

STATE OF ILLINOIS

Single Audit Report

For the Year Ended June 30, 2011

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

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

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

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

STATE OF ILLINOIS

Single Audit Report

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Other Reports Issued Applicable to the Single Audit:

The Comprehensive Annual Financial Report of the State of Illinois for the Year Ended June 30, 2011 was issued under separate cover.

The Report on Internal Control over Financial Reporting and on Compliance and Other Matters and Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* for the Year Ended June 30, 2011 was issued under separate cover by the Auditor General of the State of Illinois.

STATE OF ILLINOIS

Single Audit Report

Summary

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

Auditors' Reports

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

Qualifications (Noncompliance):

- Unemployment Insurance
- Airport Improvement Program
- Highway Planning and Construction Cluster
- High Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants
- Weatherization Assistance for Low-Income Persons
- Title I, Part A Cluster
- Special Education Cluster
- Improving Teacher Quality State Grants
- Education Jobs Fund
- Immunization Cluster
- Temporary Assistance for Needy Families Cluster
- Low Income Home Energy Assistance Program
- Foster Care – Title IV-E
- Adoption Assistance
- Social Services Block Grant
- Children's Health Insurance Program
- Medicaid Cluster

Summary of Audit Findings

	<u>This audit</u>	<u>Prior audit</u>
Number of audit findings:		
This audit	101	103
Repeated audit findings	71	64
Prior findings implemented or not repeated	32	29



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

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

Honorable William G. Holland
Auditor General
State of Illinois:

As special assistant auditors for the Auditor General, we have audited the accompanying schedule of expenditures of federal awards of the State of Illinois (the Schedule) for the year ended June 30, 2011. This Schedule is the responsibility of the State of Illinois' management. Our responsibility is to express an opinion on this Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting of the Schedule. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1 to the schedule of expenditures of federal awards, the Schedule does not include expenditures of federal awards for those agencies determined to be component units of the State of Illinois for financial statement purposes. Each of these agencies has their own independent audit in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Also as described in note 1 to the schedule of expenditures of federal awards, the Schedule does not include federal transactions related to loans held and serviced by the Illinois Designated Account Purchase Program (IDAPP), a division of the Illinois Student Assistance Commission, under the Federal Family Educational Loan program. IDAPP has elected to have a separate lender compliance audit performed in accordance with the US Department of Education's *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program Guide*.



In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards of the State of Illinois, as described above, for the year ended June 30, 2011, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2012 on our consideration of the State of Illinois' internal control over financial reporting of the Schedule and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

June 15, 2012

STATE OF ILLINOIS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<u>U.S. Department of Agriculture</u>			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 1,596	\$ 109
Wildlife Services	10.028	50	—
Wetlands Reserve Program	10.072	90	—
ARRA – Aquaculture Grants Program	10.086	18	—
Voluntary Public Access and Habitat Incentive Program	10.093	25	—
Market News	10.153	4	—
Inspection Grading and Standardization	10.162	5	—
Market Protection and Promotion	10.163	90	—
Specialty Crop Block Grant Program	10.169	13	—
Specialty Crop Block Grant Program – Farm Bill	10.170	653	90
Organic Agriculture Research and Extension Initiative	10.307	2	—
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475	5,834	—
Cooperative Extension Service	10.500	13	—
SNAP Cluster:			
Supplemental Nutrition Assistance Program (SNAP)	10.551	* \$ 2,958,508	—
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	* 127,253	12,386
ARRA – State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	* 2,120	178
Total SNAP Cluster			3,087,881
Child Nutrition Cluster:			
School Breakfast Program	10.553	* 97,468	96,560
National School Lunch Program	10.555	* 430,702	387,581
Special Milk Program for Children	10.556	* 2,816	2,816
Summer Food Service Program for Children	10.559	* 11,436	11,045
Total Child Nutrition Cluster			542,422
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	* 225,992	213,841
Child and Adult Care Food Program	10.558	* 124,474	122,819
State Administrative Expenses for Child Nutrition	10.560	6,374	370
Commodity Supplemental Food Program	10.565	3,959	3,958
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	10.568	2,669	2,139
ARRA – Emergency Food Assistance Program (Administrative Costs)	10.568	1,497	1,490
Emergency Food Assistance Program (Food Commodities)	10.569	19,804	19,804
ARRA – Emergency Food Assistance Program (Food Commodities)	10.569	—	—
Total Emergency Food Assistance Cluster			23,970
WIC Farmers' Market Nutrition Program (FMNP)	10.572	316	33
Team Nutrition Grants	10.574	269	282
Senior Farmers Market Nutrition Program	10.576	792	—
ARRA – WIC Grants to States	10.578	230	—
Child Nutrition Discretionary Grants Limited Availability	10.579	925	925
ARRA – Child Nutrition Discretionary Grants Limited Availability	10.579	1	—
Total Child Nutrition Discretionary Grants Limited Availability Program			926
Fresh Fruit and Vegetable Program	10.582	2,773	2,764
Cooperative Forestry Assistance	10.664	994	510
Schools and Roads Cluster:			
Schools and Roads Grants to States	10.665	103	103
Total Schools and Roads Cluster			103
Forest Legacy Program	10.676	52	—
Forest Stewardship Program	10.678	173	10
Forest Health Program	10.680	97	—
Soil and Water Conservation	10.902	86	—
Wildlife Habitat Incentive Program	10.914	12	—
U.S. Department of Agriculture Total		4,030,288	879,813
<u>U.S. Department of Commerce</u>			
Public Safety Interoperable Communications Grant Program	11.555	19,742	19,104
ARRA – Broadband Technology Opportunities Program (BTOP)	11.557	2,678	717
U.S. Department of Commerce Total		22,420	19,821
<u>U.S. Department of Defense</u>			
Procurement Technical Assistance For Business Firms	12.002	601	411
Payments to States in Lieu of Real Estate Taxes	12.112	895	895
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	1,215	—
Military Construction, National Guard	12.400	22,179	—
National Guard Military Operations and Maintenance (O&M) Projects	12.401	17,951	—
National Guard Civilian Youth Opportunities	12.404	6,164	—
Troops-to-Teachers/Spouses-to-Teachers	12.XXX	150	—
U.S. Department of Defense Total		49,155	1,306

STATE OF ILLINOIS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<u>U.S. Department of Housing and Urban Development</u>			
CDBG – Entitlement Grants Cluster:			
Community Development Block Grants/Entitlement Grants	14.218	\$ 35	\$ —
Total CDBG – Entitlement Grants Cluster		\$ 35	
CDBG – State–Administered Small Cities Program Cluster:			
Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii	14.228	37,402	33,765
Community Development Block Grants, Recovery Act	14.255	4,627	4,624
Total CDBG – State–Administered Small Cities Program Cluster		42,029	
Emergency Shelter Grants Program	14.231		2,504
Supportive Housing Program	14.235		123
Housing Opportunities for Persons with AIDS	14.241		751
Homelessness Prevention and Rapid Re-Housing Program, Recovery Act	14.257		10,550
Fair Housing Assistance Program State and Local	14.401		930
Housing Voucher Cluster:			
Section 8 Housing Choice Vouchers	14.871	676	—
Total Housing Voucher Cluster		676	
Lead-Based Paint Hazard Control in Privately Owned Housing	14.900		981
U.S. Department of Housing and Urban Development Total		58,678	52,795
<u>U.S. Department of Interior</u>			
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250		2,767
Abandoned Mine Land Reclamation (AMLR) Program	15.252		12,610
Fish & Wildlife Cluster:			
Sport Fish Restoration	15.605	8,840	1,964
Wildlife Restoration	15.611	6,778	2,062
Total Fish & Wildlife Cluster		15,618	
Fish and Wildlife Management Assistance	15.608		4,253
Cooperative Endangered Species Conservation Fund	15.615		221
Clean Vessel Act	15.616		82
Sportfishing and Boating Safety Act	15.622		190
Firearm and Bow Hunter Education and Safety Program	15.626		227
Landowner Incentive	15.633		760
State Wildlife Grants	15.634		638
Research Grants (Generic)	15.650		10
Historic Preservation Fund Grants In Aid	15.904		1,405
Outdoor Recreation Acquisition, Development and Planning	15.916		232
State Memorandum Agreement – Crab Orchard	15.XXX		143
U.S. Department of Interior Total		39,156	6,598
<u>U.S. Department of Justice</u>			
Sexual Assault Services Formula Program	16.017		225
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202		47
Juvenile Accountability Block Grants	16.523		1,354
Education, Training, and Enhanced Services to End Violence Against and Abuse of Women with Disabilities	16.529		584
Juvenile Justice and Delinquency Prevention Allocation to States	16.540		1,383
Missing Children’s Assistance	16.543		475
Title V Delinquency Prevention Program	16.548		122
State Justice Statistics Program for Statistical Analysis Centers	16.550		44
National Criminal History Improvement Program (NCHIP)	16.554		230
National Institute of Justice Research, Evaluation, and Development Projects Grants	16.560		308
Crime Victim Assistance	16.575		14,882
Crime Victim Compensation	16.576		5,195
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		174
Violence Against Women Formula Grants	16.588	5,034	4,333
ARRA – Violence Against Women Formula Grants	16.588	2,391	2,181
Total Violence Against Women Formula Grants Program		7,425	
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	16.589		167
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		536
Residential Substance Abuse Treatment for State Prisoners	16.593		601
State Criminal Alien Assistance Program	16.606		5,357
Bulletproof Vest Partnership Program	16.607		23
Community Prosecution and Project Safe Neighborhoods	16.609		175
Public Safety Partnership and Community Policing Grants	16.710		277
Enforcing Underage Drinking Laws Program	16.727		495
Justice Assistance Grant Program Cluster:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	7,102	3,390
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories, Recovery Act	16.803	11,182	5,870
Total Justice Assistance Grant Program Cluster		18,284	

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		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<u>U.S. Department of Justice (Continued)</u>			
Statewide Automated Victim Information Notification (SAVIN) Program	16.740	\$ 213	\$ —
Forensic DNA Backlog Reduction Program	16.741	2,287	—
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	749	145
Anti-Gang Initiative	16.744	16	4
Internet Crimes against Children Task Force (ICAC) Program, Recovery Act	16.800	176	—
State Victim Assistance Formula Grant Program, Recovery Act	16.801	89	42
Second Chance Act Prisoner Reentry Initiative	16.812	87	83
John R. Justice Prosecutors and Defenders Incentive Act	16.816	361	—
Equitable Sharing of Federal Forfeitures	16.XXX	155	—
U.S. Department of Justice Total		62,496	34,319
<u>U.S. Department of Labor</u>			
Labor Force Statistics	17.002	2,873	—
Compensation and Working Conditions	17.005	175	—
Employment Services Cluster:			
Employment Service/Wagner-Peyser Funded Activities	17.207	\$ 31,640	85
ARRA – Employment Service/Wagner-Peyser Funded Activities	17.207	10,412	—
Disabled Veterans' Outreach Program (DVOP)	17.801	3,992	—
Local Veterans' Employment Representative Program	17.804	2,507	—
Total Employment Services Cluster		48,551	
Unemployment Insurance Program:			
Unemployment Insurance	17.225 *	4,560,900	—
ARRA – Unemployment Insurance	17.225 *	2,150,875	—
Total Unemployment Insurance Program		6,711,775	
Senior Community Service Employment Program	17.235	6,323	6,154
Trade Adjustment Assistance	17.245	19,581	19,305
Job Training Partnership Act	17.250	(108)	—
Workforce Investment Act Cluster:			
WIA Adult Program	17.258 *	35,420	32,523
ARRA – WIA Adult Program	17.258 *	11,271	9,889
WIA Youth Activities	17.259 *	38,229	35,056
ARRA – WIA Youth Activities	17.259 *	9,737	9,048
WIA Dislocated Workers	17.260 *	25,274	21,718
ARRA – WIA Dislocated Workers	17.260 *	26,134	25,231
WIA Dislocated Worker Formula Grants	17.278 *	30,709	29,416
Total Workforce Investment Act Cluster		176,774	
Work Incentive Grants	17.266	132	132
Incentive Grants WIA Section 503	17.267	1,861	663
Work Opportunity Tax Credit (WOTC) Program	17.271	852	—
Temporary Labor Certification for Foreign Workers	17.273	290	—
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	732	732
Occupational Safety and Health State Program	17.503	1,329	—
Consultation Agreements	17.504	1,510	—
Mine Health and Safety Grants	17.600	149	—
Brookwood-Sago Grant	17.603	44	—
U.S. Department of Labor Total		6,972,843	189,952
<u>U.S. Department of Transportation</u>			
Airport Improvement Program:			
Airport Improvement Program	20.106 *	69,157	19,780
ARRA – Airport Improvement Program	20.106 *	14,244	9,550
Total Airport Improvement Program		83,401	
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205 *	1,427,583	128,627
ARRA – Highway Planning and Construction	20.205 *	261,039	17,463
Recreational Trails Program	20.219 *	1,879	—
Total Highway Planning and Construction Cluster		1,690,501	
National Motor Carrier Safety	20.218	8,073	53
Commercial Driver License State Programs	20.232	302	—
Commercial Vehicle Information Systems and Networks	20.237	36	—
Commercial Driver License Information System	20.238	143	—
Railroad Research and Development	20.313	501	501
Capital Assistance to States – Intercity Passenger Rail Service	20.317	330	—
ARRA – High Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants	20.319 *	81,641	—
Federal Transit Cluster:			
Federal Transit Capital Investment Grants	20.500	1,418	571
Total Federal Transit Cluster		1,418	
Federal Transit Metropolitan Planning Grants	20.505	4,490	238

STATE OF ILLINOIS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Agency/Program or Cluster	Federal CFDA #	Amounts (expressed in thousands)	
		Expenditures	Passed-through to subrecipients (Unaudited)
<u>U.S. Department of Transportation (Continued)</u>			
Formula Grants for Other Than Urbanized Areas Program:			
Formula Grants for Other Than Urbanized Areas	20.509	\$ 13,504	\$ 10,384
ARRA – Formula Grants for Other Than Urbanized Areas	20.509	1,070	738
Total Formula Grants for Other Than Urbanized Areas		\$ 14,574	
Transit Services Program Cluster:			
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	5,217	—
Job Access Reverse Commute	20.516	590	530
New Freedom Program	20.521	374	314
Total Transit Services Programs Cluster		6,181	
Public Transportation Research	20.514	53	33
Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions:			
Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions	20.523	5	—
ARRA – Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions	20.509	4,010	3,937
Total Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions Program		4,015	
Highway Safety Cluster:			
State and Community Highway Safety	20.600	8,034	7,068
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	6,450	4,879
Occupant Protection Incentive Grants	20.602	894	—
Safety Belt Performance Grants	20.609	2,563	1,348
State Traffic Safety Information System Improvements Grants	20.610	475	138
Incentive Grant Program to Prohibit Racial Profiling	20.611	121	121
Incentive Grant Program to Increase Motorcyclist Safety	20.612	282	—
Child Safety and Child Booster Seats Incentive Grants	20.613	551	130
Total Highway Safety Cluster		19,370	
Alcohol Open Container Requirements	20.607	3,394	—
National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants	20.614	139	—
Pipeline Safety Program Base Grants	20.700	1,097	—
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	738	664
PHMSA Pipeline Safety Program One Call Grant	20.721	43	—
Surface Transportation Discretionary Grants for Capital Investment	20.932	7,706	—
U.S. Department of Transportation Total		1,928,146	207,067
<u>U.S. Department of Treasury</u>			
Mortgage Foreclosure Mitigation Assistance	21.000	158	—
U.S. Department of Treasury Total		158	—
<u>Equal Employment Opportunity Commission</u>			
Employment Discrimination State and Local Fair Employment Practices Agency Contracts	30.002	2,011	—
Equal Employment Opportunity Commission Total		2,011	—
<u>General Services Administration</u>			
Election Reform Payments	39.011	410	137
General Services Administration Total		410	137
<u>National Endowment for the Arts</u>			
Promotion of the Arts-Grants to Organizations and Individuals	45.024	203	197
Promotion of the Arts Partnership Agreements	45.025	718	718
Promotion of the Humanities Research	45.161	81	—
Grants to States	45.310	4,936	4,181
Laura Bush 21st Century Librarian Program	45.313	134	36
National Endowment for the Arts Total		6,072	5,132
<u>U.S. Small Business Administration</u>			
Statewide Broadband Infrastructure and Connectivity	59.000	8	—
Small Business Development Center	59.037	4,380	2,673
U.S. Small Business Administration Total		4,388	2,673
<u>U.S. Department of Veteran's Affairs</u>			
Grants to States for Construction of State Home Facilities	64.005	3,702	—
Veterans State Domiciliary Care	64.014	372	—
Veterans State Nursing Home Care	64.015	29,072	—
All Volunteer Force Educational Assistance	64.124	1,010	—
U.S. Department of Veteran's Affairs Total		34,156	—
<u>U.S. Environmental Agency</u>			
State Indoor Radon Grants	66.032	173	111
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	711	—

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Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<u>U.S. Environmental Agency (Continued)</u>			
National Clean Diesel Funding Assistance Program:			
National Clean Diesel Funding Assistance Program	66.039	\$ 89	\$ —
ARRA – National Clean Diesel Funding Assistance Program	66.039	1,840	—
Total National Clean Diesel Funding Assistance Program		\$ 1,929	
State Clean Diesel Grant Program:			
State Clean Diesel Grant Program	66.040	470	—
ARRA – State Clean Diesel Grant Program	66.040	1,192	—
Total State Clean Diesel Grant Program			1,662
State Environmental Justice Cooperative Agreement Program	66.312		35
Water Pollution Control State, Interstate, and Tribal Program Support	66.419		56
State Underground Water Source Protection	66.433		279
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative			
Agreements – Section 104(3) of the Clean Water Act	66.436		213
Water Quality Management Planning Program:			
Water Quality Management Planning	66.454	544	—
ARRA – Water Quality Management Planning	66.454	857	397
Total Water Quality Management Planning Program			1,401
Capitalization Grants for Clean Water State Revolving Funds Program:			
Capitalization Grants for Clean Water State Revolving Funds	66.458 *	109,394	109,394
ARRA – Capitalization Grants for Clean Water State Revolving Funds	66.458 *	85,038	85,038
Total Capitalization Grants for Clean Water State Revolving Funds			194,432
Nonpoint Source Implementation Grants	66.460		8,816
Capitalization Grants for Drinking Water State Revolving Funds Program:			
Capitalization Grants for Drinking Water State Revolving Funds	66.468 *	42,599	40,951
ARRA – Capitalization Grants for Drinking Water State Revolving Funds	66.468 *	30,670	30,670
Total Capitalization Grants for Drinking Water State Revolving Funds			73,269
Great Lakes Program	66.469		81
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471		267
Beach Monitoring and Notification Program Implementation Grants	66.472		288
Water Protection Grants to the States	66.474		166
Performance Partnership Grants	66.605		23,835
Environmental Information Exchange Network Grant Program and Related Assistance	66.608		208
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701		154
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		336
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802		2,582
Underground Storage Tank Prevention, Detection and Compliance Program	66.804		518
Leaking Underground Storage Tank Trust Fund Corrective Action Program:			
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	1,871	—
ARRA – Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	2,398	—
Total Leaking Underground Storage Tank Trust Fund Corrective Action Program			4,269
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809		348
Alternative or Innovative Treatment Technology Research, Demonstration, Training,			
and Hazardous Substance Research Grants	66.813		1
State and Tribal Response Program Grants	66.817		1,158
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		1,416
Environmental Education Grants	66.951		6
U.S. Environmental Agency Total		318,609	272,441
<u>U.S. Department of Energy</u>			
State Energy Program:			
State Energy Program	81.041	1,452	657
ARRA – State Energy Program	81.041	46,715	45,991
Total State Energy Program			48,167
Weatherization Assistance for Low-Income Persons Program:			
Weatherization Assistance for Low-Income Persons	81.042 *	6,546	6,037
ARRA – Weatherization Assistance for Low-Income Persons	81.042 *	127,772	125,623
Total Weatherization Assistance for Low-Income Persons Program			134,318
Renewable Energy Research and Development	81.087		123
Transport of Transuranic Wastes to the Waste Isolation Pilot Plant: States and Tribal Concerns,			
Proposed Solutions	81.106		20
State Energy Program Special Projects Program:			
State Energy Program Special Projects	81.119	267	231
ARRA – State Energy Program Special Projects	81.119	201	201
Total State Energy Program Special Projects Program			468
ARRA – Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122		577
ARRA – Energy Efficient Appliance Rebate Program (EEARP)	81.127		(390)
ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128		12,290
U.S. Department of Energy Total		195,573	191,024

STATE OF ILLINOIS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
U.S. Department of Education			
Adult Education – Basic Grants to States	84.002	\$ 20,392	\$ 19,010
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	* \$ 532,080	525,447
Title I Grants to Local Educational Agencies, Recovery Act	84.389	* 204,100	204,099
Total Title I, Part A Cluster		736,180	
Migrant Education State Grant Program	84.011	2,130	2,115
Title I Program for Neglected and Delinquent Children	84.013	1,370	—
Special Education Cluster (IDEA):			
Special Education – Grants to States	84.027	* 351,687	337,475
Special Education – Preschool Grants	84.173	* 13,426	12,759
Special Education Grants to States, Recovery Act	84.391	* 185,801	185,737
Special Education – Preschool Grants, Recovery Act	84.392	* 5,870	5,870
Total Special Education Cluster (IDEA)		556,784	
Federal Family Education Loan Guaranty Program	84.032G	*	234,413
Career and Technical Education – Basic Grants to States	84.048	40,415	25,500
Leveraging Educational Assistance Partnership	84.069	4,000	—
Vocational Rehabilitation Cluster:			
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	* 86,484	11,651
Rehabilitation Services – Vocational Rehabilitation Grants to States, Recovery Act	84.390	* 7,586	7,012
Total Vocational Rehabilitation Cluster		94,070	
Rehabilitation Services Service Projects	84.128	184	184
Migrant Education Coordination Program	84.144	66	45
Rehabilitation Services Client Assistance Program	84.161	2	—
Independent Living State Grants Cluster:			
Independent Living State Grants	84.169	671	670
Independent Living State Grants, Recovery Act	84.398	287	287
Total Independent Living State Grants Cluster		958	
Carl D. Perkins Scholarships	84.176		(1)
Independent Living Services for Older Individuals Who are Blind Cluster:			
Rehabilitation Services Independent Living Services for Older Individuals Who Are Blind	84.177	1,261	1,067
Independent Living Services for Older Individuals Who are Blind, Recovery Act	84.399	785	555
Total Independent Living Services for Older Individuals Who are Blind Cluster		2,046	
Early Intervention Services (IDEA) Cluster:			
Special Education Grants for Infants and Families	84.181	17,528	6,624
Special Education – Grants for Infants and Families, Recovery Act	84.393	—	—
Total Early Intervention Services (IDEA) Cluster		17,528	
Byrd Honors Scholarships	84.185	1,951	—
Safe and Drug-Free Schools and Communities State Grants	84.186	1,945	1,845
Supported Employment Services for Individuals with Significant Disabilities	84.187	700	700
Education for Homeless Children and Youth Cluster:			
Education for Homeless Children and Youth	84.196	2,761	2,447
Education for Homeless Children and Youth, Recovery Act	84.387	74	74
Total Education of Homeless Children and Youth Cluster		2,835	
Even Start State Educational Agencies	84.213	2,672	2,594
Fund for the Improvement of Education	84.215	10	—
Assistive Technology	84.224	583	583
Tech-Prep Education	84.243	3,825	—
Rehabilitation Training State Vocational Rehabilitation Unit In-Service Training	84.265	85	—
GOALS 2000 – State and Local Education Systemic Improvement Grants	84.276	(33)	—
Charter Schools	84.282	3,407	3,188
Twenty-First Century Community Learning Centers	84.287	40,189	38,826
State Grants for Innovative Programs	84.298	1	—
Education Technology State Grants Cluster:			
Education Technology State Grants	84.318	5,229	4,901
Education Technology State Grants, Recovery Act	84.386	3,500	3,195
Total Educational Technology State Grants Cluster		8,729	
Special Education State Personnel Development	84.323	860	756
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	345	345
Advanced Placement Program	84.330	1,368	1,368
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331	532	—
Comprehensive School Reform Demonstration	84.332	2	—
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	1,356	1,278
Transition to Teaching	84.350	(4)	—
Reading First State Grants	84.357	9,526	9,274
Rural Education	84.358	1,291	1,254
English Language Acquisition Grants	84.365	29,565	28,103
Mathematics and Science Partnerships	84.366	9,105	8,629
Improving Teacher Quality State Grants	84.367	* 110,746	109,048

STATE OF ILLINOIS
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<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<u>U.S. Department of Education (Continued)</u>			
Grants for Enhances Assessment Instruments	84.368	\$ 627	\$ 627
Grants for State Assessments and Related Activities	84.369	13,935	—
Striving Readers	84.371	1,151	858
Statewide Data Systems Cluster:			
Statewide Data Systems	84.372	\$ 1,352	—
Statewide Data Systems, Recovery Act	84.384	310	—
Total Statewide Data Systems Cluster		1,662	
School Improvement Grants Cluster:			
School Improvement Grants Cluster	84.377	2,704	2,064
School Improvement Grants Cluster, Recovery Act	84.377	7,604	7,569
Total School Improvement Grants Cluster		10,308	
College Access Challenge Grant Program	84.378	4,773	—
State Fiscal Stabilization Fund Cluster:			
State Fiscal Stabilization Fund (SFSF) – Government Services, Recovery Act	84.397	958	958
Total State Fiscal Stabilization Fund Cluster		958	
ARRA - Education Jobs Fund	84.410	285,059	285,059
U.S. Department of Education Total		2,260,601	1,861,650
<u>National Archives and Records Administration</u>			
National Historical Publications and Records Grants	89.003	41	21
National Archives and Records Administration Total		41	21
<u>Election Assistance Commission</u>			
Help America Vote College Program	90.400	151	—
Help America Vote Act Requirements Payments	90.401	3,428	2,568
Election Assistance Commission Total		3,579	2,568
<u>U.S. Department of Health and Human Services</u>			
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS	93.006	46	45
Demonstration Program			
Special Programs for the Aging Title VII, Chapter 3 Programs for Prevention of Elder	93.041	157	157
Abuse, Neglect, and Exploitation			
Special Programs for the Aging Title VII, Chapter 2 Long Term Care Ombudsman	93.042	759	550
Services for Older Individuals			
Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services	93.043	713	713
Aging Cluster:			
Special Programs for the Aging – Title III, Part B – Grants for Supportive	93.044	14,455	14,351
Services and Senior Centers			
Special Programs for the Aging – Title III, Part C – Nutrition Services	93.045	21,908	19,818
Nutrition Services Incentive Program	93.053	6,649	6,649
ARRA – Aging Home-Delivered Nutrition Services for States	93.705	67	67
ARRA – Aging Congregate Nutrition Services for States	93.707	376	376
Total Aging Cluster		43,455	
Special Programs for the Aging Title IV and Title II Discretionary Projects	93.048	693	514
National Family Caregiver Support, Title III, Part E	93.052	5,073	5,073
Public Health Emergency Preparedness	93.069	31,742	20,806
Environmental Public Health Emergency Response	93.070	314	66
Medicare Enrollment Assistance Program	93.071	11	—
Lifespan Respite Care Program	93.072	33	33
Guardianship Assistance Program:			
Guardianship Assistance	93.090	11,627	—
ARRA – Guardianship Assistance	93.090	758	—
Total Guardianship Assistance		12,385	
Food and Drug Administration Research	93.103	107	—
Comprehensive Community Mental Health Services for Children with Serious			
Emotional Disturbances (SED)	93.104	3,203	3,203
Maternal and Child Health Federal Consolidated Programs	93.110	483	439
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	1,495	391
Primary Care Services Resource Coordination and Development	93.130	227	115
Injury Prevention and Control Research and State and Community Based Programs	93.136	893	868
Projects for Assistance in Transition from Homelessness (PATH)	93.150	2,947	2,946
Health Program for Toxi Substances and Disease Registry	93.161	11	—
Grants to States for Loan Repayment Program	93.165	341	341
Disabilities Prevention	93.184	167	—
Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning			
Prevention and Surveillance of Blood Lead Levels in Children	93.197	780	—
Family Planning Services	93.217	8,458	7,210
Consolidated Knowledge Development and Application (KD&A) Program	93.230	6	—
Traumatic Brain Injury State Demonstration Grant Program	93.234	4	—

