recommendation

DPH agreed with our recommendation and stated they have taken corrective action to date.

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

Inadequate measures to sanction LEA not meeting requirements under Title I

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").

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 11-56, pages 161-162) **This finding first reported in the Statewide Single Audit in 2006.**

Auditor qualification pertaining to comparability

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.

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

ISBE accepted the auditors recommendation

ISBE officials stated they have taken the appropriate corrective action per the U.S. Department of Education (USDE) and the agency has recovered funds from the LEA. Also, according to the Settlement Agreement between ISBE and USDE, ISBE subsequently repaid \$1.2 million to the USDE on September 12, 2011. (For previous agency response, see Digest Footnote #9)

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 and Special Education Cluster.

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 11-59, 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 and Special Education 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 fiscal year 2012. The LEA's no longer receive advance payments based on a pre-approved payment schedule but rather receive payments through a modified reimbursement method.

FAILURE TO VERIFY SOCIAL SECURITY NUMBERS WITH THE SOCIAL SECURITY ADMINISTRATION

Social security numbers not verified for new claimants

The Illinois Department of Employment Security (IDES) did not verify social security numbers with the U.S. Social Security Administration for new Unemployment Insurance (UI) program claimants.

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. As part of determining whether claimants are legally authorized to work, IDES is required to verify the claimant has a valid social security number. With the implementation of the Illinois Benefit Information System (IBIS) in August 2010, IDES planned to automate its process for verifying social security number by performing a system cross-match between IBIS and the U.S. Social Security Administration; however, the interface between IBIS and the Social Security Administration was not operating as expected during fiscal year 2011. As a result, social security numbers were not verified by IDES for new claimants during the period from August 27, 2010 through May 24, 2011. (Finding 11-64, pages 179-180)

Auditor qualification pertaining to eligibility

As a result of the IDES not verifying social security number for new claimants, the auditors qualified their report for the Unemployment Insurance program.

We recommended IDES follow established procedures to verify claimant social security numbers to prevent payment of benefits to ineligible claimants.

IDES accepted the auditors recommendation

IDES officials agreed with our recommendation and stated they reinstated the batch process on May 24, 2011 and they expect a real-time verification system to be in place by June 30, 2012.

FAILURE TO RETAIN DOCUMENTATION IN ACCORDANCE WITH FEDERAL REGULATIONS

Documentation not retained as required

The Illinois Department of Transportation (IDOT) did not retain documentation for construction projects in the Highway Planning and Construction Cluster (Highway Planning) program in accordance with federal regulations.

During our testwork over 65 contractor payments, totaling \$67,884,479, and the related procurement files and other source documentation we noted the following:

- The affidavit of availability could not be located for six contractors.
- The summary of project costs approved by the chief accountant could not be located for our testwork for three contractors.

During our review, we noted these projects were originally bid prior to fiscal year 2005 and the information was purged in accordance with IDOT's record retention policy. However, federal regulations require records to be retained for a period of three years after final payments and all other pending matters are closed and therefore these documents should have been retained. (Finding 11-76, pages 204-205)

Auditor qualification pertaining to procurement

As a result of IDOT not retaining documentation for construction projects in accordance with federal regulations, the auditors qualified their report for the Highway Planning and Construction Cluster program.

IDOT accepted the auditors recommendation

We recommended IDOT review its current record retention policies and procedures and implement the changes necessary to ensure documentation is retained in accordance with federal regulations.

IDOT officials agreed with our recommendation and stated they will review current processes to ensure all required documents are being properly retained.

FAILURE TO OBTAIN CERTIFIED PAYROLLS PRIOR TO CONTRACTOR PAYMENTS

Certified payrolls not obtained prior to payments to contractors

The Department of Transportation (DOT) did not obtain certified payrolls prior to making payments to contractors for the Highway Planning and Construction Cluster (Highway Planning) program.

During our testwork of 65 contractor payments for regular construction projects totaling approximately \$66,928,000, and 65 contractor payments for advanced construction projects, we noted the following:

Certified payrolls not received, dated or located

- Certified payrolls for 20 contractor payments on regular construction projects totaling approximately \$26,270,000 were received subsequent to the payments made to the contractors ranging from 7 to 218 days.
- Certified payrolls for 28 contractor payments on regular construction projects totaling approximately \$26,415,000 were not dated and as a result we were unable to determine whether they were received prior to making payments to the contractors.
- Certified payrolls for five contractor payments on advanced construction projects totaling approximately \$2,632,000 could not be located for our testwork and as a result we were unable to determine whether they were received prior to making payments to the contractors.