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<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<u>U.S. Department of Health and Human Services (Continued)</u>			
State Capacity Building	93.240	\$ 457	\$ —
State Rural Hospital Flexibility Program	93.241	562	562
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	5,873	5,425
Immunization Cluster:			
Immunization Grants	93.268	* \$ 103,515	890
ARRA – Immunization	93.712	* 316	121
Total Immunization Cluster		103,831	
Adult Viral Hepatitis Prevention and Control	93.270	10	—
Substance Abuse and Mental Health Services Access to Recovery	93.275	2,538	66
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	12,841	6,933
State Partnership Grant Program to Improve Minority Health	93.296	101	101
Small Rural Hospital Improvement Grant Program	93.301	406	406
ARRA – State Loan Repayment Program	93.402	219	219
ARRA – State Primary Care Offices	93.414	71	—
Ruminant Feed Ban Support Project	93.449	354	—
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	188	—
Strengthening Public Health Infrastructure for Improved Health Outcomes	93.507	30	—
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511	50	—
Affordable Care Act (ACA) Medicare Improvements for Patients and Providers	93.518	879	750
Affordable Care Act (ACA) Consumer Assistance Program Grants	93.519	22	—
Centers for Disease Control – Affordable Care Act (ACA) Communities Putting Prevention to Work	93.520	95	—
Affordable Care Act (ACA) Building Epidemiology, Laboratory, and Health Information Systems	93.521	200	35
Affordable Care Act (ACA) Human Immunodeficiency Virus (HIV) Prevention and Public Health Fund Activities	93.523	38	—
State Planning and Establishment Grants for the Affordable Care Act's (ACA) Exchanges	93.525	36	—
Promoting Safe and Stable Families	93.556	14,821	11,686
Temporary Assistance for Needy Families Cluster:			
Temporary Assistance for Needy Families	93.558	* 561,299	176,138
ARRA Emergency Contingency Fund for Temporary Assistance to Needy Families (TANF) State Program	93.714	* 178,507	163,255
Total Temporary Assistance for Needy Families Cluster		739,806	
Child Support Enforcement Program:			
Child Support Enforcement	93.563	* 104,340	17,355
ARRA – Child Support Enforcement	93.563	* 22,675	—
Total Child Support Enforcement Program		127,015	
Refugee and Entrant Assistance State Administered Programs	93.566	9,189	3,164
Low-Income Home Energy Assistance	93.568	* 189,280	186,095
Community Services Block Grants Cluster:			
Community Services Block Grant	93.569	31,781	30,016
ARRA – Community Services Block Grant	93.710	18,013	18,013
Total Community Services Block Grants Cluster		49,794	
Child Care Development Funds Cluster:			
Child Care and Development Block Grant	93.575	* 76,330	76,330
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	* 125,768	122,348
ARRA Child Care and Development Block Grant	93.713	* 49,822	4,881
Total Child Care Development Funds Cluster		251,920	
Refugee and Entrant Assistance Discretionary Grants	93.576	1,440	1,254
Refugee and Entrant Assistance Targeted Assistance Grants	93.584	969	969
State Court Improvement Program	93.586	705	416
Community Based Child Abuse Prevention Grants	93.590	1,076	—
Grants to States for Access and Visitation Programs	93.597	330	311
Services to Victims of a Severe Form of Trafficking	93.598	18	—
Chafee Education and Training Vouchers Program (ETV)	93.599	1,243	—
Head Start Cluster:			
Head Start	93.600	3,149	2,688
ARRA – Head Start	93.708	393	214
Total Head Start Cluster		3,542	
Assets for Independence Demonstration Program	93.602	310	—
Mentoring Children of Prisoners	93.616	170	—
Voting Access for Individuals with Disabilities Grants to States	93.617	512	490
Developmental Disabilities Basic Support and Advocacy Grants	93.630	2,614	1,414
Children's Justice Grants to States	93.643	628	—
Child Welfare Services State Grants	93.645	8,286	—
Child Welfare Research Training or Demonstration	93.648	57	—
Adoption Opportunities	93.652	171	—
Foster Care – Title IV-E Program:			
Foster Care – Title IV-E	93.658	* 189,831	—
ARRA – Foster Care – Title IV-E	93.658	* 6,333	—
Total Foster Care – Title IV-E		196,164	

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		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<u>U.S. Department of Health and Human Services (Continued)</u>			
Adoption Assistance Program:			
Adoption Assistance	93.659	* \$ 93,532	\$ —
ARRA – Adoption Assistance	93.659	* 7,736	—
Total Adoption Assistance		\$ 101,268	
Social Services Block Grant	93.667	*	99,130
Child Abuse and Neglect State Grants	93.669		1,424
Child Abuse and Neglect Discretionary Activities	93.670		1,250
Family Violence Prevention and Services/Grants for	93.671		2,719
Battered Women’s Shelters Grants to States and Indian Tribes			
Chafee Foster Care Independence Program	93.674		5,388
ARRA – Preventing Healthcare–Associated Infections	93.717		390
ARRA – State Grants to Promote Health Information Technology	93.719		1,116
ARRA – Prevention and Wellness – State, Territories, and Pacific Islands	93.723		810
ARRA – Prevention and Wellness Putting Prevention to Work Funding Opportunities Announcement	93.724		194
ARRA – Communities Putting Prevention to Work: Chronic Disease Self–Management Program	93.725		337
Children’s Health Insurance Program	93.767	*	281,837
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768		308
Medicaid Cluster:			
ARRA – Survey and Certification Ambulatory Surgical Center Healthcare–Associated			
Infection (ASC-HAI) Prevention Initiative	93.720	*	115
State Medicaid Fraud Control Units	93.775	*	7,174
State Survey and Certification of Health Care Providers and Suppliers	93.777	*	26,666
Medical Assistance Program	93.778	*	8,065,789
ARRA – Medical Assistance Program	93.778	*	1,256,162
Total Medicaid Cluster			9,355,906
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779		1,930
Alternate Non-Emergency Service Providers or Networks	93.790		259
Money Follows the Person Rebalancing Demonstration	93.791		1,148
Medicaid Transformation Grants	93.793		128
National Bioterrorism Hospital Preparedness Program	93.889		13,282
Grants to States for Operation of Offices of Rural Health	93.913		180
HIV Care Formula Grants	93.917		33,277
Healthy Start Initiative	93.926		1,761
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent			
the Spread of HIV and Other Important Health Problems	93.938		309
HIV Prevention Activities Health Department Based	93.940		4,301
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS)			
and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943		130
Human Immunodeficiency Virus/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		1,070
Cooperative Agreements to Support State-Based Safe Motherhood and Infant			
Health Initiative Programs	93.946		150
Block Grants for Community Mental Health Services	93.958		15,992
Block Grants for Prevention and Treatment of Substance Abuse	93.959	*	78,204
National All Schedules Prescription Electronic Reporting Grant	93.975		122
Preventive Health Services Sexually Transmitted Diseases Control Grants	93.977		2,292
Cooperative Agreements for State Based Diabetes Control Programs and Evaluation	93.988		—
of Surveillance Systems			
Preventive Health and Health Services Block Grant	93.991		1,973
Maternal and Child Health Services Block Grant to the States	93.994		21,402
Adolescent Family Life Demonstration Projects	93.995		42
U.S. Department of Health and Human Services Total			11,873,393
U.S. Department of Health and Human Services Total			1,212,221
<u>Corporation for National and Community Service</u>			
State Commissions	94.003		361
Learn and Serve America School and Community Based Programs	94.004		810
AmeriCorps Program:			
AmeriCorps	94.006	8,574	8,408
ARRA – AmeriCorps	94.006	326	326
Total AmeriCorps			8,900
Program Development and Innovation Grants	94.007		70
Training and Technical Assistance	94.009		114
Corporation for National and Community Service Total			10,255
Corporation for National and Community Service Total			9,698
<u>Social Security Administration</u>			
Disability Insurance/SSI Cluster:			
Social Security – Disability Insurance	96.001	*	81,198
Total Disability Insurance/SSI Cluster			81,198
Social Security Work Incentives Planning and Assistance Program	96.008		252
Social Security Administration Total			81,450
Social Security Administration Total			252

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<u>Federal Agency/Program or Cluster</u>	<u>Federal CFDA #</u>	<u>Amounts (expressed in thousands)</u>	
		<u>Expenditures</u>	<u>Passed-through to subrecipients (Unaudited)</u>
<u>U.S. Department of Homeland Security</u>			
Urban Areas Security Initiative	97.008	\$ 1,154	\$ 1,153
Boating Safety Financial Assistance	97.012	2,455	—
Hazardous Materials Assistance Program	97.021	240	—
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	433	433
Disaster Grants Public Assistance (Presidentially Declared Disasters)	97.036	27,020	23,694
Hazard Mitigation Grant	97.039	4,860	4,818
National Dam Safety Program	97.041	112	—
Emergency Management Performance Grants	97.042	12,863	3,991
Cooperating Technical Partners	97.045	1,866	1,176
Pre-Disaster Mitigation	97.047	228	228
Emergency Operations Centers	97.052	1,038	1,038
Interoperable Emergency Communications	97.055	1,060	1,060
Port Security Grant Program	97.056	22	—
Homeland Security Cluster:			
Homeland Security Grant Program	97.067	* \$ 85,536	79,217
Total Homeland Security Cluster		85,536	
Rail and Transit Security Grant Program	97.075	15,239	15,239
Buffer Zone Protection Program (BZPP)	97.078	1,524	1,370
Earthquake Consortium	97.082	18	—
Real ID Program	97.089	530	—
Homeland Security Biowatch Program	97.091	2,073	—
Severe Loss Repetitive Program	97.110	58	58
Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111	1,745	1,745
U.S. Immigration and Customs Enforcement	97.XXX	5	—
U.S. Department of Homeland Security Total		160,079	135,220
Total expenditures of federal awards		\$ 28,113,957	\$ 5,084,708

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

*Denotes Major Program

STATE OF ILLINOIS

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The schedule of expenditures of federal awards includes all federal award programs administered by the State of Illinois (the State) except for component units for the fiscal year ended June 30, 2011. The State's financial reporting entity is described in note 1B of the State's Comprehensive Annual Financial Report.

The entities listed below are Discretely Presented Component Units in the State's Comprehensive Annual Financial Report, which received federal financial assistance for the year ended June 30, 2011. Each of these entities is subject to separate audits in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

The federal transactions of the following entities are not reflected in this Schedule:

University of Illinois	Northeastern Illinois University
Illinois State University	Eastern Illinois University
Northern Illinois University	Illinois Finance Authority
Chicago State University	Illinois Conservation Foundation
Western Illinois University	Illinois Housing Development Authority
Southern Illinois University	Illinois Medical District Commission
Governors State University	

Additionally, the federal transactions related to loans held and serviced by the Illinois Designated Account Purchase Program (IDAPP), a division of the Illinois Student Assistance Commission, under the Federal Family Education Loan program are not reflected in the schedule of expenditures of federal awards for the year ended June 30, 2011. IDAPP has elected to have a separate lender compliance audit performed on an annual basis in accordance with the US Department of Education's *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program Guide*.

(b) Basis of Presentation

The schedule of expenditures of federal awards presents total federal awards expended for each individual federal program in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Federal award program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA). Federal award program titles not presented in the catalog are identified by Federal agency number followed by (.XXX).

(Continued)

STATE OF ILLINOIS

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

(c) Basis of Accounting

The expenditures for each of the federal financial assistance programs are presented in the schedule of expenditures of federal awards on a cash basis. Under the cash basis of accounting, expenditures are reported when paid by the State.

(2) Description of Major Federal Award Programs

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

US Department of Agriculture

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

The objective of the Supplemental Nutrition Assistance program (SNAP) is to help low-income households by increasing their food purchasing ability and to provide federal financial aid to State agencies for costs incurred to operate the program. The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recover Act funds account for approximately 16.55 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2011.

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

The purpose of these programs is to assist states in providing nutritious meals to eligible children and encouraging the domestic consumption of nutritious agricultural commodities. In addition, these programs provide subsidies to encourage the consumption of fluid milk by children. Furthermore, these programs are designed to conduct non-profit food service programs for low-income children during summer months and when schools are out of session or closed for vacation.

STATE OF ILLINOIS

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

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

The objective of this program is to provide supplemental nutritious foods, nutrition education, and referrals to healthcare for low-income persons during critical periods of growth and development.

Child and Adult Care Food Program (CFDA No. 10.558)

The purpose of this program is to assist states, through grants-in-aid and other means, to provide nutritious meals to children and elderly or impaired adults in nonresidential day care facilities and children in emergency shelters.

US Department of Labor

Unemployment Insurance (CFDA No. 17.225)

The objective of this program is to administer a program of unemployment insurance for eligible workers through Federal and state cooperation; to administer payment of trade adjustment assistance; to administer disaster unemployment assistance; and to administer unemployment compensation for Federal employees and ex-service members.

Workforce Investment Act Cluster: Workforce Investment Act Adult Program (CFDA No. 17.258) / Workforce Investment Act Youth Activities (CFDA No. 17.259) / Workforce Investment Act Dislocated Workers (CFDA No. 17.260)

The objective of these programs is to provide workforce investment activities that increase the employment, retention and earnings of participants, and increase occupational skill attainment by the participants in order to improve the quality of the workforce; to design, with states and local communities, a revitalized, workforce investment system that will help low income youth acquire the educational and occupational skills, training and support needed to achieve academic and employment success and successfully transition to careers and productive adulthood; and to reemploy dislocated workers, improve the quality of the workforce and enhance the productivity and competitiveness of the nation's economy.

US Department of Transportation

Airport Improvement Program (CFDA No. 20.106)

The objective of this program is to assist sponsors, owners, or operators of public-use airports in the development of a nationwide system of airports adequate to meet the needs of civil aeronautics.

STATE OF ILLINOIS

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

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

The objective of this program is to assist states in planning and developing integrated, interconnecting transportation systems by constructing and rehabilitating the National Highway System, including Interstate highways; for transportation improvements to most other public roads; to provide aid in the repair of Federal-aid roads and streets following disasters; to foster safe highway design; and to replace or rehabilitate deficient or obsolete bridges. This program also provides transportation engineering services for planning; design, construction, and rehabilitation of the highways and bridges providing access to federally owned lands.

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

High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants (CFDA No. 20.319)

The objective of this program is to assist in financing the capital costs of facilities, infrastructure, and equipment necessary to provide or improve high-speed rail and intercity passenger rail service.

US Environmental Protection Agency

Capitalization Grants for Clean Water State Revolving Funds (CFDA No. 66.458)

The purpose of this program is to provide a long term source of state financing for construction of wastewater treatment facilities and implementation of other water quality management activities.

Capitalization Grants for Drinking Water State Revolving Funds (CFDA No. 66.468)

The purpose of this program is for states to capitalize their Drinking Water State Revolving Funds which will provide a long-term source of financing for the costs of drinking water infrastructure.

US Department of Energy

Weatherization Assistance for Low-Income Persons (CFDA No. 81.042)

The purpose of this program is to improve home energy efficiency for low-income families through the most cost-effective measures possible.

US Department of Education

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

The purpose of this program is to help local education agencies and schools improve the teaching and learning of children failing, or most at-risk of failing, to meet challenging state academic standards.

(Continued)

STATE OF ILLINOIS

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

Special Education Cluster: Special Education – Grants to States (CFDA No. 84.027) / Special Education – Preschool Grants (CFDA No. 84.173) / Special Education Grants to States, Recovery Act (CFDA No. 84.391) / Special Education – Preschool Grants, Recovery Act (CFDA No. 84.392)

The objectives of these programs are to provide grants to states to assist them in providing a free appropriate public education to all children with disabilities; and to assist states in providing a free appropriate public education to preschool disabled children aged three through five years.

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

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

Vocational Rehabilitation Cluster: Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA No. 84.126) / Rehabilitation Services – Vocational Rehabilitation Grants to States, Recovery Act (CFDA No. 84.390)

The purpose of this program is to assist states in operating a comprehensive and accountable program designed to assess, plan, develop, and provide vocational rehabilitation services for individuals with disabilities, consistent with their strengths, resources, priorities, concerns, abilities, and capabilities, so such individuals may prepare for and engage in competitive employment.

Improving Teacher Quality State Grants (CFDA No. 84.367)

The objective of this program is to provide grants to State Education Agencies on a formula basis to increase student academic achievement through strategies such as improving teacher and principal quality and increasing the number of highly qualified teachers in the classroom and highly qualified principals and assistant principals in schools and hold local educational agencies and schools accountable for improvements in student academic achievement.

Education Jobs Fund (CFDA No. 84.410)

The objective of this program is to provide funds to states to assist local educational agencies in saving or creating education jobs during the 2010-2011 school year.

US Department of Health and Human Services

Immunization Grants (CFDA No. 93.268) / ARRA – Immunization (CFDA No. 93.712)

The objectives of these programs are to assist states and communities in establishing and maintaining preventive health service programs to immunize individuals against vaccine-preventable diseases.

STATE OF ILLINOIS

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558) / ARRA – Emergency Contingency Fund for TANF State Program (CFDA No. 93.714) / ARRA - TANF Supplemental Grants (CFDA No. 93.716)

The objective of the TANF program is to provide assistance to needy families with children so that children can be cared for in their own home; reduce dependence of needy parents on governmental benefits by promoting job preparation, work and marriage; prevent and reduce out-of-wedlock pregnancies; and encourage the formation and maintenance of two-parent families.

The objective of the ARRA – Emergency Contingency Fund for TANF State Program is to provide economic stimulus to the nation while promoting the economic and social well being of children, youth, families, and communities.

The objective of ARRA - TANF Supplemental Grants is to provide supplemental TANF funds for states with exceptionally high population growth in the early 1990s, historic welfare grants per poor person lower than 35 percent of the national average, or a combination of above average population growth and below average historic welfare grants per poor person.

Child Support Enforcement (CFDA No. 93.563)

The objective of this program is to enforce the support obligation owed by absent parents to their children; locate absent parents; establish paternity; and obtain child, spousal, and medical support.

Low-Income Home Energy Assistance Program (CFDA No. 93.568)

The objective of this program is to make Low-Income Home Energy Assistance Program (LIHEAP) grants available to states and other jurisdictions to assist eligible households to meet the cost of home energy. This program also provides training and technical assistance to states and other jurisdictions administering the LIHEAP block grant program.

Child Care Development Funds Cluster: Child Care and Development Block Grant (CFDA No. 93.575) / Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA No. 93.596) / ARRA – Child Care and Development Block Grant (CFDA No. 93.713)

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

Foster Care – Title IV-E (CFDA No. 93.658)

The objective of this program is to help states provide safe, appropriate, 24-hour, substitute care for children who are under the jurisdiction of the administering state agency and need temporary placement and care outside their homes.

Adoption Assistance (CFDA No. 93.659)

The objective of this program is to provide adoption subsidy costs for the adoption of children with special needs and who meet certain eligibility tests.

(Continued)

STATE OF ILLINOIS

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

Social Services Block Grant (CFDA No. 93.667)

The objective of this program is to enable each state to provide services that best suit the individuals residing in that state in one or more of five specified social service areas.

Children's Health Insurance Program (CFDA No. 93.767)

The objective of this program is to initiate and expand child health assistance to uninsured, low-income children through assistance with obtaining health insurance benefits that meet federal requirements or by the expansion of the Medicaid program.

Medicaid Cluster: ARRA - Survey and Certification Ambulatory Surgical Center Associated Infection (ASC-HAI) Prevention Initiative (CFDA No. 93.720)/ State Medicaid Fraud Control Units (CFDA No. 93.775) / State Survey and Certification of Health Care Providers and Suppliers (CFDA No. 93.777) / Medical Assistance Program (CFDA No. 93.778)

The objective of these programs is to eliminate fraud and patient abuse in the State Medicaid programs, provide financial assistance to determine that providers and suppliers of healthcare services are in compliance with Federal regulatory health and safety standards and conditions of participation, provide payments for medical assistance on behalf of cash assistance recipients, children, pregnant women, and the aged who meet income and resource requirements, and improve inspection capability and frequency for onsite surveys of Ambulatory Surgical Centers nationwide.

Block Grants for Prevention and Treatment of Substance Abuse (CFDA No. 93.959)

The purpose of this program is to provide financial assistance to states and territories to support projects for the development and implementation of prevention, treatment and rehabilitation activities directed to the diseases of alcohol and drug abuse.

US Social Security Administration

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

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

US Department of Homeland Security

Homeland Security Cluster: Homeland Security Grant Program (CFDA No. 97.067)

The objectives of this program is to enhance the capacity of the state and local first responders to respond to terrorism incidents involving chemical, biological, nuclear, radiological, incendiary, and explosive devices and to prevent, protect against, and recover from terrorist attacks and other disasters.

STATE OF ILLINOIS

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

(3) Non-monetary Assistance Inventory

The State reports the following non-cash federal awards on the Schedule of Expenditures of Federal Awards:

- Commodity Supplemental Food Program (CFDA No. 10.565) – Federal expenditures for this program represent the value of donated commodities received from the USDA. The commodities were valued based on USDA price lists.
- Emergency Food Assistance Program (CFDA No. 10.569) – Federal expenditures for this program represent the value of donated commodities received from the USDA. The Commodities were valued based on USDA price lists.
- Public Health Emergency Preparedness (CFDA No. 93.069) – Federal expenditures for this program represent the value of vaccine dispensed for the Pandemic H1N1 Influenza vaccination provided by the U.S. Department of Health and Human Services (DHHS). The commodities were valued based on DHHS price list.
- Immunization Grants (CFDA No. 93.268 / CFDA No. 93.712) – Federal expenditures for this program can either be in cash grants or represent the value of donated vaccine, personnel and other items “in lieu of cash” received from the US Department of Health and Human Services.

(4) Federal Loan Guarantees

The original principal balance of loans guaranteed by the Illinois Student Assistance Commission (ISAC) under Federal Family Education Loans Guaranty Program (CFDA No. 84.032G) was approximately \$6,078,311,000 as of June 30, 2011. Additionally, the outstanding balance of defaulted loans held by ISAC under this program was approximately \$668,012,631 as of June 30, 2011.



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

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

Honorable William G. Holland
Auditor General
State of Illinois:

As special assistant auditors for the Auditor General, we have audited the schedule of expenditures of federal awards (the Schedule) of the State of Illinois (the State) as of and for the year ended June 30, 2011, and have issued our report thereon dated June 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As described in note 1 to the schedule of expenditures of federal awards, the Schedule does not include expenditures of federal awards for those agencies determined to be component units of the State of Illinois for financial statement purposes. Each of these agencies has their own independent audit in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Also as described in note 1 to the schedule of expenditures of federal awards, the Schedule does not include federal transactions related to loans held and serviced by the Illinois Designated Account Purchase Program (IDAPP), a division of the Illinois Student Assistance Commission, under the Federal Family Educational Loan program. IDAPP has elected to have a separate lender compliance audit performed in accordance with the US Department of Education's *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program Guide*.

Internal Control Over Financial Reporting

Management of the State is responsible for establishing and maintaining effective internal control over financial reporting of the Schedule. In planning and performing our audit, we considered the State's internal control over financial reporting of the Schedule as a basis for designing auditing procedures for the purpose of expressing an opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting of the Schedule. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting of the Schedule.

Our consideration of internal control over financial reporting of the Schedule was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting of the Schedule that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses



have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's schedule of expenditures of federal awards will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the State's internal control over financial reporting of the Schedule described in the accompanying schedule of findings and questioned costs in findings 11-01, 11-02, 11-03, 11-16, 11-17, and 11-64 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's schedule of expenditures of federal awards is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Illinois Auditor General, the Illinois General Assembly, the Illinois Legislative Audit Commission, the Governor of Illinois, the management at Illinois State agencies, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 15, 2012



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

**Independent Auditors' Report
on Compliance with Requirements That Could Have a Direct and
Material Effect on Each Major Program and Internal Control
Over Compliance in Accordance with OMB Circular A-133**

Honorable William G. Holland
Auditor General
State of Illinois:

Compliance

We have audited the compliance of the State of Illinois (the State) with the types of compliance requirements described in the *US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

The schedule of expenditures of federal awards and our audit described below does not include expenditures of federal awards for those agencies determined to be component units of the State of Illinois for financial statement purposes. Each of these agencies has their own independent audit in compliance with *OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations* (OMB Circular A-133). The schedule of expenditures of federal awards and our audit described below also do not include federal transactions related to loans held and serviced by the Illinois Designated Account Purchase Program (IDAPP), a division of the Illinois Student Assistance Commission, under the Federal Family Education Loan program. IDAPP has elected to have a separate lender compliance audit performed in accordance with the US Department of Education's *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program Guide*.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State's compliance with those requirements.



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

State Administering Agency	Federal Program	Compliance Requirement(s)	Finding Number
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles and Eligibility	11-02
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	11-02
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	11-02
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles and Eligibility	11-03
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	11-03
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	11-03
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles and Eligibility	11-04
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	11-04
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	11-04
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Subrecipient Monitoring	11-06
IL Department of Human Services	Social Service Block Grant Program	Allowable Costs/Cost Principles and Earmarking	11-07
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	11-16
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	11-16
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Eligibility	11-17
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Eligibility	11-17
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost Principles and Period of Availability	11-18
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles and Period of Availability	11-18



State Administering Agency	Federal Program	Compliance Requirement(s)	Finding Number
IL Department of Children and Family Services	Temporary Assistance for Needy Families Cluster	Subrecipient Monitoring	11-38
IL Department of Children and Family Services	Foster Care – Title IV-E	Subrecipient Monitoring	11-38
IL Department of Children and Family Services	Adoption Assistance	Subrecipient Monitoring	11-38
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	11-39
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles and Eligibility	11-40
IL Department of Children and Family Services	Foster Care – Title IV-E	Allowable Costs/Cost Principles and Eligibility	11-41
IL Department of Public Health	Immunization Cluster	Special Tests and Provisions	11-50
IL State Board of Education	Title I, Part A Cluster	Allowable Costs/Cost Principles and Special Tests and Provisions	11-56
IL State Board of Education	Title I, Part A Cluster	Subrecipient Monitoring	11-57
IL State Board of Education	Special Education Cluster	Subrecipient Monitoring	11-57
IL State Board of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	11-57
IL State Board of Education	Title I, Part A Cluster	Subrecipient Monitoring	11-58
IL State Board of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	11-58
IL State Board of Education	Title I, Part A Cluster	Cash Management	11-59
IL State Board of Education	Special Education Cluster	Cash Management	11-59
IL Department of Employment Security	Unemployment Insurance	Allowable Costs/Cost Principles and Eligibility	11-64
IL Department of Commerce and Economic Opportunity	Weatherization Assistance for Low Income Persons	Subrecipient Monitoring	11-71
IL Department of Commerce and Economic Opportunity	Low Income Home Energy Assistance Program	Subrecipient Monitoring	11-71
IL Department of Transportation	Airport Improvement Program	Subrecipient Monitoring	11-75
IL Department of Transportation	Highway Planning and Construction Cluster	Allowable Costs/Cost Principles and Procurement	11-76
IL Department of Transportation	Highway Planning and Construction Cluster	Allowable Costs/Cost Principles and Davis Bacon	11-77
IL Department of Transportation	High Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants	Subrecipient Monitoring	11-85
IL Governor’s Office of Management and Budget	Education Jobs Fund	Allowable Costs/Cost Principles and Maintenance of Effort	11-99



In our opinion, except for the noncompliance described in the preceding paragraph, the State complied, in all material respects, with the requirements referred to above that could have a direct or material effect on each of its other major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings 11-03, 11-08 through 11-15, 11-19 through 11-37, 11-42 through 11-49, 11-51 through 11-55, 11-60 through 11-63, 11-65 through 11-67, 11-69 through 11-70, 11-72 through 11-74, 11-78 through 11-84, 11-86 through 11-91, 11-93 through 11-98, and 11-100 through 11-101.

Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, as findings 11-02 through 11-12, 11-15 through 11-29, 11-31 through 11-35, 11-38 through 11-41, 11-44, 11-46 through 11-48, 11-50 through 11-53, 11-56 through 11-59, 11-64 through 11-66, 11-71 through 11-73, 11-75 through 11-77, 11-79, 11-81, 11-84 through 11-87, 11-89 through 11-91, 11-95 through 11-101 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 11-13 through 11-14, 11-30, 11-36 through 11-37, 11-42 through 11-43, 11-45, 11-49, 11-54 through 11-55, 11-60 through 11-63, 11-67 through 11-70, 11-74, 11-78, 11-80, 11-82 through 11-83, 11-88, and 11-92 through 11-94 to be significant deficiencies.



The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State's responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Illinois Auditor General, the Illinois General Assembly, the Illinois Legislative Audit Commission, the Governor of Illinois, the management at Illinois State agencies, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 15, 2012

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

(1) Summary of Auditors' Results

- (a) The type of report issued by the Auditor General, State of Illinois, on the basic financial statements: **unqualified**
- (b)(1) Significant deficiencies in internal control were disclosed by the audit of the basic financial statements by the Auditor General, State of Illinois: **none reported**
Material weaknesses: **yes**
- (b)(2) Significant deficiencies in internal control were disclosed by the audit of the schedule of expenditures of federal awards: **none reported** Material weaknesses: **yes**
- (c)(1) Noncompliance which is material to the basic financial statements: **yes**
- (c)(2) Noncompliance which is material to the schedule of expenditures of federal awards: **no**
- (d) Significant deficiencies in internal control over major programs: **yes**
Material weaknesses: **yes**
- (e) The type of report issued on compliance for major programs:

Qualified:

- Unemployment Insurance
- Airport Improvement Program
- Highway Planning and Construction Cluster
- High Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants
- Weatherization Assistance for Low-Income Persons
- Title I, Part A Cluster
- Special Education Cluster
- Improving Teacher Quality State Grants
- Education Jobs Fund
- Immunization Cluster
- Temporary Assistance for Needy Families Cluster
- Low Income Home Energy Assistance Program
- Foster Care – Title IV-E
- Adoption Assistance
- Social Services Block Grant
- Children's Health Insurance Program
- Medicaid Cluster

The opinions for all other major programs are unqualified.

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

US Department of Agriculture

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

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

- Child and Adult Care Food Program (10.558)

US Department of Labor

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

US Department of Transportation

- Airport Improvement Program (20.106)
- Highway Planning and Construction Cluster (20.205/20.219)
- High Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants (20.319)

US Environmental Protection Agency

- Capitalization Grants for Clean Water State Revolving Funds (66.458)
- Capitalization Grants for Drinking Water State Revolving Funds (66.468)

US Department of Energy

- Weatherization Assistance for Low-Income Persons (81.042)

US Department of Education

- Title I, Part A Cluster (84.010/84.389)
- Special Education Cluster (84.027/84.173/84.391/84.392)
- Federal Family Education Loans – Guaranty Program (84.032G)
- Rehabilitation Services – Vocational Rehabilitation Grants to States (84.126/84.390)
- Improving Teacher Quality State Grants (84.367)
- Education Jobs Fund (84.410)

US Department of Health and Human Services

- Immunization Cluster (93.268/93.712)
- Temporary Assistance for Needy Families Cluster (93.558/93.714)
- Child Support Enforcement (93.563)
- Low-Income Home Energy Assistance (93.568)
- Child Care Development Funds Cluster (93.575/93.596/93.713)
- Foster Care – Title IV-E (93.658)
- Adoption Assistance (93.659)
- Social Services Block Grant (93.667)
- Children’s Health Insurance Program (93.767)
- Medicaid Cluster (93.270/93.775/93.777/93.778)
- Block Grants for the Prevention and Treatment of Substance Abuse (93.959)

US Social Security Administration

- Disability Insurance/SSI Cluster (96.001)

US Department of Homeland Security

- Homeland Security Cluster (97.067)

(h) Dollar threshold used to distinguish between Type A and Type B programs: **\$52,290,000**

(i) The State did not qualify as a low-risk auditee under section .530 of OMB Circular A-133.

GAS Findings

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

(2)(a) Findings related to the basic financial statements reported in accordance with *Government Auditing Standards*:

Findings related to the basic financial statements for the year ended June 30, 2011 were reported in accordance with *Government Auditing Standards* by the Auditor General of the State of Illinois under separate cover.

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

Finding No.	State Agency	Finding Title	Finding Type
11-01	IL Office of the Governor and IL Office of the Comptroller	Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards	Material weakness

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

Finding No.	State Agency	Finding Title	Finding Type
11-02	IL Department of Human Services	Failure to Perform Eligibility Redeterminations within Prescribed Timeframes	Material weakness
11-03	IL Department of Human Services	Failure to Properly Maintain and Control Case File Records	Material weakness
11-16	IL Department of Healthcare and Family Services	Inadequate Procedures for Performing Eligibility Redeterminations	Material weakness
11-17	IL Department of Healthcare and Family Services	Missing Documentation in Beneficiary Eligibility Files	Material weakness
11-64	IL Department of Employment Security	Failure to Verify Social Security Numbers with the Social Security Administration	Material weakness

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

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

Federal Agency: All Federal Agencies

Finding 11-01 *Inadequate Process for Compiling the Schedule of Expenditures of Federal Awards*

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

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

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

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

Although these SCO forms are subject to review by the IOC financial reporting staff during the CAFR preparation process, the current process lacks sufficient internal controls at state agencies which has resulted in several restatements relative to the financial statement reporting over the past several years.

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

- Expenditures for the Special Supplemental Nutrition for Women, Infants, and Children were understated by the Illinois Department of Human Services in 2011.
- Expenditures for the Guardianship Assistance program were erroneously reported under the Adoption Assistance program by the Illinois Department of Children and Family Services in 2011.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

- Expenditures were reported based on cash receipts versus expenditures for the Airport Improvement Program and Highway Planning and Construction Cluster programs by the Illinois Department of Transportation in 2011.
- Expenditures for the High-Speed Rail Program were not identified as being funded by the American Recovery and Reinvestment Act by the Illinois Department of Transportation in 2011.
- Expenditures were reported based on cash receipts versus expenditures for the Child Support Enforcement, CHIP, and Medicaid Cluster programs by the Illinois Department of Healthcare and Family Services in 2011.
- Expenditures for the Medicaid Cluster were understated by the Illinois Department of Healthcare and Family Services in 2010.
- Expenditures for the Homeland Security Cluster were not appropriately clustered by the Illinois Emergency Management Agency and were overstated by the Illinois Department of Transportation in 2009.
- Expenditures for the Highway Planning and Construction Cluster were overstated by the Illinois Department of Transportation in 2009.
- Expenditures for the Airport Improvement Program were improperly identified as being funded by the American Recovery and Reinvestment Act by the Illinois Department of Transportation in 2009.
- Expenditures for the Foster Care and Adoption Assistance programs were not identified as being funded by the American Recovery and Reinvestment Act by the Illinois Department of Children and Family Services in 2009.
- Expenditures for the Public Assistance Grants program were not reported in the appropriate fiscal year by the Illinois Emergency Management Agency in 2006 and 2007.
- Expenditures for the Early Intervention program were not reported in the appropriate fiscal year by the Illinois Department of Human Services in 2003, 2004, and 2005.
- Expenditures for the Highway Planning and Construction Cluster program were not recorded in the appropriate fiscal year by the Illinois Department of Transportation in 2004 and 2005.
- Other correcting entries and/or restatements were required in order to accurately state the financial information of the following agencies: Illinois Department of Healthcare and Family Services, Illinois Department of Children and Family Services, Illinois Department of Public Health, Illinois State Board of Education, Illinois Student Assistance Commission, Illinois Community College Board, Illinois Department of Commerce and Economic Opportunity, Illinois Department of Employment Security, Illinois Department of Natural Resources, Illinois Environmental Protection Agency, Illinois Department of Corrections, Illinois Criminal Justice Information Authority, and Illinois Department of Central Management Services.
- Major programs were not identified until six or more months subsequent to the end of the fiscal year by the following agencies: Illinois Department of Healthcare and Family Services, Illinois State Board of Education, Illinois Department of Public Health, Illinois Department of Commerce and Economic Opportunity, and Illinois Department of Employment Security.
- Preparation of the SEFA has not been completed by the State prior to March 31st in the past nine years.

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

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

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

In discussing these conditions with the Office of the Governor, they stated that the weakness is due to (1) lack of a statewide accounting and grants management system and (2) lack of personnel adequately trained in governmental accounting and federal grants management. The lack of a statewide accounting system is due to the State's current inability to obtain the capital funding required to acquire and implement such a system. Without adequate financial and grants management systems, agency staff are required to perform highly manual calculations of balance sheet and SEFA amounts in a short time frame which results in increased errors. The lack of adequate financial and grants management personnel is due to a failure to update the qualifications in the respective job titles to ensure that applicants have the minimum required education and skill sets to be properly trained.

In discussing these conditions with IOC management, they stated misstatements were caused by a lack of sufficient internal control processes in state agencies for the accumulation and reporting of financial information used to prepare the financial statements. The IOC has the statutory authority to develop and prescribe accounting policies for the State but does not have the statutory authority to monitor adherence to these policies as performed by State agencies.

Failure to establish effective internal controls at all agencies regarding financial reporting for the preparation of the CAFR and the SEFA **prevents** the State from completing an audit in accordance with timelines set forth OMB Circular A-133 and may result in the suspension of federal funding. (Finding Code 11-01, 10-01, 09-01, 08-01, 07-01, 06-01, 05-01, 04-01, 03-01, 02-01)

Recommendation:

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

Office of the Governor's Response:

The Governor's Office agrees with this finding. The Governor's Office, the Governor's Office of Management and Budget and the Office of the Comptroller are addressing these challenges and 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. In fiscal year 2012 a letter was signed by all agency heads asking them to recognize the importance to the Governor of timely and accurate reporting.

In addition, GOMB continues to work with the Department of Central Management Services to develop job descriptions to allow agencies to hire employees skilled in financial statement and single audit preparation. This is a complicated and lengthy process. The GOMB also requested budgetary authority for fiscal year 2013 to hire accountants knowledgeable about governmental financial reporting including compiling the information for federal expenditures, although this was not part of the legislative budget.

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GOMB and the Governor's Office have been primarily responsible for developing a plan for a statewide financial accounting system. This statewide financial accounting system would also include a grants management module to enable preparation of the Statement of Expenditures of Financial Awards. A steering committee was convened that includes representatives of agencies with substantial federal funding. It is comprised of the chief information officer, members of the General Assembly as well as representatives of the Governor's Office of Management and Budget, the Comptroller's Office and several operating agencies. The steering committee has met several times and has reviewed the information available from work by prior consultants. Currently a request for proposals (RFP) is being developed to secure a consultant. This consultant will develop the necessary statewide accounting requirements and develop an RFP for software and implementation services to address the state's need. Unfortunately capital money has not been forthcoming. The project cannot go forward without funding. Once funding and a vendor are secured it will still take several years for completion and internal control issues will persist.

The Governor's office will continue working with the agencies to provide as much complete information as possible given the State's current capacities.

IOC's Response:

The Office accepts the recommendation. 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, 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.

Single Audit Findings

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Schedule of Findings and Questioned Costs

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

Finding No.	State Agency	Finding Title	Finding Type
11-02	IL Department of Human Services	Failure to Perform Eligibility Redeterminations within Prescribed Timeframes	Material noncompliance and material weakness
11-03	IL Department of Human Services	Failure to Properly Maintain and Control Case File Records	Material noncompliance and material weakness
11-04	IL Department of Human Services	Missing Documentation in Beneficiary Eligibility Files	Material noncompliance and material weakness
11-05	IL Department of Human Services	Inadequate Process for Preventing Individuals Convicted of Felonies from Receiving TANF Benefits	Material weakness
11-06	IL Department of Human Services	Inadequate Monitoring of TANF Cluster Subrecipient	Material noncompliance and material weakness
11-07	IL Department of Human Services	Unallowable Costs Charged to the Title XX Program	Material noncompliance and material weakness
11-08	IL Department of Human Services	Inadequate Review of OMB Circular A-133 Audit Reports	Noncompliance and material weakness
11-09	IL Department of Human Services	Untimely Review of Programmatic On-Site Reviews and Communication of and Follow Upon Monitoring Findings	Noncompliance and material weakness
11-10	IL Department of Human Services	Inaccurate Reporting of Federal Expenditures	Noncompliance and material weakness
11-11	IL Department of Human Services	Failure to Determine Eligibility in Accordance with Program Regulations	Noncompliance and material weakness
11-12	IL Department of Human Services	Failure to Meet Maintenance of Effort Requirements	Noncompliance and material weakness
11-13	IL Department of Human Services	Inaccurate Financial Reports for the Vocational Rehabilitation Cluster	Noncompliance and significant deficiency
11-14	IL Department of Human Services	Untimely Submission of Financial Reports	Noncompliance and significant deficiency
11-15	IL Department of Revenue	Inadequate Process for Determining the Allowability of Earned Income Credits	Noncompliance and material weakness
11-16	IL Department of Healthcare and Family Services	Inadequate Procedures for Performing Eligibility Redeterminations	Material noncompliance and material weakness

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Finding No.	State Agency	Finding Title	Finding Type
11-17	IL Department of Healthcare and Family Services	Missing Documentation in Beneficiary Eligibility Files	Material noncompliance and material weakness
11-18	IL Department of Healthcare and Family Services	Failure to Pay Medical Claims within Prescribed Timeframes	Material noncompliance and material weakness
11-19	IL Department of Healthcare and Family Services	Failure to Disburse Hospital Assessment Payments in Accordance with State Plan	Noncompliance and material weakness
11-20	IL Department of Healthcare and Family Services	Failure to Initiate, Complete, and Report Overpayments Identified in Provider Audits in a Timely Manner	Noncompliance and material weakness
11-21	IL Department of Healthcare and Family Services	Untimely Completion of Medicaid Eligibility Quality Control Reviews	Noncompliance and material weakness
11-22	IL Department of Healthcare and Family Services	Inadequate Procedures to Monitor and Report Overpayments	Noncompliance and material weakness
11-23	IL Department of Healthcare and Family Services	Inadequate Process to Verify Procedures Billed by Provider with Beneficiaries	Noncompliance and material weakness
11-24	IL Department of Healthcare and Family Services	Failure to Update and Implement Reimbursement Rate Methodology Changes for Government Owned Hospitals	Noncompliance and material weakness
11-25	IL Department of Healthcare and Family Services	Failure to Obtain Required Disclosures from Providers	Noncompliance and material weakness
11-26	IL Department of Healthcare and Family Services	Inadequate On-Site Monitoring of Child Support Subrecipients	Noncompliance and material weakness
11-27	IL Department of Healthcare and Family Services	Failure to Issue Management Decisions on Subrecipient A-133 Findings	Noncompliance and material weakness
11-28	IL Department of Healthcare and Family Services	Inadequate On-Site Monitoring of Medicaid Subrecipients	Noncompliance and material weakness
11-29	IL Department of Healthcare and Family Services	Failure to Complete Cash Management Reconciliations Timely	Noncompliance and material weakness
11-30	IL Department of Healthcare and Family Services	Inadequate Cash Management Procedures	Noncompliance and significant deficiency
11-31	IL Department of Healthcare and Family Services	Failure to Obtain Suspension and Debarment Certifications from Vendors	Noncompliance and material weakness
11-32	IL Department of Healthcare and Family Services	Failure to Competitively Bid Professional Services	Noncompliance and material weakness

STATE OF ILLINOIS

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Finding No.	State Agency	Finding Title	Finding Type
11-33	IL Department of Healthcare and Family Services	Improper Allocation of Costs	Noncompliance and material weakness
11-34	IL Department of Healthcare and Family Services	Improper Recertification of Clearance Pattern	Noncompliance and material weakness
11-35	IL Department of Healthcare and Family Services	Failure to Survey Psychiatric Hospitals	Noncompliance and material weakness
11-36	IL Department of Healthcare and Family Services	Failure to Report Subaward Information Required by FFATA	Noncompliance and significant deficiency
11-37	IL Department of Healthcare and Family Services	Inaccurate Reporting of Federal Expenditures	Noncompliance and significant deficiency
11-38	IL Department of Children and Family Services	Inadequate Monitoring of Subrecipients	Material noncompliance and material weakness
11-39	IL Department of Children and Family Services	Missing Documentation in Adoption Assistance Case Files	Material noncompliance and material weakness
11-40	IL Department of Children and Family Services	Failure to Ensure that Adoption Assistance Recertifications Are Performed on a Timely Basis	Material noncompliance and material weakness
11-41	IL Department of Children and Family Services	Missing Documentation in Foster Care Case Files	Material noncompliance and material weakness
11-42	IL Department of Children and Family Services	Failure to Perform Cash Draws in Accordance with the Treasury-State Agreement	Noncompliance and significant deficiency
11-43	IL Department of Children and Family Services	Inaccurate Reporting of Federal Expenditures	Noncompliance and significant deficiency
11-44	IL Department of Children and Family Services	Failure to Obtain Suspension and Debarment Certifications from Providers	Noncompliance and material weakness
11-45	IL Department of Children and Family Services	Untimely Submission of Financial Reports	Noncompliance and significant deficiency
11-46	IL Department of Children and Family Services	Failure to Ensure Timely Preparation of Initial Case Plans	Noncompliance and material weakness
11-47	IL Department on Aging	Inadequate On-Site Monitoring of Subrecipients	Noncompliance and material weakness
11-48	IL Department on Aging	Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports	Noncompliance and material weakness
11-49	IL Department on Aging	Inadequate Cash Management Procedures for Subrecipients	Noncompliance and significant deficiency

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Finding No.	State Agency	Finding Title	Finding Type
11-50	IL Department of Public Health	Inadequate Monitoring of Immunization Providers	Material noncompliance and material weakness
11-51	IL Department of Public Health	Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports	Noncompliance and material weakness
11-52	IL Department of Public Health	Inadequate Monitoring of PHEP Subrecipients	Noncompliance and material weakness
11-53	IL Department of Public Health	Inadequate On-site Monitoring of Subrecipients	Noncompliance and material weakness
11-54	IL Department of Public Health	Failure to Investigate Provider Complaints within Required Timeframes	Noncompliance and significant deficiency
11-55	IL Department of Public Health	Inadequate Procedures to Verify Provider Licenses	Noncompliance and significant deficiency
11-56	IL State Board of Education	Failure to Sanction Non-Comparable Local Education Agency (LEA) and Inadequate Documentation for Determining Comparability	Material noncompliance and material weakness
11-57	IL State Board of Education	Inadequate On-Site Fiscal Monitoring of Subrecipients	Material noncompliance and material weakness
11-58	IL State Board of Education	Inadequate On-Site Programmatic Monitoring of Subrecipients	Material noncompliance and material weakness
11-59	IL State Board of Education	Inadequate Cash Management Procedures for Subrecipients	Material noncompliance and material weakness
11-60	IL Student Assistance Commission	Inadequate Process to Verify Unreported Loans	Noncompliance and significant deficiency
11-61	IL Student Assistance Commission	Incomplete Lender Agreements	Noncompliance and significant deficiency
11-62	IL Student Assistance Commission	Inadequate Process for Assignment of Defaulted Loans	Noncompliance and significant deficiency
11-63	IL Student Assistance Commission	Unapproved Investments in the Federal Fund	Noncompliance and significant deficiency
11-64	IL Department of Employment Security	Failure to Verify Social Security Numbers with the Social Security Administration	Material noncompliance and material weakness
11-65	IL Department of Employment Security	Failure to Issue Eligibility Determinations within Prescribed Timeframes	Noncompliance and material weakness
11-66	IL Department of Employment Security	Inadequate Documentation of Controls over Information Systems	Noncompliance and material weakness

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Finding No.	State Agency	Finding Title	Finding Type
11-67	IL Department of Employment Security	Inadequate Documentation over System Implementation	Noncompliance and significant deficiency
11-68	IL Department of Employment Security	Inadequate Documentation of Resolution of Exceptions and Supervisory Review of the Claim Exception and Monitoring Reports	Significant deficiency
11-69	IL Department of Employment Security	Untimely Verification of Out-of-State Wages for EUC08 Beneficiaries	Noncompliance and significant deficiency
11-70	IL Department of Employment Security	Improper System Configuration for Offset of Overpayments	Noncompliance and significant deficiency
11-71	IL Department of Commerce and Economic Opportunity	Inadequate Process for Following Up on Monitoring Findings	Material noncompliance and material weakness
11-72	IL Department of Commerce and Economic Opportunity	Failure to Communicate ARRA Information and Requirements to Subrecipients	Noncompliance and material weakness
11-73	IL Department of Commerce and Economic Opportunity	Inaccurate Financial Status Reports	Noncompliance and material weakness
11-74	IL Department of Commerce and Economic Opportunity	Failure to Report Subaward Information Required by FFATA	Noncompliance and significant deficiency
11-75	IL Department of Transportation	Inadequate On-Site Monitoring of Airport Improvement Subrecipients	Material noncompliance and material weakness
11-76	IL Department of Transportation	Failure to Retain Documentation in Accordance with Federal Regulations	Material noncompliance and material weakness
11-77	IL Department of Transportation	Failure to Obtain Certified Payrolls Prior to Contractor Payments	Material noncompliance and material weakness
11-78	IL Department of Transportation	Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports	Noncompliance and significant deficiency
11-79	IL Department of Transportation	Failure to Notify Subrecipients of Federal Funding	Noncompliance and material weakness
11-80	IL Department of Transportation	Failure to Follow Sampling and Testing Program for Construction Materials	Noncompliance and significant deficiency
11-81	IL Department of Transportation	Failure to Communicate ARRA Information and Requirements to Subrecipients	Noncompliance and material weakness
11-82	IL Department of Transportation	Inadequate Cash Management Procedures	Noncompliance and significant deficiency

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Finding No.	State Agency	Finding Title	Finding Type
11-83	IL Department of Transportation	Inaccurate ARRA 1512 Reports	Noncompliance and significant deficiency
11-84	IL Department of Transportation	Inadequate On-Site Monitoring of Highway Planning Subrecipients	Noncompliance and material weakness
11-85	IL Department of Transportation	Inadequate Monitoring of High Speed Rail Program Subrecipient	Material noncompliance and material weakness
11-86	IL Department of Transportation	Inaccurate Financial Reports	Noncompliance and material weakness
11-87	IL Department of Transportation	Inaccurate Reporting of Federal Expenditures	Noncompliance and material weakness
11-88	IL Department of Transportation	Failure to Account for and Remit Interest Earned on Advance Funding	Noncompliance and significant deficiency
11-89	IL Emergency Management Agency	Inadequate Supervisory Review of On-Site Monitoring of Subrecipients	Noncompliance and material weakness
11-90	IL Emergency Management Agency	Inadequate Review of Subrecipient OMB Circular A-133 Reports	Noncompliance and material weakness
11-91	IL Emergency Management Agency	Failure to Deposit Funds in an Interest-Bearing Account	Noncompliance and material weakness
11-92	IL Emergency Management Agency	Failure to Follow Established Internal Control Procedures for Equipment	Significant deficiency
11-93	IL Emergency Management Agency	Failure to Draw Funds Only for Immediate Cash Needs	Noncompliance and significant deficiency
11-94	IL State Police	Failure to Deposit Funds in an Interest-Bearing Account	Noncompliance and significant deficiency
11-95	IL Environmental Protection Agency	Inadequate Monitoring of Subrecipient OMB A-133 Audit Reports	Noncompliance and material weakness
11-96	IL Environmental Protection Agency	Failure to Communicate ARRA Information to Subrecipients	Noncompliance and material weakness
11-97	IL Environmental Protection Agency	Inaccurate ARRA 1512 Reports	Noncompliance and material weakness
11-98	IL Environmental Protection Agency	Inaccurate Federal Financial Report	Noncompliance and material weakness
11-99	IL Governor's Office of Management and Budget	Inadequate Supporting Documentation for Maintenance of Effort Requirement	Material noncompliance and material weakness

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Finding No.	State Agency	Finding Title	Finding Type
11-100	IL Governor's Office of Management and Budget	Inadequate Procedures for Amending the Treasury State Agreement	Noncompliance and material weakness
11-101	IL Office of the State Treasurer	Failure to Properly Maintain Procurement Records	Noncompliance and material weakness

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State Agency: Illinois Department of Human Services (IDHS)

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

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

CFDA # and Program Expenditures: 93.558/93.714 ARRA (\$739,806,000)
93.767 (\$281,837,000)
93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: G1001ILTANF/G1101ILTANF/Z0901ILTANF2/Z1001ILTANF2 (93.558/93.714ARRA)
(CFDA Number) 05-0905ILCPBP/05-1005ILCPBP/05-1105IL5021 (93.767)
05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN (93.720ARRA/
93.775/93.777/93.778/93.778ARRA)

Questioned Costs: Cannot be determined

Finding 11-02 Failure to Perform Eligibility Redeterminations within Prescribed Timeframes

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

Each of the State Plans for the TANF Cluster, CHIP, and Medicaid Cluster programs require the State to perform eligibility redeterminations on an annual basis. These procedures typically involve a face to face meeting with the beneficiary to verify eligibility criteria including income level and assets. During our testwork over eligibility, we noted the State was delinquent (overdue) in performing the eligibility redeterminations for individuals receiving benefits under the TANF Cluster, CHIP, and Medicaid Cluster programs. In evaluating the eligibility redetermination delinquency statistics, we noted the statistics for the CHIP and Medicaid Cluster programs appear to have improved only as a result of implementing an inadequate passive redetermination process as reported in finding 11-16. The monthly delinquency statistics by program for State fiscal year 2011 are as follows:

Program/Month	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
TANF Cluster			
July	1,632	34,373	4.75%
August	1,741	35,912	4.85%
September	1,752	36,773	4.76%

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Program/Month	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
TANF Cluster, cont'd			
October	1,873	37,939	4.94%
November	2,031	38,837	5.23%
December	2,307	40,627	5.68%
January	2,567	41,221	6.23%
February	2,550	41,374	6.16%
March	2,517	42,177	5.97%
April	2,628	42,834	6.14%
May	2,931	43,628	6.72%
June	3,202	44,701	7.16%
CHIP			
July	30,822	748,204	4.12%
August	30,834	749,196	4.12%
September	32,477	750,611	4.33%
October	31,375	752,685	4.17%
November	31,092	754,570	4.12%
December	32,056	754,416	4.25%
January	32,916	754,260	4.36%
February	33,402	755,340	4.42%
March	36,412	758,473	4.80%
April	38,816	760,761	5.10%
May	43,372	763,758	5.68%
June	49,866	767,907	6.49%
Medicaid Cluster			
July	50,034	457,097	10.95%
August	51,809	458,306	11.30%
September	55,217	460,229	12.00%
October	56,937	462,607	12.31%
November	57,604	464,249	12.41%
December	57,867	466,125	12.41%
January	60,007	467,616	12.83%
February	60,046	468,602	12.81%
March	63,417	470,283	13.48%
April	64,797	472,544	13.71%
May	68,272	475,066	14.37%
June	70,577	477,705	14.77%

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In addition, during our testwork of 50 TANF Cluster, 65 CHIP, and 125 Medicaid Cluster eligibility files selected for testwork, we noted redeterminations were not completed within required time frames for five TANF Cluster, five CHIP and five Medicaid Cluster cases tested. Delays in performing redeterminations ranged from two to 24 months after the required timeframe.