Federal regulations require the contractor to submit a copy of all payrolls to the resident engineer for each week in which any contract work is performed. Each payroll submitted shall be accompanied by a “Statement of Compliance” signed by the contractor. (Finding 11-77, pages 206-207)

Auditor qualification pertaining to Davis Bacon Act

As a result of IDOT not obtaining certified payrolls prior to payment, the auditors qualified their report for the Highway Planning and Construction Cluster program.

We recommended IDOT establish procedures to ensure weekly payroll certifications are received prior to making payments to the contractors.

IDOT accepted the auditors recommendation

IDOT officials agreed with our recommendation and stated they will reiterate the contract requirements and policies to the districts that collect the payroll certifications.

INADEQUATE SUPPORTING DOCUMENTATION FOR MAINTENANCE OF EFFORT REQUIREMENT

Inadequate documentation to support Maintenance of Effort requirement

The Governor’s Office of Management and Budget (GOMB) did not maintain adequate documentation to support that the State met its maintenance of effort (MOE) requirement for the Education Jobs Fund (Ed Jobs) program.

As a condition of receiving federal funds under the Ed Jobs program, the State is required to maintain the amount of State funded support for elementary and secondary education and public institutions of higher education in an amount equal to or exceeding the funding provided for these purposes in the applicable benchmark year. The benchmark year used by the State depends upon which of the four prescribed methods for determining the MOE requirement is used. Methods 1 and 2 use a benchmark year of 2009 and 2010, respectively. Methods 3 and 4 use a benchmark year of 2006; however, the use of these methods require that tax collections for calendar

year 2009 are less than tax collections for calendar year 2006.

Method 3 used, however, State not eligible to use Method 3 based on documentation provided

During our testwork over the State's MOE calculation for the Ed Jobs program, we noted GOMB used Method 3 to determine the amount of the MOE requirement and opted to use the tax calendar year data available from the U.S. Census Bureau for determining the amount of tax collections. In agreeing the data used to prepare the MOE certification, we identified an error in the spreadsheet prepared to support the tax collection amounts reported. Specifically, we noted amounts reported for each type of tax collections were not properly aligned with the appropriate tax caption. As a result, the summary total of all taxes collected for both 2006 and 2009 were included in the total which resulted in double counting of the tax collections. These errors resulted in tax collections being overstated for 2006 and 2009 in the amounts of \$27,902,484,000 and \$26,468,394,000, respectively. In addition, we noted the tax collection data reported for 2009 did not agree to the data available for the 2009 tax calendar year on the U.S. Census Bureau's website. We noted the tax collections reported by GOMB appear to have been understated by \$1,545,391,000. The effect of correcting this understatement results in tax collections for 2009 exceeding tax collections for 2006 and as a result, the State does not appear to be eligible to determine its MOE requirement using Method 3.

Public Law requires States to maintain State support of elementary and secondary education and for public institutions of higher education at a level not less than the support provided in 2009 (method 1), 2010 (method 2), or 2006 (if 2009 tax collections are less than tax collections in 2006). Additionally, guidance requires the State to maintain adequate documentation to support its MOE data. (Finding 11-99, pages 250-251)

Auditor qualification pertaining to Maintenance of Effort requirement

As a result of GOMB not maintaining adequate documentation to support its MOE, the auditors qualified their report for the Education Jobs Fund program.

We recommended GOMB review its MOE calculation to determine if the State is able to support that it was eligible to use Method 3 to determine the MOE requirement or revise its calculation to use another acceptable methodology.

GOMB acknowledged finding

GOMB officials acknowledged the U.S. Census Bureau's numbers do not agree with the original numbers that used by the State of Illinois and that they will work with the U.S. Department of Education to determine the results of this finding.