Beneficiary payments selected in our sample totaled \$21,788, \$121,458, and \$74,511 for the TANF Cluster, CHIP, and Medicaid Cluster programs, respectively. Payments made on behalf of beneficiaries of the TANF Cluster, CHIP, and Medicaid Cluster programs totaled \$63,328,000, \$253,496,000 and \$8,891,667,000, respectively, during the year ended June 30, 2011.

In accordance with 42 USC 602(a)(1)(B)(iii), 42 CFR 431.10, and the OMB Circular A-133 Compliance Supplement, dated March 2011, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plans for the Medicaid Cluster, CHIP, and TANF programs. The current State Plans require redeterminations of eligibility for all recipients on an annual basis.

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

In discussing these conditions with IDHS officials, they stated that TANF, CHIP, and Medicaid caseload increased approximately 4% in fiscal year 2011; whereas, casework staff decreased approximately 3.3% in fiscal year 2011.

Failure to properly perform eligibility redetermination procedures in accordance with the State Plans may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 11-02, 10-03, 09-03, 08-03, 07-10, 06-03, 05-18, 04-15, 03-17)

Recommendation:

We recommend IDHS review its current process for performing eligibility redeterminations and consider changes necessary to ensure all redeterminations are performed within the timeframes prescribed within the State Plans for each affected program.

IDHS Response:

The Department 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 prescribed timeframes.

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State Agency: Illinois Department of Human Services (IDHS)

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

State Agency: Illinois Department of Human Services (IDHS)

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

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

CFDA # and Program Expenditures: 10.551/10.561/10.561ARRA (\$3,087,881,000)
93.558/93.714ARRA (\$739,806,000)
93.767 (\$281,837,000)
93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: 10Q2703/10Q6503/10S2514/10S2519/10S2520/10S8036/11Q6503/11S2514/
(CFDA Number) 11S2519/11S2520/11S8036/Z10SNAP (10.551/10.561/10.561 ARRA)
G-1001ILTANF/G-1101ILTANF/ Z-0901ILTANF2/Z-1001ILTANF2
(93.558/93.714ARRA)
05-0905ILCPBP/05-1005ILCPBP/05-1105IL5021 (93.767)
05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN (93.720ARRA/
93.775/93.777/93.778/93.778ARRA)

Questioned Costs: Cannot be determined

Finding 11-03 Failure to Properly Maintain and Control Case File Records

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

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

During our testwork, we noted the procedures in place to maintain and control beneficiary case file records do not provide adequate safeguards against the potential for the loss of such records. Specifically,

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in our review of case files at five separate local offices, we noted the areas in which case files are maintained were generally disorganized and case files were stacked on or around file cabinets. We also noted case files were generally available to all DHS personnel and that formal procedures have not been developed for checking case files in and out of the file rooms or for tracking their locations.

Additionally, during our testwork over 240 case files selected in our testwork relative to the TANF, CHIP, and Medicaid programs, we noted several delays in receiving case files due to the fact that case files had been transferred between local offices as a result of clients moving between service areas. We also noted two TANF case records selected during our site visits and one Medicaid Cluster case record (out of 125 tested) could not be located for our testing. The medical payment made on behalf of the Medicaid Cluster beneficiary that was selected for our testwork was \$35 (out of \$74,511 sampled. Total medical payments made on behalf of the Medicaid Cluster program beneficiary during the year ended June 30, 2011 totaled \$200,001.

Payments made on the behalf of beneficiaries of the SNAP Cluster, TANF Cluster, CHIP, and Medicaid Cluster programs were approximately \$2,967,720,000, \$63,328,000, \$253,496,000 and \$8,891,667,000, respectively, during the year ended June 30, 2011.

In accordance with 42 USC 1397bb, 42 CFR 435.10, and the OMB Circular A-133 Compliance Supplement, dated March 2011, the State is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plans for the Medicaid and CHIP programs.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include maintaining adequate controls over beneficiary eligibility case files and related documentation.

In discussing these conditions with IDHS officials, they stated that they lack adequate staff to properly file documentation.

Failure to properly maintain and control beneficiary case file records may result in the loss of source documentation necessary to establish beneficiary eligibility and in unallowable costs being charged to the federal programs. (Finding Code 11-03, 10-04, 09-04, 08-04, 07-11)

Recommendation:

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

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IDHS Response:

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

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State Agency: Illinois Department of Human Services (IDHS)

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

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

CFDA # and Program Expenditures: 93.558/93.714 ARRA (\$739,806,000)
93.767 (\$281,837,000)
93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: G-1001ILTANF/G-1101ILTANF/ Z-0901ILTANF2/Z-1001ILTANF2
(CFDA Number) (93.558/93.714ARRA)
05-0905ILCPBP/05-1005ILCPBP/05-1105IL5021 (93.767)
05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN (93.720ARRA/
93.775/93.777/93.778/93.778ARRA)

Questioned Costs: Cannot be determined

Finding 11-04 *Missing Documentation in Beneficiary Eligibility Files*

IDHS 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 test work of 50 TANF Cluster, 65 CHIP, and 125 Medicaid Cluster beneficiary payments, we selected eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits provided. We noted the following exceptions during our testwork:

- In one TANF Cluster case file, IDHS could not locate the supporting documentation of the redetermination completed and signed by the beneficiary in the case file. The TANF cash assistance payment to this beneficiary which was selected for our testwork was \$318. TANF cash assistance paid to this beneficiary during the year ended June 30, 2011 totaled \$3,816.
- In 14 CHIP case files and 19 Medicaid Cluster case files, IDHS could not locate the supporting documentation of the redetermination completed and signed by the beneficiary in the case file. The medical payments made on behalf of these beneficiaries which were selected for our testwork were \$1,130 and \$7,363 for the CHIP and Medicaid Cluster programs, respectively. Medical payments made on behalf of these beneficiaries during the year ended June 30, 2011 were \$164,476 and \$367,034 for the CHIP and Medicaid programs, respectively.
- In ten CHIP case files and one Medicaid Cluster case files, IDHS could not locate adequate documentation supporting income verification procedures performed. In lieu of collecting pay stubs to verify income, the caseworkers verbally confirmed income information, relied on handwritten notes, or used income verified on previous applications. The medical payments made on behalf of these beneficiaries which were selected for our testwork were \$765 and \$67 for the CHIP and Medicaid Cluster programs, respectively. Medical payments made on behalf of these beneficiaries during the

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year ended June 30, 2011 were \$103 and \$153,651 for the CHIP and Medicaid Cluster programs, respectively.

In each of the case files missing documentation, each of the eligibility criteria was verified through additional supporting documentation in the client's paper and electronic case files. Therefore all information necessary to establish and support the client's eligibility for the period was available; however, the respective application and/or source documentation related to the redetermination/income verification procedures performed including evidence of case worker review and approval could not be located.

Beneficiary payments selected in our samples totaled \$21,788, \$121,458 and \$74,511 for the TANF Cluster, CHIP, and Medicaid Cluster programs, respectively. Payments made on behalf beneficiaries of the TANF Cluster, CHIP and Medicaid Cluster programs totaled \$63,328,000, \$253,496,000, and \$8,891,667,000, respectively, during the year ended June 30, 2011.

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

In accordance with 42 USC 602(a)(1)(B)(iii), 42 CFR 431.10, and the OMB Circular A-133 Compliance Supplement, dated March 2011, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plan. The current State Plans require redeterminations of eligibility for beneficiaries on an annual basis. Additionally, 42 CFR 435.907 requires a signed application to be on file for all beneficiaries of the Medicaid Cluster and CHIP programs.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include maintaining adequate controls over beneficiary eligibility case files and related documentation.

In discussing these conditions with IDHS officials, they stated that they lack adequate staff to properly file documentation.

Failure to maintain client applications for benefits and/or source documentation for redetermination/income verification procedures performed may result in inadequate documentation of a recipient's eligibility and in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 11-04, 10-06, 09-06, 08-08, 07-19, 06-16, 05-30, 04-18, 03-20, 02-26, 01-15)

Recommendation:

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

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IDHS Response:

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

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State Agency: Illinois Department of Human Services (IDHS)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Temporary Assistance for Needy Families Cluster
CFDA # and Program Expenditures: 93.558/93.714ARRA (\$739,806,000)
Award Numbers: G-1001ILTANF/G-1101ILTANF/ Z-0901ILTANF2/Z-1001ILTANF2
Questioned Costs: Cannot be determined

Finding 11-05 *Inadequate Process for Preventing Individuals Convicted of Felonies from Receiving TANF Benefits*

IDHS does not have adequate procedures in place to ensure individuals convicted of Class 1 or Class X drug felonies, probation and parole violators, and fugitive felons do not receive benefits under the Temporary Assistance for Needy Families (TANF) Cluster program.

As a condition of receiving cash assistance under the TANF Cluster program, beneficiaries are required to meet certain eligibility criteria prescribed by federal regulations and the TANF Cluster State Plan. IDHS has designed its standard application for benefits to request information from applicants relative to each of the eligibility criteria.

During our testwork, we noted IDHS' process for determining whether TANF Cluster 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 as to whether or not they have been convicted of a Class 1 or Class X felony. IDHS does not have procedures in place to corroborate the applicant's statements through cross matches with the Illinois Department of Corrections, Illinois State Police, or other mechanisms.

Cash assistance paid to beneficiaries of the TANF Cluster program totaled \$63,328,000 during the year ended June 30, 2011.

In accordance with 42 USC 602(a)(1)(B)(iii) and the OMB Circular A-133 Compliance Supplement, dated March 2011, IDHS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plans for the TANF program. Section II.G of the current State Plan states that probation and parole violators, fugitive felons, and individuals convicted of a Class 1 or Class X felony for an act occurring after August 21, 1996, involving the possession, use, or distribution of a controlled substance under Illinois, or comparable federal law, are ineligible to receive TANF Cluster benefits. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include performing crossmatches of data with other State agencies to ensure only eligible beneficiaries receive benefits.

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In discussing these conditions with IDHS officials, they stated they do not have the ability to perform a cross-match with other state agencies that would result in an accurate identification of convicted drug felons.

Failure to ensure TANF Cluster recipients receiving benefits have not been convicted of Class 1 and Class X felonies may result in federal funds being awarded to ineligible beneficiaries which are unallowable costs. (Finding Code 11-05, 10-05, 09-05, 08-05, 07-13, 06-04)

Recommendation:

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

IDHS Response:

We agree with the recommendation. The Department has, and will continue to review our process of identifying convicted Class 1 or X drug felons, in order to prevent them from receiving TANF. With the deletion of all mention of a cross match of data with other State Agencies, our policy has been updated to reflect our procedure of using self declaration as our primary means of convicted drug felon identification.

We have identified several barriers to creating a cross match with the Illinois State Police, including:

1. A cross match with the Illinois State Police would be cost prohibitive. Estimated costs have been as high as several hundred thousand dollars per year.
2. Because IDHS collects and verifies names, dates of birth, and social security numbers, and the Illinois State Police uses finger prints as the primary means of identification and does not verify names, dates of birth, and social security numbers, matches would be inaccurate. Therefore, any match with the Illinois State Police involves the risk of receiving false positive feedback.
3. Any match with the Illinois State Police would be incomplete, as there is no known national database of convicted Class 1 or X drug felons.

Additionally, there is no federal requirement for a cross match with other agencies or entities. Section 115 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (with authorizes TANF) states, "A state shall require each individual applying for assistance...to state in writing whether the individual or any member of the household has been convicted of a felony." By changing our applications forms to require an applicant to address in writing whether he or she is a convicted drug felon, we are in compliance.

Also, our discussion with the Federal Administration for Children and Families resulted in a statement from them indicating that in the absence of a national database for identifying drug felons, other states have also adopted self declaration as their means of identification.

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Auditors' Comment:

This finding has been repeated since fiscal year 2006 in which an individual convicted of a felony received TANF benefits despite the fact a self declaration of conviction was included in the case file. Although IDHS has removed the cross match from its TANF State Plan and procedures manual, IDHS has not implemented controls to ensure individuals who make a self declaration of a conviction do not receive TANF benefits.

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State Agency: Illinois Department of Human Services (IDHS)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Temporary Assistance for Needy Families Cluster
CFDA # and Program Expenditures: 93.558/93.714ARRA (\$739,806,000)
Award Numbers: G1001ILTANF/G1101ILTANF/Z0901ILTANF2/Z1001ILTANF2
Questioned Costs: Cannot be determined

Finding 11-06 *Inadequate Monitoring of TANF Cluster Subrecipient*

IDHS did not adequately monitor a subrecipient expending American Recovery and Reinvestment Act (ARRA) funding under the Temporary Assistance for Needy Families (TANF) Cluster program.

IDHS received a grant award of approximately \$249 million under the TANF Emergency Contingency Fund program. Approximately \$177 million dollars of this funding was expended by a single subrecipient to administer a State program known as Put Illinois to Work. The Put Illinois to Work program was designed to provide subsidized employment opportunities to eligible Illinois residents at approved work sites to assist each program participant in gaining new skills and work experience, as well as, providing for their families. The program was designed to operate over a six month period from April 1, 2010 to September 30, 2010 (the award period).

During our review of the monitoring procedures performed by IDHS with respect to the Put Illinois to Work program, we noted IDHS had not performed on-site fiscal monitoring reviews during the year ended June 30, 2011. Subsequent to year end, DHS internal audit performed an audit of the Put Illinois to Work program which include a review of the activities administered by IDHS' subrecipient. The following instances of subrecipient noncompliance were identified in the internal audit:

- Disallowed costs for administrative expenditures in the amount of \$267,649 due to improperly documented expenditures and unnecessary costs (flowers and gift cards).
- Disallowed costs for subsidized employment fees in the amount of \$41,476 due to missing or unsigned participant timesheets or other required work verification documents.
- Disallowed costs for participant placement fees in the amount of \$97,800 due to duplicate placement fees being claimed for participants with multiple participant numbers.

We also noted the subrecipient received expenditures based on a negotiated fee for the services provided; however, IDHS could not provide supporting documentation for the fee paid to the subrecipient. Additionally, the internal audit identified that the amounts paid to the sub contractor during the award period (\$174,435,041) exceeded actual program disbursements for the award period (\$157,353,573) by approximately \$17 million.

Amounts passed through to the subrecipient of the Put Illinois to Work program during the year ended June 30, 2011 totaled \$148,000,000.

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According to OMB Circular A-133____.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring on-site review procedures are performed in a timely manner and are designed to monitor applicable compliance requirements and related internal controls.

In discussing the conditions with IDHS officials, they stated the cause was due to a misunderstanding that the fee for service contract was not required to follow federal general and administrative requirements.

Failure to perform on-site monitoring reviews of subrecipients may result in subrecipients not properly administering the Federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 11-06)

Recommendation:

We recommend IDHS implement procedures to ensure on-site monitoring reviews are performed for subrecipients of the TANF Cluster program.

IDHS Response:

The Department has strengthened procedures and contractual language to ensure that contractors are aware of federal laws and regulations associated with federal programs and are in compliance with those regulations.

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State Agency: Illinois Department of Human Services (IDHS)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Social Services Block Grant
CFDA # and Program Expenditures: 93.667 (\$99,130,000)
Award Numbers: G-1001ILSOSR/G-1101ILSOSR/G0901ILSOS2
Questioned Costs: Cannot be determined

Finding 11-07 *Unallowable Costs Charged to the Title XX Program*

IDHS charged unallowable Home Services expenditures to the Social Services Block Grant (Title XX) program.

The Title XX program is comprised of a series of state operated programs designed to address the social service needs of the State. Illinois operates several programs, including the Illinois Home Services and Early Intervention programs, which have been designed to meet specific social services needs of Illinois residents. IDHS also transfers funds from the Temporary Assistance for Needy Families (TANF) Cluster program to the Title XX program. Funds transferred from the TANF Cluster are required to be used only for social service programs and services provided to children or their families whose income is less than 200% of the official poverty guidelines (Title XX earmarking requirement). As the eligibility criteria for the State's social service programs are often less stringent than the requirements of the TANF Cluster program, IDHS specifically identifies expenditures for individuals or families to meet the Title XX earmarking requirement.

During our testwork of 25 Home Services (totaling \$10,670) and 25 Early Intervention (totaling \$9,730) beneficiary payments, we reviewed supporting documentation to determine whether the payments tested were allowable and whether beneficiaries met the applicable eligibility criteria. We noted the following exceptions in our testing:

- Documentation could not be located to support one Home Services expenditure (totaling \$675) claimed under the Title XX program.
- Documentation could not be located to support one Home Services expenditure (totaling \$748) used to meet the Title XX earmarking requirement.
- Documentation supporting services provided to a Home Services beneficiary did not agree to the hours reimbursed for one expenditure (totaling \$260) claimed under the Title XX program. Specifically, we noted the time sheet provided to support these services included only 19.25 hours rather than the 23.25 hours claimed for reimbursement from the Title XX program. As a result, the Title XX program appears to have been overcharged by \$45.
- Documentation provided for one Early Intervention beneficiary, whose service expenditures were used to meet the Title XX earmarking requirement, identified the beneficiary's income exceeded 200% of the poverty level. As a result, the services provided to this beneficiary are not allowed to be used to meet the Title XX earmarking requirement. Payments made for services provided to this

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individual during the year ended June 30, 2011 that were used to meet the Title XX earmarking requirement totaled \$89.

Home Services expenditures claimed under the Title XX program approximated \$35 million during the year ended June 30, 2011. Early Intervention expenditures used to meet the Title XX earmarking requirement approximated \$13 million during the year ended June 30, 2011.

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

In accordance with 42 USC 604 (d)(3)(B), the State shall use all of the amount transferred in from TANF only for programs and services provided to children or their families whose income is less than 200% of the official poverty guideline as revised annually by USDHHS.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include maintaining adequate controls over beneficiary eligibility case files and related documentation.

In discussing these conditions with IDHS officials, they stated that the improper filing of Personal Assistant (PA) timesheets, as well as an oversight of mathematical error during the DRS staff review of the paper timesheet contributed to the discrepancies noted. In addition, the Early Intervention program changed the application used to process the expenditures. As a result, the edit that restricts households with income exceeding the Title XX specified income requirements was inadvertently omitted in the new system.

Failure to adequately document and support amounts claimed under the Title XX program and to ensure beneficiaries whose service expenditures are used to meet the Title XX earmarking requirement meet the income criteria results in noncompliance with federal regulations. (Finding Code 11-07)

Recommendation:

We recommend IDHS implement procedures to ensure all expenditures claimed under the Title XX program are adequately documented and agree to amounts claimed. We also recommend 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.

IDHS Response:

The Department agrees with the recommendation. The Department of Human Services, Division of Rehabilitation Services (DRS) will continue to work with program staff to make sure every payment has been checked by staff and filed appropriately in the case file. The Bureau of Early Intervention has 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.

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State Agency: Illinois Department of Human Services (IDHS)

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

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

CFDA # and Program Expenditures:

10.557 (\$225,992,000)
84.126/84.390ARRA (\$94,070,000)
93.558/93.714ARRA (\$739,806,000)
93.575/93.596/93.713ARRA (\$251,920,000)
93.667 (\$99,130,000)
93.959 (\$78,204,000)

Award Numbers: 2009IW1003SF/2009W500342/10W1003/10W1003SF/10W1006/10W1003SF/
(CFDA Number) 10W1006/10W500342/11W1003/11W1006/Z10CK202042 (10.557/10.578ARRA)
H126A090018A/H126A100018A/H126A110018A/ZH390A09A (84.126/
84.390ARRA)
G-1001ILTANF/G-1101ILTANF/Z-0901ILTANF2/Z-1001ILTANF2 (93.558/
93.714ARRA)
G-1001ILCCDF/G-1101ILCCDF/Z-0901ILCCD7 (93.575/93.596/93.713ARRA)
G-0901ILSOSR/G-1001ILSOSR/G-1101ILSOSR (93.667)
09B1ILSAPT /10B1ILSAPT/11B1ILSAPT (93.959)

Questioned Costs: None

Finding 11-08 *Inadequate Review of OMB Circular A-133 Audit Reports*

IDHS did not adequately review OMB Circular A-133 audit reports received from its subrecipients for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Vocational Rehabilitation Cluster, Temporary Assistance for Needy Families (TANF) Cluster, Child Care Development Fund (Child Care) Cluster, Social Services Block Grant (Title XX), and Block Grants for Prevention and Treatment of Substance Abuse (SAPT) programs on a timely basis.

Subrecipients who receive more than \$500,000 in federal awards are required to submit an OMB Circular A-133 audit report to IDHS. The Office of Contract Administration is responsible for reviewing these reports and working with program personnel to issue management decisions on any findings applicable to IDHS programs. A desk review checklist is used to document the review of the OMB Circular A-133 audit reports.

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We selected a total sample of 160 subrecipients to review from the above programs. During our review of the OMB Circular A-133 audit desk review files for our sample of subrecipients, we noted the following exceptions:

- Two subrecipients who received more than \$500,000 in federal funding from IDHS did not submit required single audit reports. Upon further review, we noted IDHS records did not indicate that a Single Audit was required, and as a result, follow up procedures were not performed to obtain required audit reports.
- One subrecipient submitted an annual report that did not comply with reporting requirements. Upon further review, we noted the A-133 desk review checklist completed for this report did not identify the reporting deficiencies, and as a result, IDHS did not notify the subrecipient of the reporting errors.

In addition, we noted IDHS did not notify three subrecipients of the results of A-133 audit desk reviews or issue management decisions on reported findings within six months of receiving the audit reports. Delays in reporting review findings and issuing management decisions for these subrecipients ranged from five to 119 days after the required time frame. Upon further review of the entire population of OMB Circular A-133 desk reviews completed by IDHS in fiscal year 2011 (424 reviews), we noted 31 desk reviews were not completed within six months of receipt and as a result management decisions were not issued within six months. These 31 reviews were completed as follows:

Desk Review Period	Number of Subrecipients
180-210 days after receipt	4
210-240 days after receipt	16
240 - 270 days after receipt	4
270+ days after receipt	7

IDHS' subrecipient expenditures under the federal programs for the year ended June 30, 2011 were as follows:

Program	Total Fiscal Year 2011 Subrecipient Expenditures	Total Fiscal Year 2011 Program Expenditures	%
WIC	\$213,841,000	\$225,992,000	94.6%
Vocational Rehabilitation Cluster	\$18,663,000	\$94,070,000	19.8%
TANF Cluster	\$339,393,000	\$739,806,000	45.9%
Child Care Cluster	\$203,559,000	\$251,920,000	80.8%
Title XX	\$44,487,000	\$99,130,000	44.9%
SAPT	\$74,375,000	\$78,204,000	95.1%

According to OMB Circular A-133 ___.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 compliance supplement, a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are

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completed within nine months of the end of the subrecipient's audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

In discussing the desk review process with IDHS officials, they stated that according to Department officials an inadequate prioritization, scheduling of audited financial statements received, and insufficient qualified staff contributed to discrepancies noted.

Failure to adequately obtain and review subrecipient OMB Circular A-133 audit reports in a timely manner could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement. Additionally, failure to issue management decisions within six months of receiving OMB Circular A-133 audit reports results in noncompliance with federal regulations. (Finding Code 11-08)

Recommendation:

We recommend IDHS establish procedures to ensure: (1) subrecipient A-133 audit reports are obtained and properly reviewed in a reasonable timeframe, (2) management decisions are issued for all findings affecting its federal programs in accordance with OMB Circular A-133, and (3) follow up procedures are performed to ensure subrecipients have taken timely and appropriate corrective action.

IDHS Response:

The Department agrees with the recommendation. The Office of Contract Administration is enhancing its review process for OMB Circular A-133 audit reports to ensure subrecipient A-133 audit reports are obtained and properly reviewed in a reasonable timeframe, management decisions are issued for all findings affecting its federal programs in accordance with OMB Circular A-133, and follow up procedures are performed to ensure subrecipients have taken timely and appropriate corrective action.