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

Human Services (DHS)	TANF Cluster	11-06 pages 55-56
Children and Family Services (DCFS)	TANF Cluster Foster Care Title IV-E Adoption Assistance	11-38 pages 122-125
IL State Board of Education (ISBE)	Title I, Part A Cluster Special Education Cluster Improving Teacher Quality State Grants	11-57 Pages 163-165 11-58 Pages 166-168
Commerce and Economic Opportunity (DCEO)	Weatherization Assistance For Low Income Persons Low Income Home Energy Assistance Program	11-71 Pages 194-195
Transportation (DOT)	Airport Improvement Program High Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants	11-75 Pages 202-203 11-85 Pages 222-224

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 were first reported in the Statewide Single Audit for DHS (2011), DCFS (2000), ISBE (2007), DCEO (2011), and DOT (2005, 2011) respectively.**

Auditor qualification pertaining to subrecipient monitoring

As a result of these agencies’ failure to adequately monitor subrecipients, the auditors qualified their report for 11 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.

DHS, ISBE, and DCEO accepted our findings and recommendations. DCFS disagreed with the finding and DOT agreed with one finding and disagreed with one finding. (For previous DCFS, ISBE and DOT responses, see Digest Footnotes #10, #11 and #12)

ISSUES INVOLVING AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)

FAILURE TO COMMUNICATE ARRA INFORMATION AND REQUIREMENTS TO SUBRECIPIENTS

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

ARRA funds not separately identified

Commerce and Economic Opportunity (DCEO)	Workforce Investment Act Cluster (WIA) Weatherization Assistance for Low Income Persons (Weatherization) Community Service Block Grant Cluster (CSBG)	11-72 Pages 196-197
Transportation (DOT)	Airport Improvement Program Highway Planning and Construction Cluster High Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants Program	11-81 Pages 214-215
IL Environmental Protection Agency (EPA)	Clean Water State Revolving Fund (SWSRF) Drinking Water State Revolving Fund (DWSRF)	11-96 Pages 244-245

We noted DCEO did not communicate the requirements for subrecipients to separately report ARRA program

expenditures on their schedule of expenditures of federal awards (SEFA) and data collection form for grant agreements executed prior to fiscal year 2011. We noted 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.

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

Agencies mostly accepted the auditors recommendation

DCEO and EPA accepted our findings and recommendations and DOT partially accepted our finding and recommendation.

INACCURATE ARRA 1512 REPORTS

Inaccurate federal reporting

The Department of Transportation and the Illinois Environmental Protection Agency did not accurately report expenditures in the quarterly American Recovery and Reinvestment Act (ARRA) 1512 report for the Highway Planning and Construction Cluster, Clean Water State Revolving Fund (Clean Water) and the Drinking Water State Revolving Fund (Drinking Water) programs.

Differences noted

We noted differences of \$2,440, \$1,805,298 and \$101,888 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 Highway Planning and Construction Cluster, Clean Water, and Drinking Water programs respectively. (Findings 11-83 and 11-97, pages 218-219 and 246-247, respectively).

We recommended DOT 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.

Agencies accepted the auditors recommendation

DOT and EPA officials accepted our finding and recommendation.

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, 2012.

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, 2011 is presented fairly in all material respects.



WILLIAM G. HOLLAND, Auditor General

WHG:JSC:rt

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

2010: (Office of the Governor) The Governor's Office agrees with the finding. The State has been working with the Senate Committee on Governmental and Veterans Affairs to solve some of these problems. The Governor's Office, 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. In the short term, GOMB is taking steps to assure that the agencies under the Governor provide timely financial information to the Comptroller. In addition, job descriptions are being developed by Central Management Services to allow agencies to hire employees skilled in financial statement preparation, and legislation has been proposed that will make changes in the personal policy that facilitate hiring such qualified individuals. The next phase of this process is to develop a business plan to present to the legislature. GOMB and the Governor's Office will be primarily responsible for developing such a plan, with input from a steering committee. Ideally, the business plan will be submitted to the Senate Committee on Governmental and Veterans Affairs for review during the 2011 fall legislative session. Based on the business plan, the legislature will need to provide capital funding for a new financial accounting system. Once funding is secured, an RFP will be used seeking proposals for software that meet the State's requirements. One of the requirements of the implementation process is expected to take several years. We expect this finding to continue until the implementation process is complete. Until that time we will continue working with the agencies to provide as complete information possible given the State's current capacities.

2010: (Office of the State Comptroller) The Office of the Comptroller 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.

Previous responses by the Department of Human Services

#2 Failure to Perform Eligibility Redeterminations within Prescribed Timeframes

2010: The Department agrees with the recommendation. IDHS 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.

#3 Failure to Properly Maintain and Control Case File Records

2010: The Department agrees with the recommendation. Given our current fiscal constraints and continued staffing limitations, DHS continues to place a high priority on proper case file maintenance. The Department is 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. This will reduce the overwhelming size and amount of files in the offices, and better track the location of case file information.

#5 Missing Documentation in Beneficiary Eligibility Files

2010: The Department agrees with the recommendation. We will continue to ensure that staff understands the importance of proper and accurate filing processes. A rapidly growing caseload coupled with the inability to hire additional staff to handle the caseload presents the potential for paper filing errors and backlog. In the fall of 2011, the Department is 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. This will reduce the overwhelming size and amount of files in the offices, and better track the location of case files and their contents.

Previous responses by the Department of Healthcare and Family Services

#4 Inadequate Procedures for Performing Eligibility Redeterminations

2010: The Department accepts this finding. The Medicaid Reform Act (Public Act 096-1501 Section 30) requires the Department to verify one month's income at renewal in order for children to remain enrolled in the program. However, the Department has submitted clarification to the federal government regarding implementation of the reform legislation. This is anticipated to be implemented unless denial is received from the federal government. This requirement is to be implemented no later than October 1, 2011.

#6 Failure to Pay Medical Claims within Prescribed Timeframes

2010: The Department accepts the finding. During the ARRA period, DHFS prioritized medical claims to assure compliance with the regulations to the degree that cash allowed. In the scope of the entire Medical assistance budget, the number of instances where timely payment did not occur was not considered significant. The errors identified in the USDHHS

audit had already been corrected by the Department on the Quarter Ending December 2009 CMS 64 quarterly report. 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.

Previous responses by the Department of Children and Family Services

#7 Missing Documentation in Adoption Assistance Eligibility Files

2010: The Department agrees that proper documentation should be obtained and retained for all cases. A process was implemented in July 2009 to review all case documentation prior to the finalization of an adoption. A review of the initial court order findings is a part of this process, along with a review of the background check results. Periodic reviews are performed on cases which opened prior to the review process initiated in July 2009 to ensure that the proper documentation is included in the case files. The Department will make a claiming adjustment for actual amount claimed, \$3,017.15 during the fiscal year, for the beneficiary payment questioned by the auditor.

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

2010: The Department agrees 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.

#10 Inadequate Monitoring of Subrecipients

2010: The Department disagrees with the finding. Please see the 2010 Single Audit Report pages 122-123 for lengthy response. In an auditors' comment we stated DCFS determined amounts previously reported as subrecipient expenditures were vendor payments. As a result, DCFS did not identify the amounts passed through to these entities as subrecipient expenditures on the State's schedule of federal awards or in award communications. DCFS notes in their response that they will continue to perform a review of OMB Circular A-133 reports and perform programmatic procedures; however, since these organizations are not considered subrecipients they are not required to have audits performed in accordance with OMB Circular A-133. Finally, consistent with the prior year, DCFS did not perform fiscal monitoring procedures.

Previous responses by the Illinois State Board of Education

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

2010: 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 continues to work with the U.S. Department of Education and is still awaiting the final determination of corrective action. In its July 1, 2009 Program Determination Letter on ISBE's FY07 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 reference 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 corrective action contained in the Program Determination Letter. The Agency continues to work with the LEA cited in the USDA report to ensure their compliance with comparability requirements.

#11 Inadequate On-Site Fiscal Monitoring of Subrecipients

2010: ISBE agrees and understands the importance of on-site fiscal monitoring. ISBE reorganized the External Assurance Division in March 2011 and is in the process of reviewing how resources are allocated to perform this function. ISBE will also review its risk assessment criteria for selecting individual school sites for on-site reviews and develop a selection process to ensure all applicable schools receive the appropriate on-site review. In addition, criteria for establishing an adequate monitoring instrument are also being reviewed.

Previous responses by the Department of Transportation

#12 Inadequate On-Site Monitoring of Subrecipients

2010: The Department agrees with the finding. Although the Department believes that they have documented reasonable assurance of federal Airport Improvement program grant compliance for local let projects in accordance with OMB Circular A-133, the Department will expand its on-site monitoring efforts to include auditing 20% of the projects that are let locally each year. As such, the 'Administrative Bulletin 2010-01' will be revised to establish formal criteria for determining which subrecipients will be audited.