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State Agency: Illinois Department of Human Services (IDHS)

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

Program Name: Vocational Rehabilitation Cluster
Social Services Block Grant

CFDA # and Program Expenditures: 84.126/84.390 ARRA (\$94,070,000)
93.667 (\$99,130,000)

Award Numbers: H126A090018A/H126A100018A/H126A110018A/ZH390A09A (84.126/
(CFDA Number) 84.390 ARRA)
G-0901ILSOSR/G-1001ILSOSR/G-1101ILSOSR (93.667)

Questioned Costs: None

Finding 11-09 *Untimely Review of Programmatic On-Site Reviews and Communication of and Follow Up on Monitoring Findings*

IDHS did not follow its established policies and procedures for performing on-site monitoring reviews of subrecipients of the Vocational Rehabilitation Cluster and Social Services Block Grant (Title XX) programs.

IDHS has implemented procedures whereby program staff perform periodic reviews of IDHS subrecipient compliance with state and federal regulations applicable to the programs administered by IDHS. Generally, these reviews are formally documented and include the issuance of a report of the review results to the subrecipient summarizing the procedures performed, results of the procedures, and any findings or observations for improvement noted. IDHS' policies require the subrecipient to respond to each finding by providing a written corrective action plan.

During our testwork over on-site review procedures performed for 80 subrecipients (40 for each program) of the Vocational Rehabilitation Cluster and Title XX programs, we noted IDHS did not follow its established on-site monitoring procedures as follows:

- One subrecipient of the Vocational Rehabilitation Cluster program was identified as having been subject to on-site monitoring procedures during fiscal year 2011; however, IDHS could not provide documentation supporting a review had been performed.
- One subrecipient of the Vocational Rehabilitation Cluster program was required to have an on-site monitoring review performed in fiscal year 2011 based on IDHS' planned monitoring cycle; however, a review was not performed by IDHS.
- Two subrecipients of the Title XX program did not receive timely notification of the results of on-site program reviews. On-site monitoring review findings for these subrecipients were not reported for 210 and 267 days after on-site monitoring procedures were conducted.

Amounts passed through to subrecipients of the Vocational Rehabilitation Cluster and Title XX programs during the year ended June 30, 2011 totaled \$18,663,000 and \$44,487,000.

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According to OMB Circular A-133____.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring on-site review procedures are performed in a timely manner and are designed to monitor fiscal controls.

In discussing the conditions with IDHS officials, they stated that the issues associated with the Division of Rehabilitation Services (DRS) programs occurred during the change in project officers where previously completed on site reports were not transferred to the new project officer or the scheduling for the next on site was not appropriately communicated to the new staff taking over the contract monitoring responsibilities. In addition, inadequate tracking and monitoring of Donated funding awards and site visits in the Division of Alcohol and Substance Abuse (DASA) contributed to the discrepancies noted.

Failure to adequately perform and document on-site monitoring reviews of subrecipients and notify subrecipients of findings in a timely manner may result in subrecipients not properly administering the Federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 11-09)

Recommendation:

We recommend IDHS ensure programmatic on-site reviews are performed and documented for subrecipients in accordance with established policies and procedures. In addition, we recommend IDHS review its process for reporting and following up on findings relative to subrecipient on-site reviews to ensure timely corrective action is taken.

IDHS Response:

The Department agrees with the recommendation. The Division of Rehabilitation Services (DRS) and the Division of Alcohol and Substance Abuse (DASA) will implement a process to ensure programmatic on-site reviews are performed and documented for subrecipients in accordance with established policies and procedures. The Divisions will also review its process for reporting and following up on findings relative to subrecipient on-site reviews to ensure timely corrective action is taken.

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State Agency: Illinois Department of Human Services (IDHS)
Federal Agency: US Department of Agriculture (USDA)
Program Name: Special Supplemental Nutrition Program for Women, Infants, and Children

CFDA # and Program Expenditures: 10.557 (\$225,992,000)

Award Numbers: 2009IW1003SF/2009W500342/10W1003/10W1003SF/10W1006/10W1003SF/
 10W1006/10W500342/11W1003/11W1006/Z10CK202042

Questioned Costs: None

Finding 11-10 *Inaccurate Reporting of Federal Expenditures*

IDHS did not accurately report Federal expenditures under the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program.

IDHS inaccurately reported federal expenditures to the Illinois Office of the Comptroller (IOC) which were used to prepare the schedule of expenditures of federal awards (SEFA). Specifically, we noted the following difference for the WIC program during the year ended June 30, 2011:

Program	Federal Expenditures Reported on the SEFA	Federal Expenditures Originally Reported on the SEFA	Difference
WIC	\$ 225,992,000	\$ 214,103,000	\$ 11,889,000

According to OMB Circular A-133 §__300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the SEFA. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure federal expenditures are accurately reported on the SEFA.

In discussing this with IDHS officials, they stated ongoing staffing shortages have forced the Department to rely more heavily on outside contractors in preparing GAAP reporting deliverables. They also stated that recent staff turnover has left the Department with fewer individuals who are familiar with the grants and other activities accounted for in funds administered by the Department.

Failure to accurately report federal expenditures prohibits the completion of an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 11-10)

Recommendation:

We recommend IDHS establish procedures to accurately report federal expenditures used to prepare the SEFA to the IOC.

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IDHS Response:

The Department will implement procedures to accurately report federal expenditures used to prepare the SEFA to the IOC.

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State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: US Department of Education (USDE)

Program Name: Vocational Rehabilitation Cluster

CFDA # and Program Expenditures: 84.126/84.390ARRA (\$94,070,000)

Award Numbers: H126A090018A/ H126A100018A/ H126A110018A/ ZH390A09A

Questioned Costs: \$8,736

Finding 11-11 *Failure to Determine Eligibility In Accordance with Program Regulations*

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

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

- For two cases, IDHS could not provide the customer financial analysis form signed by the case worker and beneficiary; however, unsigned electronic forms were provided from the case management system. Payments made on the behalf of these beneficiaries during the year ended June 30, 2011 were \$18,182. The payments selected in our sample for these beneficiaries were \$10,322.
- For two cases, IDHS could not provide the Individualized Plan for Employment (IPE) signed by the case worker and beneficiary; however, unsigned electronic IPE's were provided from the case management system. Payments made on the behalf of these beneficiaries during the year ended June 30, 2011 were \$104,881. The payments selected in our sample for these beneficiaries were \$977.
- For one case, IDHS could not provide the approved Individual Plan Employment (IPE) that covered the services provided and paid on behalf of the beneficiary for the fiscal year under audit. Payments made on the behalf of this beneficiary during the year ended June 30, 2011 were \$8,736. The payment selected in our sample for this beneficiary was \$1,068.

Payments made to beneficiaries of the Vocational Rehabilitation Cluster program totaled \$19,032,000 during the year ended June 30, 2011.

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

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

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ensure beneficiary eligibility determinations are performed and documented in accordance with program regulations.

In discussing these conditions with IDHS officials, they stated that this issue arose from program staff who failed to print, sign and file necessary paper forms documenting eligibility determination and approved services. In addition, in one case, a computer system issue resulted in an Individual Plan for Employment (IPE) that has incorrect dates for one service.

Failure to properly determine and document the allowability of costs in accordance with program regulations may result in costs inconsistent with program objectives being claimed to federal programs. (Finding Code 11-11)

Recommendations:

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

IDHS Response:

The Department agrees with the recommendation. The Department of Human Services, Division of Rehabilitation Services (DRS) will continue to enhance its process to ensure every case has all of the documentation required signed and included in the case file and that the Individual Plans for Employment (IPE's) are current at the time of an expenditure.

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State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: US Department of Education (USDE)

Program Name: Vocational Rehabilitation Cluster

CFDA # and Program Expenditures: 84.126/84.390ARRA (\$94,070,000)

Award Numbers: H126A090018A/ H126A100018A/ H126A110018A/ ZH390A09A

Questioned Costs: \$2,989,142

Finding 11-12 *Failure to Meet Maintenance of Effort Requirements*

IDHS did not meet the maintenance of effort (MOE) requirements for the Vocational Rehabilitation Cluster program.

As a condition of receiving federal funds under the Vocational Rehabilitation Cluster program, the State is required to maintain a level of “qualified” state funded expenditures that is equal to or greater than those same expenditures in the fiscal year two years prior to the fiscal year being measured. Accordingly, the MOE expenditures for the federal fiscal year ended September 30, 2010 (\$31,921,221) were required to meet or exceed the MOE expenditures from the federal fiscal year ended September 30, 2008 (\$34,910,363). As the federal fiscal year 2010 expenditures were \$2,989,142 less than the 2008 MOE expenditures, the State did not meet the MOE requirement and IDHS did not submit a request for a waiver of the MOE requirement to USDE.

In accordance with 34 CFR section 361.62, the Secretary reduces the amount otherwise payable to a State for a fiscal year by the amount by which the total expenditures from non-Federal sources under the State plan for the previous fiscal year were less than the total of those expenditures for the fiscal year two years prior to the previous fiscal year. In addition, a written request for waiver or modification, including supporting justification, must be submitted to the Secretary as soon as the State determines that an exceptional or uncontrollable circumstance will prevent it from making its required expenditures from non-Federal sources.

In addition, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the program maintenance of effort requirement is met.

In discussing these conditions with IDHS officials, they stated that the federal fiscal year 2008 Federal award was overmatched by the Division of Rehabilitation Services (DRS). As a result, this created an artificially high and unsustainable Maintenance of Effort (MOE) level.

Failure to meet the maintenance of effort requirement for the Vocational Rehabilitation Cluster results in noncompliance with program regulations. (Finding Code 11-12)

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Recommendation:

We recommend IDHS review its current process for monitoring its MOE requirement and consider changes necessary to ensure the MOE requirement is met.

IDHS Response:

The Department agrees with the recommendation. The Division of Rehabilitation Services (DRS) will review its current process for monitoring its Maintenance of Effort (MOE) requirement and consider changes necessary to ensure the MOE requirement is met.

It is important to note that the Federal Department of Education calculated the MOE penalty at \$1,923,136. Further, after assessing the Illinois Vocational Rehabilitation (VR) program with \$1,923,136 MOE penalty, the Federal Department of Education also provided the agency with \$4.6M in re-allotment funds, based on a re-allotment request that factored in the MOE penalty.

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State Agency: Illinois Department of Human Services (IDHS)
Federal Agency: US Department of Education
Program Name: Vocational Rehabilitation Cluster
CFDA # and Program Expenditures: 84.126/84.390 ARRA (\$94,070,000)
Award Numbers: H126A090018/H126A100018/H126A110018/H390A090018
Questioned Costs: None

Finding 11-13 *Inaccurate Financial Reports for the Vocational Rehabilitation Cluster*

IDHS did not prepare accurate periodic financial reports for the Vocational Rehabilitation Cluster program.

IDHS is required to prepare quarterly financial status (SF-269 and SF-425) reports for each of its open Vocational Rehabilitation Cluster grant awards. In addition, IDHS is required to prepare an annual RSA-2 Program Cost (RSA-2) report for the program as a whole. During our testwork, we noted several errors in the reports selected for testwork as described below.

During our testwork over two quarterly financial status reports for each open grant award, we noted IDHS improperly reported required financial information as follows:

Report Type	Grant Year	Quarter Ended	Report Line Item	Reported Amount	Actual Amount	Difference Over (Under) -stated
SF-269	2009	9/30/10	Undisbursed Program Income	\$6,093,613	\$ –	\$6,093,613
SF-425	2010	9/30/10	Total Federal Share	\$31,561,731	\$32,461,731	(\$900,000)
SF-425	2011	3/31/11	Total Federal Program Income Earned	\$58,997	\$45,258	\$13,739

Additionally, during our testwork over the RSA-2 report for the federal fiscal year ended September 30, 2010, we noted IDHS understated expenditures reported for the following line items:

Expenditure Line Item	Reported Expenditures	Actual Expenditures	Difference
Small Business Enterprises	\$845,669	\$891,944	(\$46,275)
Rehabilitation Technology	\$5,004,299	\$6,237,257	(\$1,232,958)

According to 34 CFR 361.40, the State must comply with the requirements necessary to ensure the accuracy and verification of reports required to be submitted for the program. In addition, the A-102

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Common Rule requires non-federal entities receiving Federal Awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure expenditures are accurately reported in the program cost report.

In discussing these conditions with IDHS officials, they stated that this occurred due to a typographical error in entry into one of the worksheets used to produce the Rehabilitation Services Administration (RSA-2) report and the federal submission website.

Failure to accurately prepare financial reports prevents the USDE from effectively monitoring the Vocational Rehabilitation Cluster program. (Finding Code 11-13, 10-11)

Recommendation:

We recommend IDHS review the process and procedures in place to prepare financial reports required for the Vocational Rehabilitation Cluster and implement procedures necessary to ensure the reports are accurate.

IDHS Response:

The Division of Rehabilitation Services will implement a more comprehensive supervisory review of data used in the completion of the Rehabilitation Services Administration Report (RSA-2) and Federal Financial Report (SF4-25) prior to submission.

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State Agency: Illinois Department of Human Services (IDHS)

Federal Agency: US Department of Education (USDE)

Program Name: Vocational Rehabilitation Cluster

CFDA # and Program Expenditures: 84.126/84.390 ARRA (\$94,070,000)

Award Numbers: H126A090018/H126A100018/H126A110018/H390A090018

Questioned Costs: None

Finding 11-14 Untimely Submission of Financial Reports

IDHS does not have a process in place to ensure financial reports are prepared and submitted within required timeframes for the Vocational Rehabilitation (VR) Cluster program.

IDHS is required to prepare various periodic financial reports relative to open awards under the Vocational Rehabilitation Cluster program. These financial reports are required to be prepared on a quarterly and an annual basis based upon the terms and conditions of the awards.

During our testwork over financial reports required to be submitted during fiscal year 2011 for the Vocational Rehabilitation Cluster program, we selected two quarterly financial status (SF-269 and SF-425) reports for all open Vocational Rehabilitation Cluster grants and the annual RSA-2 report submitted during the year ended June 30, 2011 to review for compliance with reporting requirements. We noted several of the reports tested were not submitted within the required timeframes. Specifically, we noted the following exceptions in our testwork:

Report Type	Reporting Period Tested	Report Due Date	Report Submission Date	Number of Days Late
VR Quarterly SF-269 Grant H126A090018	7/1/10 – 9/30/10	10/30/2010	3/1/2011	122
VR Quarterly SF-425 Grant H126A100018	7/1/10 – 9/30/10	10/30/2010	3/1/2011	122
VR Quarterly SF-269 Grant H390A090018 (ARRA)	7/1/10 – 9/30/10	10/30/2010	3/31/2011	152
VR Quarterly SF-269 Grant H390A090018 (ARRA)	1/1/11 – 3/31/11	4/30/2011	6/8/2011	39
VR Quarterly SF-425 Grant H126A190018	1/1/11 – 3/31/11	4/30/2011	7/26/2011	87
VR Quarterly SF-425 Grant H126A110019	1/1/11 – 3/31/11	4/30/2011	6/6/2011	37
VR Annual RSA-2 Cost Report	10/1/09 – 9/30/10	12/31/2010	3/2/2011	61

In accordance with 34 CFR 80.41(b)(3)(4), the quarterly financial status reports (SF-269 and SF-425) are required to be submitted by the grantee within thirty days of the end of each grant quarter. In accordance with the Policy Directive RSA-PD-09-04, the RSA-2 Annual Vocational Rehabilitation Program Cost

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Report must be forwarded to the RSA Regional Office serving the State by no later than December 31st following the close of each federal fiscal year.

In discussing these conditions with IDHS officials, they stated that delays in submission of the Federal reports were due to changes in the data elements required to be reported. The conversion of federal financial status reports from SF-269 forms to SF-425 forms, which required changes in data collection for particular elements, resulted in data elements from not being available in time to meet the required timeframes.

Failure to prepare and submit reports in a timely manner inhibits the ability of federal agencies to properly monitor and evaluate the performance of the programs. (Finding Code 11-14, 10-10)

Recommendation:

We recommend IDHS implement procedures to ensure all financial reports are submitted within the established deadlines. We also recommend IDHS implement standardized procedures to monitor reporting requirements and submissions.

IDHS Response:

The Department agrees with the recommendation. Processes are being developed to monitor reporting requirements and submissions. A staff position has been created to ensure that federal reports are submitted within the established deadlines.

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State Agency: Illinois Department of Revenue (IDOR)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Temporary Assistance for Needy Families
CFDA # and Program Expenditures: 93.558 (\$739,806,000)
Award Numbers: G1001ILTANF/G1101ILTANF/Z0901ILTANF2/Z1001ILTANF2
Questioned Costs: Cannot be determined

Finding 11-15 *Inadequate Process for Determining the Allowability of Earned Income Credits*

IDOR has not established adequate procedures to determine whether earned income tax credits claimed under the Temporary Assistance for Needy Families Cluster (TANF) program meet the federal allowability criteria.

The State of Illinois, through IDOR, has established an earned income tax credit program to provide a tax refund to low income families residing in Illinois. Certain amounts refunded to taxpayers under this program are claimed by the Illinois Department of Human Services (IDHS) under the TANF program. To be allowable for claiming under TANF, the earned income tax credit must be determined in accordance with the State's earned income tax credit regulations and must be disbursed to the taxpayer through a refund. IDHS and IDOR have executed an interagency agreement which requires IDOR to identify and periodically report to IDHS the tax credits which qualify for claiming under the federal TANF program.

During our testwork, we noted IDOR's procedures for verifying the validity of taxpayer's earned income tax credit claims with federal tax returns are not completed prior to paying refunds to taxpayers or preparing the earned income tax credit claiming report for IDHS. Without this information, IDOR relies solely on limited data edits designed to verify the mathematical accuracy of the return and to identify individuals who may not meet the earned income tax credit criteria. The data verification procedures are not performed until the middle of the following year and have historically resulted in adjustments to amounts previously claimed.

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

- The population of earned income tax credits claimed under the TANF program during the year ended June 30, 2011 included 1,956 transactions (totaling \$194,940) that had been flagged by IDOR for not having a valid W-2 form on file as questionable and requiring further taxpayer correspondence or investigation to support the taxpayer's return. In discussing this issue with IDOR officials, IDOR responded that they only consider the validity of a taxpayer's W-2 in

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- determining whether to allow claimed State withholding credits, but not to determine whether the taxpayer may or may not have had earned income during the tax year.
- The population of earned income tax credits claimed under the TANF program during the year ended June 30, 2011 included 2,139 transactions (totaling \$169,191) refunded to a taxpayer with an address outside of the State of Illinois who was not serving in the military. IDOR's practice is to process returns showing out-of-State addresses as Illinois residents, unless the filer checks a box indicating that they are a part-year resident or non-resident. As a result, IDOR had not determined whether or not the earned income tax credits for these taxpayers were allowable under the TANF program. In discussing this issue with IDOR officials, they stated that IDOR does not use the taxpayer's address or compare to other State databases to determine that a TANF claim was a resident of the State.
 - The population of earned income tax credits included 2,691 negative adjustments (totaling \$200,519) and 20 positive adjustments (totaling \$1,168) which did not have a date associated with the adjustment. Upon further review of these adjustments with Agency officials, we noted these adjustments appear to be transferring amounts claimed between taxpayer identification numbers as a result of identifying the original social security number was invalid or incorrect. We tested three negative adjustments (totaling \$293) which did not have a date associated with the adjustment in our sample of 50 adjustments.

Earned income tax credits claimed under the TANF program were \$16,432,000 during the year ended June 30, 2011.

According to 45 CFR 260.33(b), only the refundable portion of a State or local tax credit is considered to be an allowable expenditure. The refundable portion that may be counted as expenditure is the amount that exceeds a family's State income tax liability prior to the application of the earned income tax credit. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure expenditures meet the applicable program allowability criteria prior to claiming.

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

Failure to establish effective procedures to ensure expenditures claimed under federal programs meet allowability requirements results in unallowable costs. (Finding Code 11-15, 10-12, 09-14, 08-16, 07-24, 06-20, 05-31)

Recommendation:

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

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IDOR Response:

The Department of Revenue disagrees with the basis of the finding, but is continuously looking for ways to improve the TANF claiming process. The underlying issue is twofold:

1. The Department pays the refundable earned income credit before it is possible to verify that the federal Earned Income Credit (EIC) has been paid by the IRS,
2. The Department requests the draw-down of TANF match for the refundable portion of the tax refund before it is possible to verify that the federal Earned Income Credit has been paid.

Federal Health and Human Services (HHS) policy administrators in Washington D.C. validated the Department's process in 2006. The communication, which was approved by the Director of State TANF Policy, states: "The State has a reasonable verification process in place. Tax claims are checked against tax returns. Then reconciliation/validation of the tax claim occurs subsequent to actual payment of the refundable portion of the credit – the usual and customary method of reconciliation of tax issues."

The Department pays the Illinois EIC based on the information reported on the taxpayer's Illinois 1040 filing, before the IRS has shared the federal EIC information, and works with the Illinois Department of Human Services to periodically draw-down federal funds to replenish the Income Tax Refund Fund, which had a \$1.64 billion fund deficit at June 30, 2011. Any delay in the draw-down process would increase the deficit in the Income Tax Refund Fund and delay payment of approved refunds to taxpayers.

The Department does not receive the IRS report on federal EICs paid to Illinois taxpayers until October or November of each year. Based on this report, when the IRS has made changes to what the taxpayer originally claimed, the Department bills the taxpayer and adjusts the draw-down accordingly. As a result, at the conclusion of the process, no TANF funds were utilized for ineligible EIC payments.

In addition, it should be noted that the three bullet points referenced by the auditor only identified "population of transactions" and the auditor did not perform procedures to verify if these transactions were invalid TANF EIC payments.

In conclusion, the Department does not believe it is reasonable to require taxpayers to wait for federal data to be available in order to receive the TANF portion of their refund; the Department believes that splitting a tax refund into two payments would be inefficient use of State resources and confusing to the taxpayer.

Auditors' Comment:

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

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

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

Program Name: Children’s Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$281,837,000)
93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: 05-0905ILCPBP/05-1005ILCPBP/05-1105IL5021 (93.767)
(CFDA Number) 05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN (93.720ARRA/93.775/
93.777/93.778/93.778ARRA)

Questioned Costs: Cannot be determined

Finding 11-16 *Inadequate Procedures for Performing Eligibility Redeterminations*

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

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.

According to DHFS and IDHS records, the following number of cases and related beneficiary payments were subject to the passive redetermination policy administered:

	Number of Redeterminations	Beneficiary Payments
Medicaid	217,432	\$439,270,535
CHIP	21,914	\$46,136,695
Total	239,346	\$485,407,230

Payments made on the behalf of beneficiaries of the CHIP and Medicaid programs were \$253,496,000 and \$8,891,667,000 during the year ended June 30, 2011.

In accordance with 42 USC 1397bb, 42 CFR 435.10, and the OMB Circular A-133 Compliance Supplement, dated March 2011, the State is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plans for the Medicaid and CHIP programs. The current State Plans require redeterminations of eligibility for all recipients on an annual basis. According

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to 42 CFR 435.916(b) the State is required to implement procedures designed to ensure that recipients make timely and accurate reports of any change in circumstances that may affect their eligibility. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure eligibility redeterminations are performed in accordance with the State Plan and federal regulations.

In discussing these conditions with DHFS officials, they stated that they were still working with federal CMS to develop redetermination procedures that would insure program integrity without violating Maintenance of Effort (MOE) requirements under the Affordable Care Act (ACA). 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 implement appropriate eligibility redetermination procedures in accordance with the State Plans may result in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 11-16, 10-13, 09-15, 08-17, 07-25)

Recommendation:

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

DHFS Response:

The Department accepts the recommendation. DHFS is working with federal CMS 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 (ACA). DHFS is also working with DHS to establish electronic data matches to verify eligibility. 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.

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

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

Program Name: Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$281,837,000)
93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: 05-0905ILCPBP/05-1005ILCPBP/05-1105IL5021 (93.767)
(CFDA Number) 05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN (93.720ARRA/93.775/
93.777/93.778/93.778ARRA)

Questioned Costs: Cannot be determined

Finding 11-17 Missing Documentation in Beneficiary Eligibility Files

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

During our testwork of 65 CHIP and 125 Medicaid beneficiary payments totaling \$74,511 and \$121,458, respectively, we selected eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits provided. We noted the following exceptions:

- In five CHIP case files and one Medicaid case file (with medical payments sampled of \$266 and \$123, respectively), DHFS could not locate the supporting documentation of the redetermination completed and signed by the beneficiary. Medical payments made on behalf of these beneficiaries under the CHIP and Medicaid programs were \$5,666 and \$259, respectively, during the year ended June 30, 2011.
- In two CHIP case files (with medical payments sampled of \$64), DHFS could not locate adequate documentation evidencing income verification procedures were performed. In lieu of collecting copies of pay stubs to verify income, the caseworkers verbally confirmed income information, relied on client handwritten notes, or used income verified on previous applications. Medical payments made on behalf of these beneficiaries under the CHIP program were \$54,934 during the year ended June 30, 2011.
- In one CHIP case file (with a medical payment sampled of \$16), DHFS could not locate adequate documentation evidencing the social security number of the beneficiary was verified. Medical payments made on behalf of this beneficiary under the CHIP program were \$1,413 during the year ended June 30, 2011.

Payments made on behalf of beneficiaries of the CHIP and Medicaid Cluster programs totaled \$253,496,000 and \$8,891,667,000 respectively, during the year ended June 30, 2011.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost

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reimbursement contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria require, among other things, that each expenditure must be adequately documented.

In accordance with 42 USC 602(a)(1)(B)(iii), 42 CFR 431.10, and the OMB Circular A-133 Compliance Supplement, dated March 2011, DHFS is required to determine client eligibility in accordance with eligibility requirements defined in the approved State Plan. The current State Plans require redeterminations of eligibility for beneficiaries on an annual basis. Further, 42 CFR 435.910 requires Medicaid and CHIP recipients to provide social security numbers to verify income. Additionally, 42 CFR 435.907 requires a signed application to be on file for all beneficiaries of the Medicaid and CHIP programs.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include maintaining adequate controls over beneficiary eligibility case files and related documentation.

In discussing these conditions with DHFS officials, they stated the current passive renewal process does not require verification of income and some electronic matches do not create a hard copy document to place in the file.

Failure to maintain client applications for benefits and/or source documentation for redetermination/income verification procedures performed may result in inadequate documentation of a recipient's eligibility and in federal funds being awarded to ineligible beneficiaries, which are unallowable costs. (Finding Code 11-17, 10-14, 09-16)

Recommendation:

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

DHFS Response:

The Department accepts the recommendation. DHFS is working with DHS to establish electronic data matches for various factors of eligibility and are moving towards electronic case records. 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.

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For Year Ended June 30, 2011

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

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

Program Name: Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$281,837,000)
93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: 05-0905ILCPBP/05-1005ILCPBP/05-1105IL5021 (93.767)
(CFDA Number) 05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN (93.720ARRA/93.775/
93.777/93.778/93.778ARRA)

Questioned Costs: Cannot be determined

Finding 11-18 Failure to Pay Medical Claims within Prescribed Timeframes

DHFS is not paying practitioner medical claims for individuals receiving benefits under the Children's Health Insurance Program (CHIP) and Medicaid 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.

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

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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.

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

In discussing these conditions with DHFS officials, they stated the agency's medical payment pull parameters were established to allow payments within the prescribed timeframes and that agency staff engaged in routine discussions with employees of the Illinois Office of the Comptroller regarding actual payment of medical bills. State cash-flow limitations were the essential reason why some medical bills may not have been paid within the federally prescribed timeframes.

Failure to pay medical claims in accordance with the required timeframes may result in unallowable costs being charged to the program. (Finding Code 11-18, 10-15, 09-17, 08-19)

Recommendation:

We recommend 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.

DHFS Response:

The Department accepts the recommendation. DHFS established internal medical payment pull parameters to allow payments within the prescribed federal timeframes. During the ARRA period, the Comptroller also prioritized Medicaid claims to achieve compliance with the regulations as allowable by available cash resources. During fiscal year 2011, the State was in compliance with the claims processing requirements all but 10 days, resulting in a receipt of \$1.27 billion in all funds ARRA-enhanced federal match on its Medical Assistance program. In the scope of the entire Medical Assistance budget, the number of instances (10 days, resulting in \$11.4 million of lost federal reimbursement) where timely payment did not occur was not considered significant. The Department 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.

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For Year Ended June 30, 2011

State Agency: Illinois Department of Healthcare and Family Services (DHFS)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Medicaid Cluster
CFDA # and Program Expenditures: 93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)
Award Numbers: 05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN
Questioned Costs: None

Finding 11-19 *Failure to Disburse Hospital Assessment Payments in Accordance with the State Plan*

DHFS did not disburse hospital assessment payments in accordance with the State Plan for the Medicaid Cluster program.

The State operates a Hospital Assessment Program under which the State is allowed to claim federal reimbursement for services paid with eligible healthcare provider taxes collected by the State. On an annual basis, each participating hospital receives a hospital assessment award calculated by DHFS using inpatient utilization data specific to the hospital. The approved State Plan in effect during fiscal year 2011 requires these annual awards to be paid by the State in equal installments on the seventh business day of each month.

During our testwork over hospital assessment payments, we noted disbursements were not made in equal monthly installments during the year ended June 30, 2011. Specifically, we noted DHFS disbursed all hospital assessment funds in four equal installments in July, August, September, and October 2010. Total payments made to providers under the Hospital Assessment Program totaled \$1,483,036,000 during the year ended June 30, 2011.

According to 42 USC 602(a)(1)(B)(iii), 42 CFR 431.10, and the OMB Compliance Supplement, dated March 2011, the Hospital Assessment Program is required to be administered in accordance with the requirements defined in its approved State Plan. In accordance with the approved Medicaid State Plan, the annual amount of each hospital assessment payment for which a hospital qualifies shall be made in twelve equal installments on or before the seventh State business day of each month. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure monthly hospital assessment payments are disbursed in accordance with the Medicaid State Plan.

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In discussing these conditions with DHFS officials, they stated the payments in question were made in accordance with State Statute. However, it was not realized that the approved State Plan Amendment did not include similar language allowing for flexibility in payment timing.

Failure to disbursement monthly hospital assessment payments in accordance with the Medicaid State Plan results in noncompliance with the federal regulations. (Finding Code 11-19, 10-16)

Recommendation:

We recommend DHFS implement procedures to ensure hospital assessment payments are disbursed in accordance with the Medicaid State Plan.

DHFS Response:

The Department accepts the recommendation and will make payments in accordance with the approved State Plan Amendment.

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For Year Ended June 30, 2011

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

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

Program Name: Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$281,837,000)
93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: 05-0905ILCPBP/05-1005ILCPBP/05-1105IL5021 (93.767)
(CFDA Number) 05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN (93.720ARRA/93.775/
93.777/93.778/93.778ARRA)

Questioned Costs: None

Finding 11-20 *Failure to Initiate, Complete, and Report Overpayments Identified in Provider Audits in a Timely Manner*

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

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

During our testwork over 50 providers recommended by the OIG for audit, we noted there were significant time delays between the date DHFS determined a provider audit should be performed and the start date of the audit. Specifically, we noted 14 of the 50 provider audits tested had not been completed as of the date of our testwork. The number of days that had elapsed between the date the provider was recommended for audit and the date of our testwork (October 24, 2011) ranged from 229 to 888 days. For the 36 provider audits completed, we noted the number of days that had elapsed between the dates the provider was recommended for audit and the audit start date ranged from 10 to 480 days.

We also noted 11 provider audits were not completed in a timely manner. Specifically, the length of time to perform the 36 completed provider audits selected in our testwork ranged from 18 to 354 days. The provider audits were completed as follows:

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For Year Ended June 30, 2011

Timeframe	Number of Provider Reviews
0-44 days after audit start date	1
45-90 days after audit start date	7
91-120 days after audit start date	7
121-150 days after audit start date	3
151-180 days after audit start date	7
180 + days after audit start date	11

In addition, based on information provided by a USDHHS audit and procedures performed during our audit, we noted DHFS does not report overpayments identified by the DHFS OIG on its quarterly financial reports unless they have been recovered. Specifically, DHFS has not reported Medicaid overpayments identified by the DHFS OIG that were unsettled or in the appeals process until the settlement or final administrative decision was finalized. The USDHHS audit report identified \$9,086,779 of overpayments sampled from the period from January 1, 2007 to September 30, 2009 were not reported on quarterly financial expenditure reports in accordance with federal requirements, and consequently, were not returned to the federal government. Further, during our audit procedures, we noted an overpayment in the appeals process that was identified June 8, 2007 and not reported on quarterly financial reports totaling \$14,800,000 during the year ended June 30, 2011.

According to 42 CFR 455.17, the OIG is required to report on the results of its activities and investigations periodically. The OIG has a responsibility to investigate violations of the applicable laws, follow up on complaints, and perform provider audits. In accordance with State Medicaid Director Letter #10-014, the State Medicaid agency is required to refund the Federal share of an overpayment to a provider up to one year after the date of discovery, whether or not the State Medicaid agency has recovered the overpayment. Because the Medicaid quarterly financial expenditure report is due on a quarterly basis, the *State Medicaid Manual* requires the Federal share of overpayments be reported no later than the quarter in which the one year period ends.

Additionally, the A-102 Common Rule Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Effective internal control should include procedures to ensure provider analysis and audits are performed and completed in a timely manner. Effective internal controls should also include procedures to ensure overpayments are reported on the quarterly financial expenditure reports and returned to the federal government.

In discussing these conditions with DHFS officials, they stated that of the 14 audits in progress and cited for untimely completion, 10 were DRG audits. The DRG audit was a new type of audit for the OIG, which was complicated to complete and required different auditing techniques. This included utilization of new external contract Vendors, slow progress to ensure correctness, and revisions of submitted audits. In addition, repricing of claims for DRGs are complicated as add-ons and outliers affect the payment. Claim information must be fed through a software package to reprice the claim, which was handled by another division within the agency, with frequent delays due to manpower shortages. Lastly, the use of extrapolation techniques for these DRG audits had to be verified in order to justify the large dollar claims frequently associated with lower confidence limit issues.

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Of the remaining four audits, the completion of one audit was delayed due to a computer programming issue which resulted in an improper calculation of the extrapolation. The audit remained open until the programming error could be identified and corrected.

In addition, in relation to the overpayments and based on information provided by a USDHHS audit, DHFS had an unwritten policy, based on prior verbal clarification from regional federal CMS staff on when the actual overpayment is established, of reporting overpayments not involving fraud or abuse when the provider appeals process was completed, rather than at the end of the 60-day period following discovery.

Failure to initiate, perform, and report overpayments identified in provider audits in a timely manner may result in federal funds being expended for unallowable purposes and may prevent the State from adequately monitoring payments to providers. (Finding Code 11-20, 10-17, 09-18, 08-20)

Recommendation:

We recommend DHFS implement procedures to ensure provider audits are performed and completed in a timely manner. We also recommend DHFS implement procedures to report overpayments on its quarterly reports and remit the federal share of overpayments in accordance with federal regulations.

DHFS Response:

The Department accepts the recommendation. In relation to the timeliness of the DRG auditing process, the OIG has acquired the grouper software necessary to perform the DRG re-pricing calculations within the OIG. Moreover, with their increased familiarity in conducting DRG audits, the Vendors have presently improved to the point where they are producing accurate and completed audits in an acceptable timeframe.

In relation to the timeliness of non-DRG audits, the Department has instituted additional internal tracking controls, allowing us to more closely monitor open audits.

In relation to the total overpayment established for the 24 cases HHS-OIG cited, the amount has been reduced to \$9,068,181.02, of which the Federal share has been refunded through the CMS-64 process. Five of the overpayments had already been reported on the CMS-64 report prior to the conclusion of this audit, One case will not be reported as the overpayment was reduced to \$0 through the administrative hearing process. The remaining 18 overpayments have been established in PAAS and were reported on the CMS-64 quarter ending March 31, 2012. The OIG has revised their procedures to ensure the Federal share of all provider overpayments are refunded in compliance with federal requirements.

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For Year Ended June 30, 2011

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

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

Program Name: Children’s Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$281,937,000)
93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: 05-0905ILCPBP/05-1005ILCPBP/05-1105IL5021 (93.767)
(CFDA Number) 05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN (93.720ARRA/93.775/
93.777/93.778/93.778ARRA)

Questioned Costs: None

Finding 11-21 *Untimely Completion of Medicaid Eligibility Quality Control Reviews*

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

The DHFS Office of the Inspector General (OIG) is responsible for performing and reporting the results of quality control reviews of beneficiary eligibility determinations performed by the State for the Medicaid and CHIP programs. In place of the traditional MEQC program, the OIG participates in various MEQC pilot programs which target specific eligibility risk areas. Those pilot programs include an Illinois Healthy Women Review and Illinois Mom’s & Babies Review. Additionally, the OIG performs an annual MEQC Negative Review in which eligibility is review for a sample of active Medicaid Cluster beneficiary cases. These reviews are designed to assist the State in monitoring the accuracy of eligibility determinations and the appropriateness of medical payments made on the behalf of beneficiaries. The results of these reviews are required to be reported to the Center for Medicare and Medicaid Services (CMS) within ten months of the end of the applicable fiscal year.

During our review of the 1,648 pilot program reviews completed in fiscal year 2011, we noted 6 reviews were not completed within a reasonable timeframe. Specifically, we noted the reviews were completed as follows:

Timeframe	Number of Reviews
0-60 days	1,060
61-120 days	509
121-180 days	73
181-240 days	6

The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure MEQC reviews are completed in a timely manner.

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In discussing these conditions with DHFS officials, they stated that of the six cases identified as being over 180 days, two cases were inadvertently assigned to a retired staff member, although they were determined to be cases for which no action was required by the administrating local offices. The remaining four cases were Illinois Healthy Women (IHW) cases which are not sent to the administrating office to correct.

Failure to complete MEQC reviews in a timely manner may prevent the State from identifying unallowable beneficiary payments and from adequately monitoring the accuracy of eligibility determinations and redeterminations. (Finding Code 11-21, 10-18, 09-19, 08-21)

Recommendation:

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

DHFS Response:

The Department accepts the recommendation. It should be noted that the only federally prescribed time frame for completing MEQC reviews is the submission of findings by August 1 for the previous year's review; however the OIG continually strives to complete these reviews in a timely manner. This is a repeat finding, with corrective action implementation occurring during the fiscal year 2011 Single Audit.

There will continue to be circumstances, such as delays in receiving information from DHS local offices, recipients, employers, etc. which extend the time frame for completing reviews. In addition, IHW case eligibility, unlike most Medicaid cases, is approved and cancelled at the same time (establishing a set eligibility timeframe). If an error had been discovered the Department would not have been able to affect the eligibility of the case as it had already been cancelled.

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For Year Ended June 30, 2011

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

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

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: 05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN

Questioned Costs: Cannot be determined

Finding 11-22 *Inadequate Procedures to Monitor and Report Overpayments*

DHFS does not have an adequate process to monitor and report overpayments identified for providers of the Home and Community Based Services Waiver programs administered by the Illinois Department of Human Services (IDHS).

DHFS executed an intergovernmental agreement with IDHS whereby the Division of Rehabilitation Services (DRS) administers three Home and Community Based Services Waiver programs. As part of its responsibilities, IDHS enrolls and reimburses providers for claimed waiver services, and subsequently, submits claims for Medicaid reimbursement to DHFS. The DRS State Benefits Fraud Unit (Fraud Unit), on a post-payment basis, identifies overpayments made to these providers. The Fraud Unit documents the overpayments, contacts the provider that received the overpayment, verifies the overpayment amount with the provider, and sets up a system to track and recoup the identified overpayments.

During our audit, we noted DHFS did not report overpayments identified by the Fraud Unit on its quarterly financial expenditure reports or return these amounts to the federal government. Overpayments identified by the Fraud Unit during the year ended June 30, 2011 totaled \$378,238.

In accordance with Section 1903(d) (2) of the Social Security Act, States are required to refund the Federal share of a Medicaid overpayment. Further, 42 CFR 433.312 require the State Medicaid agency to refund the Federal share of an overpayment to a provider at the end of the 60-day period following the date of discovery, whether or not the State Medicaid agency has recovered the overpayment. Because the Medicaid quarterly financial expenditure report is due on a quarterly basis, the *State Medicaid Manual* requires the Federal share of overpayments be reported no later than the quarter in which the 60-day period ends. Additionally, the A-102 Common Rule Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Effective internal controls should include procedures to ensure overpayments are reported on the quarterly financial expenditure reports and returned to the federal government.

In discussing these conditions with DHFS officials, they stated DHS did not have a system in place to report certain overpayments to DHFS.

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Failure to properly monitor and report overpayments may result in the agency failing to ensure overpayments are reported on the quarterly financial expenditure reports and returned to the federal government. (Finding Code 11-22, 10-19)

Recommendation:

We recommend DHFS review its current process for monitoring and reporting overpayments and implement any changes necessary to ensure such overpayment are reported on the quarterly financial expenditure reports and returned to the federal government.

DHFS Response:

The Department accepts the recommendation. DHS has developed a system to void current over payments and correctly credit CMS on the quarterly financial expenditure reports.

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

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

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: 05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN

Questioned Costs: None

Finding 11-23 *Inadequate Process to Verify Procedures Billed by Provider with Beneficiaries*

DHFS does not have adequate procedures in place to verify with beneficiaries of the Medicaid Cluster program whether services billed by providers were actually received.

During our testwork, we noted DHFS procedures for verifying with beneficiaries whether services billed by providers were actually received by Medicaid Cluster Beneficiaries consisted of special projects performed by the DHFS Office of Inspector General and Bureau of Comprehensive Health Services. However, the current projects only cover procedures billed by non-emergency transportation providers, optometric providers, and dental providers which only account for 2% of total provider reimbursements. Further, DHFS does not perform any verification procedures for services billed by the following provider types:

- Hospitals
- Mental Health Facilities
- Nursing Facilities
- Intermediate Care Facilities
- Physicians
- Other Practitioners
- Managed Care Organizations
- Home and Community-Based Service Providers
- Physical Therapy Providers
- Occupational Therapy Providers

Payments made to non-emergency transportation providers, optometric providers, and dental providers totaled \$173,995,000 during the year ended June 30, 2011. Payments made to providers on behalf of all beneficiaries of the Medicaid Cluster totaled \$8,891,667,000 during the year ended June 30, 2011.

According to 42 CFR 455.20(a), the State must have a method for verifying with recipients whether services billed by providers were received. Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal

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control should include procedures to verify with recipients whether services billed by providers were received.

In discussing these conditions with DHFS officials, they stated they do not have the staff or resources to implement an expanded recipient verification process at this time.

Failure to verify with recipients whether services billed by providers were received may result in expenditures being made for services not actually provided to beneficiaries, which are unallowable costs. (Finding Code 11-23, 10-20)

Recommendation:

We recommend DHFS implement procedures to verify with recipients whether services billed by providers were received.

DHFS Response:

The Department accepts the recommendation, but does not have the staff or resources to implement a recipient verification process at this time. There are various recipient verification processes employed by DHFS, in conjunction with DHS and IDPH, including Rehabilitation Services and Home Health Providers. The Department also incorporated the requirement for the Medicaid MCO's to perform recipient verification in the MCO contracts during fiscal year 2010. The tasks required to implement an expanded process are highly complex and burdensome. This process will be implemented as part of the new MMIS through various requirements that include:

- Validation of Explanation of Benefits (EOB) online through the recipient portal
- Dynamic system functionality that supports EOB sample selection
- Ability to include laymen's description of procedure and diagnosis codes on EOBs
- Functionality that supports linguistically and culturally appropriate EOBs

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For Year Ended June 30, 2011

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

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

Program Name: Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$281,837,000)
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05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN (93.720ARRA/93.775/
93.777/93.778/93.778ARRA)

Questioned Costs: None

Finding 11-24 *Failure to Update and Implement Reimbursement Rate Methodology Changes for Government Owned Hospitals*

DHFS did not update and make disproportionate share hospital payments in a timely manner to government owned hospitals participating in the Medicaid Cluster.

On December 4, 2008, the Department received approval from the Centers for Medicare and Medicaid Services (CMS) for an amendment to the Medicaid State Plan, which changed the methodology for reimbursing government owned hospitals participating in the Medicaid Cluster and was retro-active as of July 1, 2008. According to the amendment, DHFS was to reimburse the government owned hospitals a total per diem rate which is the sum of a calculated inpatient per diem, a calculated disproportionate share adjustment and a calculated supplemental disproportionate share adjustment less the amount of expenditures certified by the respective hospitals. The total per diem rates for these two hospitals are recalculated on an annual basis, with State statute requiring the government owned hospital per diem be set by October 1st of each year. Further, each government owned hospital receives an annual disproportionate share hospital award which is required to be paid out in twelve equal monthly installments throughout the year.

During our testwork of 65 CHIP and 125 Medicaid beneficiary payments, we reviewed provider reimbursements for accuracy and the allowability of the related benefits provided. During those procedures, we noted the following exceptions related the provider reimbursements and disproportionate share hospital payments:

- DHFS did not finalize the 2011 per diem rates for two providers until October 1, 2010 and October 4, 2010. Because DHFS did not set the provider per diem rates for 2011 until October 1, 2010 and October 4, 2010 these hospitals' previous reimbursements were subsequently increased by \$2,211,429 and \$5,583,445 respectively, during the year ended June 30, 2011. As of the date of our testwork (January 31, 2012), the adjusted amounts had not been paid to the providers.

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- DHFS incorrectly calculated the 2011 per diem rate for two providers in the previous bullets that resulted in an increase of \$8,747,202 and \$95,339,089 to reimbursements made to these providers for the year ended June 30, 2011.
- DHFS paid disproportionate share hospital payments (totaling \$373,561,812) to one provider on a quarterly basis rather than on a monthly basis as required by the Medicaid Cluster State Plan.

Total medical reimbursements and disproportionate share hospital payments made to these two providers totaled \$185,988,236 and \$677,135,428, respectively, during the year ended June 30, 2011. Payments made on behalf of beneficiaries of the CHIP and Medicaid Cluster programs totaled \$253,496,000, and \$8,891,667,000, respectively, during the year ended June 30, 2011.

In accordance with 42 CFR 447.15 and the approved Medicaid State Plan, DHFS is required to limit participation in the Medicaid program to providers who accept, as payment in full, the amounts paid by the agency for services rendered to beneficiaries. Further, the approved Medicaid State Plan requires the annual amount of each disproportionate share hospital payment for which a government owned hospital qualifies to be made in 12 equal installments throughout the fiscal year. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure hospital reimbursement rates are updated in a timely manner and disproportionate share hospital payments are made within the required timeframes.

In discussing these conditions with DHFS officials, they stated that recently approved State Plan Amendments created a change in rate methodology for Government owned hospitals. This new rate Methodology took longer to calculate and implement than expected. Staff shortage was also an issue.

Failure to ensure hospital reimbursement rates are updated and disproportionate share hospital payments are made in a timely manner may result in inaccurate provider reimbursements, inaccurate financial reporting of expenditures, and provider overpayments, which are unallowable costs. (Finding Code 11-24, 10-23)

Recommendation:

We recommend DHFS implement procedures to ensure all disproportionate share hospital payments are updated and made in a timely manner to government owned hospitals.

DHFS Response:

The Department accepts the recommendation. The Department will create procedure manuals which will identify critical timelines necessary to allow for negotiation with the hospitals as well as receipt of necessary source documentation in order to calculate and implement rates in a timely manner.

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For Year Ended June 30, 2011

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

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

Program Name: Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.767 (\$281,837,000)
93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: 05-0905ILCPBP/05-1005ILCPBP/05-1105IL5021 (93.767)
(CFDA Number) 05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN (93.720ARRA/93.775/
93.777/93.778/93.778ARRA)

Questioned Costs: None

Finding 11-25 Failure to Obtain Required Disclosures from Providers

DHFS did not require medical providers enrolled in the Medicaid Cluster program to provide specific information related to all required disclosures about ownership and control, business transactions, and criminal convictions.

During our testwork of Children's Health Insurance Program (CHIP) and Medicaid Cluster programs, we noted the DHFS standard provider applications and agreements used from June 2007 through December 2009 (during which 734 new providers were enrolled) did not address all elements of the required disclosures about ownership and control, business transactions, and criminal convictions. In following up on this finding with DHFS, of the 734 cases identified 405 providers did not have the required disclosures provided to DHFS during a period covering the State fiscal year. Although the standard provider applications and enrollment agreements used during that time required providers to comply with all applicable Federal laws and regulations, they did not specifically require providers to disclose and certify the following information:

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

Additionally, based on information provided by a Center for Medicare and Medicaid Services (CMS) audit and procedures performed during our audit, we noted DHFS does not have an adequate process to

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capture required ownership, control, and relationship information from Fee for Service providers, Home and Community Based providers, Dental Program Administrators, and Managed Care Organizations.

In accordance with 42 CFR 455 Subpart B, and the approved Medicaid State Plan, providers are required to disclose specific information about ownership and control, business transactions, and criminal convictions. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure the standard provider applications and enrollment agreements address or capture specific information related to disclosures required by federal regulations.

In discussing these conditions with DHFS officials, they stated that there has always been a requirement on the Provider Enrollment Application that providers comply with 42 CFR 455 Subpart B. In addition, the Department instituted use of a form requiring the disclosures in June of 2009 for all newly enrolled providers.

Failure to ensure providers of the CHIP and Medicaid Cluster programs provide required disclosures about ownership and control, business transactions, and criminal convictions may inhibit the State's ability to determine provider eligibility and could result in payments being made to ineligible providers, which are unallowable. (Finding Code 11-25, 10-24, 09-26)

Recommendation:

We recommend DHFS obtain the required information about ownership and control, business transactions, and criminal convictions for all Medicaid Cluster providers.

DHFS Response:

The Department accepts the recommendation. The Department obtained the required disclosures for the 734 providers identified, or took appropriate action if not provided, through the following procedures: disclosure forms were found in the provider's file; individualized letters were sent to providers requesting disclosure forms; phone calls were made to providers requesting disclosure forms; and finally closure of provider files for those that did not provide the required disclosure. As a result of the provider enrollment, ownership disclosure and other mandates contained in the Affordable Care Act, the Department is developing a process to re-enroll all providers on a recurring basis, to include obtaining information about ownership and control, business transactions, and criminal convictions as required.

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For Year Ended June 30, 2011

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

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

Program Name: Child Support Enforcement

CFDA # and Program Expenditures: 93.563/93.563 ARRA (\$127,015,000)

Award Numbers: 0904IL4004/1004IL-4002/1004IL-4004/1104IL-4004

Questioned Costs: None

Finding 11-26 *Inadequate On-Site Monitoring of Child Support Subrecipients*

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

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

During our review of the on-site monitoring procedures performed by DHFS for a sample of 16 subrecipients of the Child Support program with expenditures of \$14,586,611 during the year ended June 30, 2011, we noted DHFS has not developed adequate procedures to monitor all relevant fiscal and administrative processes and controls of its subrecipients. Specifically, on-site monitoring procedures are not performed to determine whether subrecipients are documenting administrative expenditures in accordance with the applicable cost principles or whether subrecipients are following appropriate procurement procedures. The on-site monitoring procedures performed by DHFS primarily focus on verifying information reported by the subrecipient relative to locating absent parents, assisting in establishing paternity, obtaining child support obligations, and enforcing support obligations owed by non-custodial parents and performing physical inventory procedures for Child Support equipment purchases. Although DHFS collects a monthly expenditure claim along with documentation supporting the expenditures reported by the subrecipient, the documentation collected does not provide sufficient detail to allow DHFS to evaluate whether the costs meet the allowable costs criteria in OMB Circular A-87 or whether procurements were performed in accordance with the Illinois Procurement Code.

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

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In discussing these conditions with DHFS officials, they stated they believed their procedures were sufficient to allow reasonable evaluation and assurance that the costs met the allowable cost criteria.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 11-26, 10-25, 09-20, 08-23)

Recommendation:

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

DHFS Response:

The Department accepts the recommendation and has developed an on-site monitoring tool and procedures. The Department's DCSS submitted the procedures to the auditors for review in November 2011 and began the reviews based on those procedures in December 2011.

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

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

Program Name: Child Support Enforcement
Medicaid Cluster

CFDA # and Program Expenditures: 93.563/93.563 ARRA (\$127,015,000)
93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: 0904IL4004/1004IL-4002/1004IL-4004/1104IL-4004 (93.563/93.563ARRA)
(CFDA Number) 05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN (93.720ARRA/93.775/
93.777/93.778/93.778ARRA)

Questioned Costs: None

Finding 11-27 *Failure to Issue Management Decisions on Subrecipient A-133 Findings*

DHFS did not issue management decisions on OMB Circular A-133 findings for subrecipients of its Child Support Enforcement (Child Support) program and Medicaid Cluster program.

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

During our testwork over OMB Circular A-133 audit reports for sixteen subrecipients of the Child Support program with expenditures of \$22,100,926 during the year ended June 30, 2011, we noted the following:

- The A-133 audit report for seven subrecipients of the Child Support program reported instances of noncompliance and control deficiencies. Although DHFS performed procedures to follow up on the findings with these subrecipients, DHFS did not issue management decisions as required. Amounts passed through to these subrecipients under the Child Support program were \$848,590 during the year ended June 30, 2011. We also noted these subrecipients received Medicaid Cluster program funding of \$2,850,346 for the year ended June 30, 2011.
- The A-133 audit report for one subrecipient of the Child Support program reported instances of noncompliance and internal control deficiencies. Although DHFS performed procedures to follow up on the findings with this subrecipient, DHFS did not issue management decisions as required. Amounts passed through to this subrecipient under the Child Support program were \$12,828,848 during the year ended June 30, 2011.

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- The A-133 audit report of one subrecipient of the Child Support program was not reviewed until more than seven months after it was received.

Total federal awards passed through to subrecipients of the Child Support and Medicaid Cluster programs were \$17,355,000 and \$97,290,000 during the year ended June 30, 2011.

According to OMB Circular A-133 §__.400(d)(3), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to OMB Circular A-133 §__.400(d)(5), a pass-through entity is required to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to findings are followed up on and management decisions are issued within required timeframes.

In discussing these conditions with DHFS officials, they stated they believed adequate procedures were performed when conducting the reviews. The A-133 checklist was utilized as a guide during the review of the findings affecting federal programs related to HFS, and discussions were held with applicable program areas regarding the findings prior to issuing a management decision letter to the subrecipient.

Failure to issue management decisions on subrecipient findings within the required timeframe results in noncompliance with OMB Circular A-133 and may result in subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 11-27, 10-26, 09-21, 08-24)

Recommendation:

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

DHFS Response:

The Department accepts the recommendation. The Department continues to follow procedures previously implemented to ensure management decisions are issued for all findings affecting federal programs in accordance with OMB Circular A-133. The Department will strengthen its documentation to support management decisions and ensure findings affecting federal programs related to HFS are adequately reviewed and addressed in the management decision letter to the subrecipient.

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

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

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: 05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN

Questioned Costs: None

Finding 11-28 *Inadequate On-Site Monitoring of Medicaid Subrecipients*

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

DHFS passed through approximately \$10,675,030 in Medicaid funding to the County Health Departments (CHDs) during the year ended June 30, 2011 to assist DHFS in identifying students whose families may need Medicaid assistance and to monitor the coordination of the student's medical care. DHFS' subrecipient monitoring process includes: (1) providing subrecipients with technical guidance through training sessions, provider notices, and handbooks; (2) performing data analysis of electronic claims data; (3) performing desk reviews of quarterly administrative claims documentation; (4) performing desk reviews of single audit reports; and (5) performing on-site reviews of subrecipient operations.

During our review of the monitoring procedures performed by DHFS, we noted DHFS has not established measurable selection criteria for determining which subrecipients will be subject to on-site monitoring procedures on an annual basis. Although DHFS has established a risk based approach to selecting subrecipients for desk reviews of administrative claims, DHFS was unable to adequately demonstrate the correlation between subrecipients identified as high risk for desk reviews and those selected for on-site reviews. We noted no CHDs were subject to on-site reviews out of approximately 74 CHDs that received Medicaid funding during the year ended June 30, 2011.

According to OMB Circular A-133 §____.400(d)(3), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures for identifying which subrecipients will be subject to on-site monitoring review procedures.

In discussing these conditions with DHFS officials, they stated that budget constraints required the Department to limit on-site reviews to larger subrecipient groups, such as Local Education Agencies.

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Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 11-28, 10-28, 09-23, 08-31)

Recommendation:

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

DHFS Response:

The Department accepts the recommendation, and will continue to work with the DHS to utilize on-site reviews of County Health Departments performed by the DHS to satisfy on-site monitoring requirements.

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For Year Ended June 30, 2011

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

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

Program Name: Child Support Enforcement
Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.563/93.563ARRA (\$127,015,000)
93.767 (\$281,837,000)
93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: 0904IL4004/1004IL-4002/1004IL-4004/1104IL-4004 (93.563/93.563ARRA)
(CFDA Number) 05-0905ILCPBP/05-1005ILCPBP/05-1105IL5021 (93.767)
05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN (93.720ARRA/93.775/
93.777/93.778/93.778ARRA)

Questioned Costs: None

Finding 11-29 Failure to Complete Cash Management Reconciliations Timely

DHFS did not complete quarterly cash management reconciliations of cash draws to actual expenditures for assistance payments made under the Medicaid Cluster, the Children's Health Insurance Program (CHIP), and Child Support Enforcement (CSE) programs or make adjustments identified as a result of these reconciliations in a timely manner.

The cash management process for the Medicaid Cluster and CHIP includes making assistance cash draws on a daily basis based on actual warrants issued the previous day, an estimate of the agency's overall federal participation rate, and any expected refunds. At the end of each quarter, DHFS reports actual assistance expenditures of the Medicaid Cluster and CHIP to USDHHS through the claim reporting process. At the end of the quarter, DHFS reconciles the actual expenditures of these programs to the amount drawn. The cash management process of CSE includes making administrative cash draws on the same day payroll is paid. Prior to the start of each quarter, DHFS prepares an estimate of CSE federal administrative expenditures based upon a combination of historical data in CSE administrative costs. At the end of the quarter, DHFS reconciles all actual expenditures of the CSE program to the amount drawn.

Since cash draws are based on estimated expenditures for each quarter, the reconciliations identify the difference between the actual program expenditures and those estimates. The net cash position identified for each program in the quarterly reconciliation process is used to estimate the expenditures to be used for the next quarter's draws and to adjust future draws to ensure amounts drawn equal actual program expenditures.

During our testwork, we noted the reconciliations were not performed for all three programs and that draws for the CHIP and Medicaid Cluster programs were not adjusted for the quarterly net cash position identified in the reconciliations in a timely manner. We noted the following differences in our review of the quarterly reconciliations of the CSE, CHIP, and Medicaid Cluster programs:

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Quarter	Medicaid		CHIP		CSE	
	Over/(Under) Drawn Position	Date Reconciliation Completed	Over/(Under) Drawn Position	Date Reconciliation Completed	Over/(Under) Drawn Position	Date Reconciliation Completed
9/30/10	(\$2,872,063)	3/21/11	(\$53,042,964)	12/30/10	(\$2,067,065)	11/29/10
12/31/10	\$71,049,395	3/30/11	(\$56,687,450)	3/22/11	(\$2,258,566)	5/10/11
3/31/11	\$102,978,747	8/12/11	(\$50,831,083)	7/20/11	\$900,685	5/10/11
6/30/11	\$46,510,419	9/14/11	(\$58,363,629)	9/14/11	(\$696,265)	8/17/11

According to 31 CFR 205.11(b), a State must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the cash draw reconciliations are performed timely to ensure funds requested meet actual cash needs and reconciling items can be resolved in a timely manner.

In discussing these conditions with DHFS officials, they stated that reconciliations were completed and initialed, however, the Department did not include the dates to show when they were completed.

Failure to complete reconciliations of cash draws to actual expenditures in a timely manner may result in the State requesting funds in excess of actual and immediate cash needs. (Finding Code 11-29, 10-29, 09-30)

Recommendation:

We recommend DHFS implement procedures to ensure quarterly expenditure reconciliations are performed and completed in a timely manner and adjustments identified in the reconciliation process are made in a timely manner.

DHFS Response:

The Department accepts the recommendation. The Department will ensure that the date the reconciliation is initialed as completed will be provided.

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

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

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: 05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN

Questioned Costs: None

Finding 11-30 *Inadequate Cash Management Procedures*

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

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

During follow-up on prior year findings relating to subrecipients of the Medicaid Cluster program, we noted the State's cash draws for payments to LEAs were performed on an advance basis (prior to paying the LEAs). Upon review of all cash draws for payments to LEAs during the year ended June 30, 2011, we noted the number of days cash was drawn in advance of actual cash outlays ranged from one to 14 days.

According to 31 CFR 205.11(b), a State must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the cash draws are performed in accordance with the TSA.

In discussing these conditions with DHFS officials, they stated Admin draws of federal funds to accommodate the pass through of federal funds to Local Education Agencies is done on an advance basis. Funding technique was modified in an amendment to the fiscal year 2012 Treasury State Agreement filed in October 2011, which was subsequent to State fiscal year 2011 audit period ending June 30, 2011.

Failure to draw funds in accordance with the US Treasury Regulations could result in an interest liability to the Federal government. (Finding Code 11-30, 10-30, 09-28, 08-33)

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Recommendation:

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

DHFS Response:

The Department accepts the recommendation. The Department requested an amendment to the fiscal year 2012 Treasury State Agreement to appropriately reflect the funding technique used in making admin payments to Local Education Agencies.

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

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

Program Name: Child Support Enforcement
Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.563/93.563ARRA (\$127,015,000)
93.767 (\$281,837,000)
93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: 0904IL4004/1004IL-4002/1004IL-4004/1104IL-4004 (93.563/93.563ARRA)
(CFDA Number) 05-0905ILCPBP/05-1005ILCPBP/05-1105IL5021 (93.767)
05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN (93.720ARRA/93.775/
93.777/93.778/93.778ARRA)

Questioned Costs: None

Finding 11-31 *Failure to Obtain Suspension and Debarment Certifications from Vendors*

DHFS did not obtain required certifications that vendors or medical providers were not suspended or debarred from participation in Federal assistance programs for the Child Support Enforcement, Children's Health Insurance Program, and Medicaid Cluster Programs.

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

Payments to vendors allocated to the Child Support Enforcement, Children's Health Insurance Program, and Medicaid Cluster Programs totaled \$25,962,000 \$3,583,000, and \$240,363,000, respectively, during the year ended June 30, 2011. Payments made to providers on the behalf of beneficiaries of the CHIP and Medicaid programs were \$253,496,000 and \$8,891,667,000 during the year ended June 30, 2011.

According to 45 CFR 74.13, subawards and contracts with parties that are debarred, suspended or otherwise excluded from or ineligible for participation in the Federal assistance programs or activities under Executive Order 12549 and 12689, "Debarment and Suspension" are prohibited. According to 42 CFR 455.436, effective March 25, 2011, a State is required to perform verification checks of providers with the "List of Excluded Individuals/Entities" maintained by the USDHHS and the "Excluded Parties List System" (EPLS) maintained by the General Services Administration no less frequently that monthly. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain

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internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required certifications for covered contracts and subawards are received, documented, and not made with a debarred or suspended party.

In discussing these conditions with DHFS officials, they stated they were unaware the Master Contracts through CMS and the Treasurer's Offices did not include the requirement. In addition, they stated that upon enrollment of medical providers, the Provider Participation Unit (PPU) checks providers against the Illinois sanction database, which includes the State's internal sanctions list and information received monthly from the Medicare Exclusion Database. This same list is used to conduct monthly searches all providers.

Failure to perform verification procedures with the EPLS could result in the awarding of Federal funds to vendors that are suspended or debarred from participation in Federal assistance programs. (Finding Code 11-31, 10-32, 09-24)

Recommendation:

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

DHFS Response:

The Department accepts the recommendation. The Department will ask other agencies to include the certification in their Master Contracts, although they may not have the ability to require that the provision be included. The Department will also develop the Basic Ordering Agreements to include the requirement.

The Department will continue to check applicants upon enrollment and re-enrollment and also review providers on a monthly basis against the Illinois Sanctions Database which contains sanctions from the Medicare Exclusion Database.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

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

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

Program Name: Child Support Enforcement

CFDA # and Program Expenditures: 93.563/93.563ARRA (\$127,015,000)

Award Numbers: 0904IL4004/1004IL-4002/1004IL-4004/1104IL-4004

Questioned Costs: \$16,711

Finding 11-32 *Failure to Competitively Bid Professional Services*

DHFS did not competitively bid professional services purchased as required by the Illinois Procurement Code for the Child Support Enforcement (Child Support) program.

During our review of 40 vendors of the Child Support program, we noted DHFS did not competitively bid a professional service contract for \$16,700 of services purchased for the administration of the Child Support program. Specifically, DHFS offices in Cook County and Springfield independently procured foreign language translation services utilizing this vendor without determining if DHFS or Illinois Department of Central Management Services had an existing master contract with the vendor. Total fees paid to this professional services firm by DHFS and by the State of Illinois for these and similar services were approximately \$13,920 and \$96,358 in fiscal year 2011.

In accordance with 29 CFR 97.36(a), a State must follow the same policies and procedures it uses for procurements for its non-Federal funds. Sections 1-15.60 and 35-35(a) of the Illinois Procurement Code (30 ILCS 500/1-15.60 and 35-35(a)) requires contracts for professional and artistic services of \$20,000 or more to be awarded by competitive proposals. . Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Effective internal controls should include procedures to ensure appropriate procurement rules are followed for contracts awarded under federal programs.

In discussing these conditions with DHFS officials, they stated that they were unaware that there were two separate contracts with the same vendor that required the competitive bidding guidelines to be followed.

Failure to follow the Illinois Procurement Code violates federal procurement regulations and could result in unallowable costs charged to federal program. (Finding Code 11-32, 10-33)

Recommendation:

We recommend DHFS implement procedures to ensure that all procurements are performed in accordance with the applicable rules and regulations.

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DHFS Response:

The Department accepts the recommendation. CMS has a Master Contract with the vendor which will terminate June 30, 2012. A Basic Ordering Agreement (BOA) was prepared and signed effective January 10, 2012.

The Department is using a tracking spreadsheet with unobligated vendors to verify that DCSS is not paying over the amount allowed for unobligated vendors.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

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

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

Program Name: Child Support Enforcement Program
Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.563/93.563ARRA (\$127,015,000)
93.767 (\$281,837,000)
93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: 0904IL4004/1004IL-4002/1004IL-4004/1104IL-4004 (93.563/93.563ARRA)
(CFDA Number) 05-0905ILCPBP/05-1005ILCPBP/05-1105IL5021 (93.767)
05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN (93.720ARRA/93.775/93.777/
93.778/93.778ARRA)

Questioned Costs: \$149,049

Finding 11-33 Improper Allocation of Costs

DHFS did not properly allocated expenditures to the Children's Health Insurance Program (CHIP) and Medicaid Cluster programs.

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

During our review of costs allocated to federal programs during the quarter ended December 31, 2010, we noted DHFS allocated expenditures in cost centers identified in the PACAP as State funded to the federal programs using the Supportive Medical and Central Indirect allocation methodologies. As a result, expenditures totaling \$188,300 and \$98,168 that should have been funded by the State were allocated to the CHIP and Medicaid Cluster programs and all DHFS administered programs, respectively. Amounts improperly allocated to the Child Support, CHIP, and Medicaid Cluster programs were \$45,416, \$3,064, and \$233,820, respectively, during the year ended June 30, 2011.

According to 45 CFR 95.517, a State must claim costs associated with a program in accordance with its approved cost allocation plan. Additionally, the A-102 Common Rule requires non-Federal entities

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receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure costs are properly allocated to its federal programs.

In discussing these conditions with DHFS officials, they stated they agreed that the costs were not being allocated to the cost pool indicated on the December 2010 PACAP, due to oversight.

Failure to follow the approved cost allocation methodologies in the PACAP may result in disallowances of costs. (Finding Code 11-33)

Recommendation:

We recommend DHFS implement procedures to ensure costs are properly allocated to its federal programs in accordance with its approved cost allocation plan.

DHFS Response:

The Department accepts the recommendation. Decreasing prior period adjustments were filed on CMS64, CMS21, and IV-D 396A claims for quarter ended December 31, 2011.

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For Year Ended June 30, 2011

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

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

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: 05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN

Questioned Costs: None

Finding 11-34 *Improper Recertification of Clearance Pattern*

DHFS did not properly calculate and recertify the medical assistance payment clearance pattern for the Medicaid Cluster program as required by the Treasury State Agreement.

DHFS performs cash draws for medical assistance payments under the Medicaid Cluster program using a clearance pattern to minimize the number of days between the date cash is drawn and the clearance date of the underlying warrants with the State Comptroller. The clearance pattern is calculated and recertified at least every five years by DHFS. The clearance pattern is also program specific, so only medical assistance payments are included in the medical assistance Medicaid Cluster program clearance pattern. During the year ended June 30, 2011, DHFS inaccurately calculated and recertified the medical assistance clearance pattern, reducing the clearance pattern from five days to two days. In performing the calculation, DHFS improperly used warrant and electronic fund transfer data from the State Comptroller covering all federal programs. The warrant and electronic fund transfer data obtained from the State Comptroller used in the recertification totaled \$64,900,000,000 for the three months ending April 30, 2010.

Annually, the State of Illinois negotiates the Treasury-State Agreement (TSA) with the U.S. Department of the Treasury (the Treasury) which details the funding techniques to be used for the draw down of federal funds. Certain approved funding techniques utilized by the State require the use of a clearance pattern which identifies the average number of days disbursements (warrants) take to clear the State Treasurer's account. The established clearance pattern is then used to determine the date the State should draw down funds from the federal government in order to minimize the time elapsing between the draw down and the State Treasurer's clearance of funds and to calculate the interest owed on advances of federal funds.

During the year ended June 30, 2011, DHFS improperly recertified its clearance patterns for the Medicaid Cluster program. Specifically, DHFS included all disbursements for all federal programs in its calculation instead of using just medical assistance disbursements for the Medicaid Cluster program as required by the TSA. As a result, the clearance pattern for medical assistance disbursements of the Medicaid Cluster program was reduced from five days to two days.

According to 31 CFR 205.20(b), a clearance pattern must accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied. According to Section 7.1 of the 2011

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Treasury State Agreement, the State is required to develop separate clearance patterns for each program or program components (i.e. expenditure types) as identified in the agreement.

In discussing these conditions with DHFS officials, they stated that that the Illinois Office of the Comptroller sequentially numbers EFT transactions each day starting with 0000001. Since EFT transaction numbers are not unique, clearance pattern data originally queried from the Comptroller's warehouse produced inaccurate clearance pattern statistics.

Failure to properly recertify clearance patterns violates Treasury regulations and could result in the inaccurate calculation of the State's interest obligation to the U.S. Treasury. (Finding Code 11-34)

Recommendation:

We recommend DHFS calculate and recertify the medical assistance payment clearance pattern using warrant and electronic fund transfer data specific to Medicaid Cluster program disbursements as required by the TSA.

DHFS Response:

The Department accepts the recommendation. The Department recalculated the clearance pattern and revised results were provided to the auditors on March 5, 2012.

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For Year Ended June 30, 2011

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

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

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: 05-0905IL5048/05-1005IL5048/05-1105IL5048/05-0905IL5028/
05-1005IL5028/05-1105IL5028/05-1105ILARRA

Questioned Costs: \$42,559,745

Finding 11-35 *Failure to Survey Psychiatric Hospitals*

DHFS did not survey psychiatric hospitals participating in the Medicaid Cluster program as required by federal regulations.

To be eligible for federal reimbursement under the Medicaid Cluster program, inpatient psychiatric service and disproportionate share hospital payments must be made to a facility that has demonstrated compliance with Medicare Conditions of Participation applicable to all providers, as well as two criteria specific to psychiatric hospitals. The basic Medicare Conditions of Participation are generally satisfied through accreditation by The Joint Commission (a national healthcare accreditation organization); however, the requirements specific to psychiatric hospitals are not covered by this accreditation and must be surveyed by the State.

Based on information provided by a USDHHS audit and procedures performed during our audit, we noted DHFS has not established or performed procedures to survey the Medicare Conditions of Participation specific to psychiatric hospitals. Total inpatient psychiatric services and disproportionate share hospital payments made to psychiatric hospitals for the Medicaid Cluster program totaled \$42,559,745 during the year ended June 30, 2011.

According to Section 2718 of The Centers for Medicare and Medicaid Services (CMS) State Operations Manual, psychiatric hospitals must be specially surveyed by qualified psychiatric health care professionals to demonstrate compliance with the special Medicare Conditions of Participation. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to survey psychiatric hospitals to verify such facilities have complied with the applicable Medicare Conditions of Participation.

In discussing these conditions with DHFS officials, they stated that they were in compliance with the approved State Plan which required accreditation by the Joint Commission on Accreditations of Healthcare Organizations.

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Failure to survey psychiatric hospitals to verify compliance with the Medicare Conditions of Participation may result in payments to ineligible providers which are unallowable costs. (Finding Code 11-35)

Recommendation:

We recommend DHFS implement procedures to survey psychiatric hospitals for compliance with the Medicare Conditions of Participation specific to this provider type.

DHFS Response:

The Department accepts the recommendation. In a response to the Federal audit, the Department has agreed to amend its State Plan now that the requirement for Medicare certification has been established by the HHS-OIG.

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For Year Ended June 30, 2011

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

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

Program Name: Child Support Enforcement
Medicaid Cluster

CFDA # and Program Expenditures: 93.563/93.563 ARRA (\$127,015,000)
93.720ARRA/93.775/93.777/93.778/93.778ARRA
(\$9,355,906,000)

Award Numbers: 0904IL4004/1004IL-4002/1004IL-4004/1104IL-4004 (93.563/93.563 ARRA)
(CFDA Number) 05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN (93.720ARRA/93.775/
93.777/93.778/93.778ARRA)

Questioned Costs: None

Finding 11-36 *Failure to Report Subaward Information Required by FFATA*

DHFS has not developed procedures to report information required by the Federal Funding Accountability and Transparency Act (FFATA) for awards granted to subrecipients of the Child Support Enforcement (Child Support) and Medicaid Cluster programs.

FFATA requires the State to report certain identifying information related to awards made to subrecipients in amounts greater than or equal to \$25,000 under federal grants awarded on or after October 1, 2010. Information required to be reported includes: (1) the agreement date, (2) the subrecipient's nine-digit Data Universal Numbering System (DUNS) number, (3) the amount of the subaward, (4) the date the sub-award agreement was signed, and (5) the subaward or other identifying number assigned by the State. During our testwork, we noted DHFS has not identified which, if any, of its federal awards were subject to FFATA reporting requirements and has not established procedures to obtain DUNS numbers from its subrecipients. As a result, DHFS did not report information required by FFATA for subawards made to subrecipients of the Child Support and Medicaid Cluster programs during the year ended June 30, 2011. Federal awards passed through to subrecipients of the Child Support and Medicaid Cluster programs subject to FFATA reporting requirements totaled \$17,292,280 and \$62,423,009 for the year ended June 30, 2011.

According to 2 CFR 170, a pass through entity is required report certain identifying information for each subaward of federal funds greater than or equal to \$25,000. According to 2 CFR 25.205(a), a pass through entity may not make an award to an entity until the entity has provided a valid DUNS number.

In addition, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Effective internal controls should include establishing procedures (1) to identify awards subject to FFATA, (2) to obtain subrecipient DUNS numbers prior to awarding federal financial assistance to subrecipients, and (3) to ensure subawards are properly reported in accordance with FFATA.

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In discussing these conditions with DHFS officials, they stated that the Department is in the planning stages to identify federal reporting requirements of the FFATA.

Failure to identify awards subject to FFATA and to report subaward in accordance with FFATA results in noncompliance with federal regulations. Additionally, failure to obtain subrecipient DUNS numbers inhibits the State's ability to meet its reporting requirements under FFATA. (Finding Code 11-36)

Recommendation:

We recommend DHFS establish procedures to: (1) identify awards subject to FFATA reporting requirements, (2) obtain subrecipient DUNS numbers, and (3) report required subaward information in accordance with the FFATA.

DHFS Response:

The Department accepts the recommendation. The Department has established procedures to identify awards subject to FFATA reporting requirements and obtained DUNS numbers for all currently identified subrecipients. The Department sent an inter-office memorandum to staff on March 5, 2012 to address their responsibility of obtaining DUNS numbers prior to entry of awards and the requirement to submit the DUNS number to the A-133 Unit for proper maintenance. The Department is in the process of establishing procedures to report required sub award information in accordance with FFATA.

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For Year Ended June 30, 2011

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

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

Program Name: Child Support Enforcement
Children's Health Insurance Program
Medicaid Cluster

CFDA # and Program Expenditures: 93.563/93.563ARRA (\$127,015,000)
93.767/93.767ARRA (\$281,837,000)
93.775/93.777/93.778/93.778ARRA (\$9,355,906,000)

Award Numbers: 0904IL4004/1004IL-4002/1004IL-4004/1104IL-4004 (93.563/93.563ARRA)
(CFDA Number) 05-0905ILCPBP/05-1005ILCPBP/05-1105IL5021 (93.767)
05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN (93.720ARRA/93.775/
93.777/93.778/93.778ARRA)

Questioned Costs: None

Finding 11-37 *Inaccurate Reporting of Federal Expenditures*

DHFS did not accurately report Federal expenditures under the Medicaid Cluster, the Children's Health Insurance Program (CHIP), and Child Support Enforcement (CSE) programs.

DHFS inaccurately reported federal expenditures which were used to prepare the schedule of expenditures of federal awards (SEFA) to the Illinois Office of the Comptroller (IOC) using an estimate based on revenues and receipts, instead of actual expenditures. Specifically, we noted the following differences for DHFS' major programs the year ended June 30, 2011:

Program	Federal Expenditures	Federal Expenditures	Difference
	Reported on the Revised SEFA	Reported on the Expenditure Pattern	
Medicaid Cluster	\$ 8,101,862,000	\$ 7,990,697,000	\$ 111,165,000
Medicaid Cluster - ARRA	1,255,965,000	1,271,064,000	(15,099,000)
CHIP Program	281,837,000	271,251,635	10,585,365
Child Support Program	104,340,000	98,446,000	5,894,000
Child Support Program - ARRA	22,675,000	22,675,000	-

According to OMB Circular A-133 §__.300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the SEFA. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure federal expenditures are accurately reported on the SEFA.

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In discussing these conditions with DHFS officials, they stated that they believed the methodology of using cash receipts adjusted for accruals to prepare the SCO-563 was the best estimate of cash basis expenditures for a reimbursement funded program; however, adequate procedures were not in place to compare/reconcile amounts reported to the expenditures reported on the federal claiming reports.

Failure to accurately report federal expenditures prohibits the completion of an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 11-37)

Recommendation:

We recommend DHFS establish procedures to accurately report federal expenditures used to prepare the SEFA to the IOC.

DHFS Response:

The Department accepts the recommendation. It should be noted that the differences as reported are not material to the financial statements as a whole in that they represent less than 1% of the overall expenditures. The Department will coordinate any changes in the methodology for preparing the SEFA with the Office of the Comptroller, the Illinois Auditor General, and other State agencies that have Medicaid program expenditures.

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For Year Ended June 30, 2011

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

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

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

CFDA # and Program Expenditures: 93.558/93.714 ARRA (\$739,806,000)
93.658/93.658 ARRA (\$196,164,000)
93.659/93.659 ARRA (\$101,268,000)

Award Numbers: G-1001ILTANF/G-0901ILTANF/G-0901ILTAN2ARRA (93.558/93.714 ARRA)
(CFDA Number) 1101IL1401/1101IL1404/1001IL1401/1101IL1402/101IL1402 (93.658/93.658 ARRA)
1101IL1403/1101IL1405/1001IL1403/1101IL1407/1001IL1407 (93.659/93.659 ARRA)

Questioned Costs: None

Finding 11-38 *Inadequate Monitoring of Subrecipients*

DCFS did not make required communications or perform fiscal and administrative on-site monitoring procedures for subrecipients who receive awards under the TANF Cluster, Foster Care – Title IV-E (Foster Care), and Adoption Assistance programs.

DCFS passes through federal funding under the Foster Care and Adoption Assistance programs to not-for-profit organizations which assist the State in carrying out the State's responsibilities under these programs. Specifically, these organizations assist the State by: (1) performing and documenting on-going casework for children who are wards of the State, (2) providing training, licensing, and other supportive services for foster and adoptive parents, and (3) performing foster care and adoption placement services. The services provided by these organizations assist the State in determining the continuing allowability of maintenance and subsidy payments made to foster and adoptive families on the behalf of eligible children. Certain of these costs which are not claimed under or used as match for the Foster Care and Adoption Assistance programs are claimed for reimbursement under the TANF Cluster.

During our testwork over the subrecipient monitoring compliance requirement for these programs, we noted DCFS determined that organizations previously identified as subrecipients should be considered vendors because the initial eligibility determinations for children served under these programs are performed by the State. However, the nature of the services provided by these organizations goes beyond those provided in a vendor relationship. These organizations assist the State in complying with program requirements relative to the allowability of costs and the continuing eligibility of program beneficiaries.

As a result of this determination, 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 to these organizations. DCFS also did not perform fiscal and administrative on-site monitoring procedures over the programs operated by these organizations.

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Amounts passed through to subrecipients of the TANF Cluster, Foster Care, and Adoption Assistance programs which were improperly reported as contractual services during the year ended June 30, 2011 were \$3,069,000, \$55,945,000, and \$5,617,000, respectively.

According to OMB Circular A-133 section .210(b), characteristics indicative of a federal award received by a subrecipient are when the organization, among other things, has responsibility for programmatic decision making and uses the federal funds to carry out a program of the organization as compared to providing goods and services for a program of the pass-through entity. Additionally, according to OMB Circular A-133 section .210(c), characteristics indicative of a payment for goods and services received by a vendor are when the organization, among other things, provides goods or services that are ancillary to the operations of the program and are not subject to the compliance requirements of the federal program.

According to the OMB Circular A-133 section .400(d) and the OMB Circular A-133 Compliance Supplement, dated March 2011, a pass-through entity is required to monitor its subrecipients' activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements, to ensure required audits are performed, to require the subrecipient to take prompt corrective action on any audit findings, and to evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

In discussing these conditions with DCFS officials, they stated that they continue to conduct on-site monitoring of the substitute care providers who receive payments under the Foster Care, Adoption Assistance and TANF programs. During the fiscal year 2010, the definition of subrecipient in OMB Circular A-133 was reviewed and purchase of care provider agreements covering Title IV-E programs, other federal programs, and State programs were analyzed for programmatic decision making, having performance measured against objectives of the programs, who is responsible for determining who is eligible to receive services, and who has responsibility for adherence to applicable program compliance requirements. After completing the review, the Department determined that Title IV-E providers had the characteristics indicative of a vendor rather than a subrecipient. The Department has not ceased its responsibility to monitor either subrecipients or purchase of care vendors. All substitute care providers are regularly monitored by program monitors. Where the sub recipient relationship continues to exist, providers are notified of federal pass-through funding and A-133 reports are required using A-133 criteria.

Where purchases of care vendor relationships take place, providers are notified and required to submit audit reports and cost reports which are desk reviewed and appropriate follow-up is conducted. The annual audit package contains reports and findings issued by licensed accountants with professional credentials to review recipients of federal funding. All purchase of care providers are also evaluated using risk criteria and when requested by management on-site visits are conducted.

Failure to properly report subrecipient expenditures and monitor subrecipients results in noncompliance with OMB Circular A-133 and could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 11-38, 10-37, 09-36, 08-39, 07-36, 06-34, 05-47, 04-36, 03-34, 02-30, 01-18, 00-18, DCFS 99-6, DCFS 99-9)

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Recommendation:

We recommend DCFS properly report federal awards passed through to subrecipients and implement on-site monitoring procedures to review compliance requirements administered by subrecipients of its federal programs.

DCFS Response:

The Department disagrees with the finding. However, the federal agency, ACF, has been discussing this and other single audit findings that have resulted in anything but an unqualified audit opinion on a national level. One recurring issue in several states is the sub recipient finding. Washington wants to address these major findings that have recurrence in multiple states so there is a clear decision that will not be questioned by States, auditors or other federal agencies. The Department has been told that a decision will be forthcoming in the next months and the Department will make changes, if necessary, to comply with the federal decision.

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

The desk review, which is the annual review of audited financial statements, OMB A-133 audits, and related reports from the provider's independent CPA's (annual audit package), is the principle basis for the fiscal monitoring of sub-recipients and purchase of care vendors. The annual audit package contains reports and findings issued by licensed accountants with professional credentials to review recipients of funding provided by DCFS. Audit packages are received from all providers/agencies that receive over \$150,000 during the State's fiscal year. Over 200 providers/agencies are required to submit the annual audit package, and a desk review is performed on all annual audit packages required to be submitted. The desk review program is the most effective and cost efficient method for DCFS to monitor sub-recipients' and purchase of care provider activities, and provide reasonable assurance that the provider administers programs in compliance with State and federal requirements as well as the Plan of Care which is a part of the Department's contract with the provider.

On-site reviews are also used when the assessment of risk so indicates the necessity, and staff resources are available. The majority of reports received do not contain major issues and DCFS case management providers do not make client or service eligibility determinations which if they did would be the primary cause for ineligible services. Further, the DCFS foster care and adoption programs are state programs, some of which may qualify for federal reimbursement. DCFS foster care and adoption providers serve all clients referred by DCFS without regard or knowledge of federal program eligibility. Those providers selected for field visits are generated from the desk reviews completed in the prior year that have notable negative issues. Auditors contact the Department's programmatic monitors and the licensing representatives to discuss and share any potential problems at providers to aid in the scheduling of on-site visits, and prioritize on-site audit activities.

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Future schedules for on-site fiscal reviews will prioritize visits to agencies not previously visited, or visited years ago. The ability of DCFS to conduct more on-site visits each year is dependent upon the Department's ability to hire additional staff, and implement improvements in efficiency. Staff size is dependent on the State's financial position. Proposals to improvements in efficiency must be developed and evaluated in the field and this process is continuing. Additionally, following receipt of information from the Department's OIG and the Governor's Office of Executive Inspector General regarding a former Director and one of the former providers contracted by DCFS, the Department conducted an audit of one specific provider. That audit identified issues that were the basis for changes to monitoring procedures and regular provider reporting practices. The Department is further assessing the issues identified and plans to recommend additional steps to improve its fiscal monitoring of providers. Corrective action has been taken to close all gaps in internal control that allowed this instance of fraud to incur including:

- Implementation of Grant Recoveries Act requirements
- Quarterly Monitoring of program expenditures compared to budget
- Quarterly Monitoring of program metrics
- Quarterly Monitor of Provider key Financial indicators
- Continuous Monitoring of Program monitors site visits.

Auditors' Comment:

As discussed in the finding above, 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 have continued 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 and we were unable to obtain a population of expenditures for testwork. Finally, consistent with the prior year, DCFS did not perform fiscal monitoring procedures.

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

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

Program Name: Adoption Assistance

CFDA # and Program Expenditures: 93.659/93.659 ARRA (\$101,268,000)

Award Numbers: 1101IL1403/1101IL1405/1001IL1403/1101IL1407/1001IL1407

Questioned Costs: \$5,338

Finding 11-39 *Missing Documentation in Adoption Assistance Case Files*

DCFS could not locate case file documentation supporting eligibility determinations for beneficiaries of the Adoption Assistance program.

The Adoption Assistance Program provides funds to states to support the payment of subsidies and non-recurring expenses on behalf of eligible children with special needs. In order to be eligible to receive benefits under the adoption assistance program, the child must have been removed from the home of a relative either pursuant to a voluntary placement agreement or a judicial determination that remaining in the home is contrary to the welfare of the child, the child must be under the age of 18, and the State must have determined that the child has met certain criteria which may preclude the adoption of the child without adoption assistance benefits. These criteria are defined as “special needs” and include a determination that the child cannot or should not be returned to the home of his/her parents, as well as documentation of the child’s specific factor(s) or condition(s) (such as ethnic background, age, sibling group, or handicap) that precludes the child’s placement for adoption without assistance benefits.

During our testwork of 65 Adoption Assistance beneficiary payments (totaling \$33,691), we reviewed case files for compliance with eligibility requirements and for the allowability of related benefits paid and noted documentation could not be located to support certain eligibility criteria. Specifically, we noted the case file for one beneficiary (with a sampled assistance payment of \$445) did not contain 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.

DCFS claimed reimbursement for adoption assistance beneficiary payments totaling \$87,182,026 during the year ended June 30, 2011.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursements contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria, among other things, require that the expenditures must be necessary, reasonable, and supported by adequate documentation, including documentation supporting eligibility determinations were performed in accordance with program requirements.

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According to 42 USC 671 (a)(20), the prospective adoptive parent(s) must satisfactorily have met a criminal records check and a child abuse and neglect registry check.

The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure documentation supporting eligibility criteria is properly maintained in case records.

In discussing these conditions with DCFS officials, they stated that documentation for the original background check was either misplaced or not placed in the case file. Since this case was opened a number of years ago, it is not possible to re-create misplaced documentation.

Failure to maintain case file documentation, including initial judicial determinations and background checks, may result in payments to ineligible beneficiaries, which are unallowable costs. (Finding Code 11-39, 10-38, 09-35, 08-38, 07-34, 06-32, 05-44)

Recommendation:

We recommend DCFS review its procedures for retaining and documenting how beneficiaries have met eligibility requirements and implement changes necessary to ensure adequate background checks of prospective adoptive parents exist for all children for whom adoption subsidy payments and nonrecurring expenditures are claimed.

DCFS Response:

The Department agrees that proper documentation should be 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 background check results is a part of this process. 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 the actual amount claimed, \$5,338, during the fiscal year, for the beneficiary payment questioned by the auditor.

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

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

Program Name: Adoption Assistance

CFDA # and Program Expenditures: 93.659/93.659 ARRA (\$101,268,000)

Award Numbers: 1101IL1403/1101IL1405/1101IL1407/1001IL1403/1001IL1407

Questioned Costs: Cannot be determined

Finding 11-40 *Failure to Ensure that Adoption Assistance Recertifications Are Performed on a Timely Basis*

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

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

During our testwork of 65 recurring subsidy payments (totaling \$33,691) made under the Adoption Assistance program, we noted two case files (with sampled payments of \$4,081) 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.

DCFS claimed reimbursement for adoption assistance beneficiary payments totaling \$87,182,026 during the year ended June 30, 2011.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursements contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria, among other things, require that the expenditures must be necessary, reasonable, and supported by adequate documentation, including documentation supporting eligibility determinations were performed in accordance with program requirements.

According to 42 USC 673 (a)(4), payments are discontinued when the State determines that the adoptive parents are no longer legally responsible for the support of the child. Parents must keep the State agency informed of circumstances which would make the child ineligible for adoption assistance payments, or

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eligible for assistance payments in a different amount. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to obtain adoption recertification forms on a timely basis.

In discussing these conditions with DCFS officials, they stated that recertification letters are sent out via an automated process. If the first letter is not returned, a second letter is automatically mailed 30 days later. When the second letter was not returned, notification of these cases was not received in the Post-Adoption Unit for further follow up due to an oversight. The Department has also discussed the recertification process with the Region V office. They believe what we do is a good business process. Further, DCFS has identified that there is no Federal statute or provision requiring annual renewals, recertifications or eligibility re-determinations for title IV-E adoption assistance. Parents who receive adoption assistance payments, however, have a responsibility to keep the State or local agency informed of circumstances which would make them ineligible for title IV-E adoption assistance payments, or eligible for assistance payments in a different amount (Section 473 (a)(4)(B) of the Social Security Act).

Failure to complete the necessary eligibility recertification could result in payments to ineligible beneficiaries, which are unallowable costs. (Finding Code 11-40, 10-39, 09-37, 08-41, 07-39, 06-36)

Recommendation:

We recommend DCFS implement procedures to ensure recertification forms are received in accordance with the State's established process and maintained in the eligibility files for children receiving recurring adoption assistance benefits.

DCFS Response:

The Department agrees that 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. The Department plans to continue the procedure.

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

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

Program Name: Foster Care – Title IV-E

CFDA # and Program Expenditures: 93.658/93.658ARRA (\$196,164,000)

Award Numbers: 1101IL1401/1101IL1404/1001IL1401/1101IL1402/101IL1402

Questioned Costs: Cannot be determined

Finding 11-41 *Missing Documentation in Foster Care Case Files*

DCFS could not locate case file documentation supporting eligibility determinations for beneficiaries of the Foster Care program.

In order to be eligible to receive benefits under the program, a child must meet specific financial and non-financial eligibility criteria. One of these criterion is that the child would be eligible for the former Aid to Families with Dependent Children (AFDC) program for which eligibility is based on a child's age, among other factors.

During our testwork of 65 Foster Care beneficiary payments (totaling \$ 33,363), we reviewed case files for compliance with eligibility requirements and allowability of related benefits. We noted one beneficiary (with a sampled maintenance payment of \$392) 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. As a result, the beneficiary could have received benefits a year longer than permitted under Foster Care program regulations. DCFS claimed reimbursement for foster care benefits made on behalf of this child totaling \$38,254 during the year ended June 30, 2011.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursements contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria, among other things, require that the expenditures must be necessary, reasonable, and supported by adequate documentation, including documentation supporting eligibility determinations were performed in accordance with program requirements.

Eligibility for the Foster Care Program is predicated on certain eligibility criteria of the former Aid to Families with Dependent Children (AFDC) Program. According to 45 CFR 233.90, an otherwise eligible child who is under the age of 18 years may not be denied AFDC, regardless of whether she attends school or makes satisfactory grades.

In addition, a state may elect to include in its AFDC program children age 18 who are full-time students in a secondary school, or in the equivalent level of vocational or technical training, and who may reasonably be expected to complete the program before reaching the age 19. Based on the forgoing, unless the specific factors are met, eligibility ceases at the child's 18th birthday.

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The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure eligibility criteria is properly documented in case records and eligibility system.

In discussing these conditions with DCFS officials, they stated that the birth date for the child identified in this finding was data entered into the automated case file incorrectly; the correct date and certificate were in the paper file. The data entry error had no effect on the eligibility of the case for the adoption payment. DCFS believes that its existing procedures would have detected the error in the automated system prior to the year the child was no longer eligible for care under the program.

Failure to properly document a beneficiary's birth date could result in payments to ineligible beneficiaries. (Finding Code 11-41, 10-40)

Recommendation:

We recommend DCFS review its procedures for verifying that the information included in the child's case files are accurately reflected in the DCFS system to ensure all children for whom foster care benefits are claimed are eligible and payments are accurate.

DCFS Response:

The Department disagrees with the finding in that 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. Also, the Department does not believe it would have made an improper payment in the future as it has procedures in place where supervisory reviews, FFP conducted quarterly reviews, and regular case reviews to verify accuracy of data and documentation required to support foster care case payments to detect this type of error especially during the final year of eligibility. The Department agrees that data entered into the automated system should be the same as on the paper documentation.

In addition, trainings are conducted throughout the state to educate the field staff about importance of accurate and complete documentation required in paper case files and in the automated case files.

Auditors' Comment:

As stated in the finding above, failure to maintain the correct information within the eligibility system may result in payments to ineligible beneficiaries, which are unallowable costs. Additionally, DCFS was not able to identify the control procedures in place that would have identified this exception prior to the child's 18th birthday.

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

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

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

CFDA # and Program Expenditures: 93.658/93.658 ARRA (\$196,164,000)
93.659/93.659 ARRA (\$101,268,000)

Award Numbers: 1101IL1401/1101IL1404/1001IL1401/1101IL1402/1011IL1402 (93.658/93.658 ARRA)
(CFDA Number) 1101IL1403/1101IL1405/1001IL1403/1101IL1407/1001IL1407 (93.659/93.659 ARRA)

Questioned Costs: None

Finding 11-42 *Failure to Perform Cash Draws in Accordance with the Treasury-State Agreement*

DCFS did not perform its cash draws in accordance with the funding technique prescribed by the Treasury-State Agreement (TSA).

On an annual basis, the State of Illinois negotiates the TSA with the US Department of the Treasury (the Treasury) which details, among other things, the funding techniques to be used for requesting federal funds. The TSA requires DCFS to draw funds in monthly installments (on the median day of the month) equal to 1/3rd of the quarterly grant awards for the Foster Care and Adoption Assistance programs. During our testwork over cash draws performed for the Foster Care and Adoption Assistance programs, we noted DCFS drew funds four times during the year for each program on dates other than the median day of the month. These draws were in varying amounts which is not consistent with the requirements of the TSA.

According to section 6.3.1 of the Treasury-State Agreement for the period July 1, 2010 through June 30, 2011, the State is required to apply the funding techniques documented in section 6.3.2 to the federal assistance programs covered by the agreement. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the cash draws are performed in accordance with the TSA.

In discussing these conditions with DCFS officials, they stated that that the agency is doing everything necessary to minimize interest liability to the federal government and making draws in compliance with the grant award and the TSA.

Failure to draw funds in accordance with the TSA results in noncompliance with US Treasury regulations. (Finding Code 11-42)

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Recommendation:

We recommend DCFS implement procedures to ensure cash draws are performed in accordance with the TSA or amend the TSA to reflect cash draw request practices.

DCFS Response:

The Department disagrees with the finding; the Department believes it complies with the grant award, the TSA and the provisions of the Cash Management Improvement Act that limit the amount and timing of requests to draw Federal funds to only the amount necessary to meet actual and immediate program needs.

Auditors' Comment:

As stated above, the TSA requires DCFS to draw Foster Care and Adoption Assistance program funds using monthly installments (on the median day of the month) equal to 1/3rd of the quarterly grant awards for the Foster Care and Adoption Assistance programs. Our testing identified that DCFS did not perform cash draws on a monthly basis as prescribed by the TSA and DCFS has not amended the TSA to reflect its actual draw practices.

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For Year Ended June 30, 2011

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

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

Program Name: Guardianship Assistance
Adoption Assistance

CFDA # and Program Expenditures: 93.090/93.090ARRA (\$12,385,000)
93.659/93.659ARRA (\$101,268,000)

Award Numbers: 1001IL1406/1001IL1409/1101IL1406/1101IL1408/1101IL1409
(CFDA Number) (93.090/93.090ARRA)
1001IL1403/1001IL1407/1101IL1403/1101IL1405/1101IL1407
(93.659/93.659ARRA)

Questioned Costs: None

Finding 11-43 Inaccurate Reporting of Federal Expenditures

DCFS did not accurately report Federal expenditures under the Guardianship Assistance and Adoption Assistance programs.

DCFS inaccurately reported federal expenditures to the Illinois Office of the Comptroller (IOC) which were used to prepare the schedule of expenditures of federal awards (SEFA). Specifically, we noted DCFS improperly reported expenditures made under the Guardianship Assistance program under the Adoption Assistance program. The differences below were noted for the following programs administered by DCFS during the year ended June 30, 2011:

Program	Federal Expenditures Reported on the SEFA	Federal Expenditures Originally Reported on the SEFA	Difference
Guardianship Assistance	\$ 11,627,000	\$ -	\$ 11,627,000
Guardianship Assistance - ARRA	758,000	-	758,000
Adoption Assistance	93,532,000	105,159,000	(11,627,000)
Adoption Assistance - ARRA	7,736,000	8,494,000	(758,000)

According to OMB Circular A-133 §__.300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the SEFA. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure federal expenditures are accurately reported on the SEFA.

In discussing this with DCFS officials, they stated this program was previous claimed under the Adoption Assistance program; however, the separate CFDA number assigned by the federal government during fiscal year 2011 was not communicated to the financial unit.

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Failure to accurately report federal expenditures prohibits the completion of an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 11-43)

Recommendation:

We recommend DCFS establish procedures to accurately report federal expenditures used to prepare the SEFA to the IOC.

DCFS Response:

The Guardianship Assistance Program (GAP), a IV-E federal program created in October 2008, initially shared the same CFDA number as IV-E Adoption Assistance for two years. GAP was assigned its own CFDA number mid-way through State Fiscal Year 2011. The appropriate CFDA number for GAP has been and will be used beginning in State Fiscal Year 2012.

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

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

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

CFDA # and Program Expenditures: 93.658/93.658 ARRA (\$196,164,000)
93.659/93.659 ARRA (\$101,268,000)

Award Numbers: 1101IL1401/1101IL1404/1001IL1401/1101IL1402/1011IL1402 (93.658/93.658 ARRA)
(CFDA Number) 1101IL1403/1101IL1405/1001IL1403/1101IL1407/1001IL1407 (93.659/93.659 ARRA)

Questioned Costs: Cannot be determined

Finding 11-44 *Failure to Obtain Suspension and Debarment Certifications from Providers*

DCFS did not obtain required certifications that provider were not suspended or debarred from participation in Federal assistance programs for the Foster Care and Adoption Assistance Programs.

During our review of twenty five providers of the Foster Care and Adoption Assistance program, we noted DCFS did not include a suspension and debarment certification in all twenty five agreements of its provider agreements. As a result, DCFS did not obtain a certification that these providers were not suspended from participation in Federal assistance programs. Additionally, DCFS did not perform a verification check with the “Excluded Parties List System” (EPLS) maintained by the General Services Administration for providers.

Payments to providers allocated to the Foster Care and Adoption Assistance Programs totaled \$55,945,000 and \$5,617,000 respectively, during the year ended June 30, 2011.

According to 45 CFR 74.13, subawards and contracts with parties that are debarred, suspended or otherwise excluded from or ineligible for participation in the Federal assistance programs or activities under Executive Order 12549 and 12689, “Debarment and Suspension” are prohibited. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required certifications for covered contracts and subawards are received, documented, and not made with a debarred or suspended party.

In discussing these conditions with DCFS officials, they stated that our review of the list of 25 providers identified that none were on the debarment list. For the fiscal year 2011 contract development and negotiation period, we did not file individual agency certifications in the contract files and had no standard procedure or protocol in place at that time to document the inquiries conducted.

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Failure to perform verification procedures with the EPLS could result in the awarding of Federal funds to providers that are suspended or debarred from participation in Federal assistance programs. (Finding Code 11-44)

Recommendation:

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

DCFS Response:

The Department agrees that verification procedures should be competed and documented. On May 1, 2011 the Office of Contract Administration (OCA) implemented its federal review protocol to ensure that all of its contracted and known sub-contracted agencies were not suspended or debarred from doing business with the federal government. The protocol outlines how the Data Universal Numbering System (DUNS) number of its contracted providers is located and status verified on the Central Contractor Registration Screen (CCR). OCA has completed the DUNS review for all of its contracted agencies and sub-agencies for fiscal year 2012. In addition, the fiscal year 2012 Contract (Boilerplate) require all contracted vendors to list their DUNS Identification Number, if applicable, prior to submittal of the signed contract.

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

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

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

CFDA # and Program Expenditures: 93.658/93.658 ARRA (\$196,164,000)
93.659/93.659 ARRA (\$101,268,000)

Award Numbers: 1101IL1401/1101IL1404/1001IL1401/1101IL1402/1011IL1402 (93.658/93.658 ARRA)
(CFDA Number) 1101IL1403/1101IL1405/1001IL1403/1101IL1407/1001IL1407 (93.659/93.659 ARRA)

Questioned Costs: None

Finding 11-45 *Untimely Submission of Financial Reports*

DCFS does not have a process in place to ensure financial reports are prepared and submitted within required timeframes for the Foster Care and Adoption Assistance programs.

DCFS is required to prepare the *Foster Care and Adoption Assistance Financial Report* on a quarterly basis. During our testwork over two financial reports required to be submitted for the quarters ended September 30, 2010 and March 31, 2011, we noted the reports tested were submitted 45 and 58 days after the required due dates, respectively.

According to 45 CFR 201.5, the State is required to submit a quarterly statement of expenditures for each of the public assistance programs under the Social Security Act. The instructions for the ACF-IV-E / CB-496 report (OMB Form No. 097-0205) require the report to be submitted by the 30th day of the month following the end of each fiscal quarter. In addition, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure financial reports are submitted within required timeframes.

In discussing these conditions with DCFS officials, they state that DCFS has for the past several years generally requested an extension to the 30 day claim filing requirement. Extensions have been granted by the federal agency even though no communication has ever been received from the federal agency stating the extensions are not or would not be approved in the future. Due to the volume of data and data sources that are needed to compile the IV-E claim; some data sources simply are not ready by the end of the 30 day period.

Failure to prepare financial reports in a timely manner inhibits the ability of USDHHS to properly monitor and evaluate the performance of the programs. (Finding Code 11-45, 10-41)

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Recommendation:

We recommend DCFS implement procedures to ensure all financial reports are submitted within the established deadlines.

DCFS Response:

The Department concurs that there is a 30 days filing requirement. It has been a long standing practice of DHHS-ACF to grant filing extensions if the request is received timely from the state Title IV-E agency. DCFS has consulted with our regional DHHS-ACF Fiscal staff and they are in agreement with our practice. However, as a result of the State fiscal year 2010 Single Audit Finding, ACF Central Office has encouraged ACF Regional Offices to work with their respective states to ensure steps are being taken by their states to file claims within 30 days of the quarter end, even if incomplete.

Therefore, after consulting with our ACF Regional fiscal representative, beginning with the June 30, 2012 quarter, DCFS will file the Title IV-E claim within 30 days of the quarter end and follow up with corrected claims.

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

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

Program Name: Child Welfare Services – State Grants

CFDA # and Program Expenditures: 93.645 (\$8,286,000)

Award Numbers: G01101IL1400/G-1001IL1400/G-0901IL1400

Questioned Costs: None

Finding 11-46 *Failure to Ensure Timely Preparation of Initial Case Plans*

DCFS did not prepare initial case plans in a timely manner for Child Welfare Services beneficiaries.

The case plan serves as DCFS' written documentation of the services planned for each child taken into protective custody. The case plan describes DCFS' plans to improve or protect the welfare of the child. Information documented in the case plan includes the health and education records of the child, a description of the type of home or institution in which the child is to be placed, DCFS' plan for assuring the child receives safe and proper care and services to improve the condition of the child's home in order to facilitate his or her return home, as well as other pertinent information.

During a review of 40 case files selected for testwork, we noted eighteen of the initial case plans were completed within a range of two to 128 days over the 60 day federal requirement.

According to 45 CFR 1356.21(g)(2), case plans are required to be developed within a reasonable period, to be determined by the State, but no later than 60 days from the child's removal from their home. Per State requirements (705 ILCS 405/2-10.1), the State has defined a reasonable timeframe as 45 days.

In discussing these conditions with DCFS officials, they state that timely preparation of case plans is always a concern. Unfortunately, due to staff changes and reductions, placement changes, and coordination with other internal agency procedures and agencies including law enforcement, there are times when case plans are not prepared within the established timeframes.

Failure to prepare case plans in a timely manner could result in Child Welfare Services not being performed/provided in accordance with Title IV-E or the State law. (Finding Code 11-46, 10-42, 09-39, 08-40, 07-38, 06-37, 05-51, 04-37, 03-35, 02-33, 01-20, 00-20, DCFS 99-5)

Recommendation:

We recommend DCFS stress the importance of preparing and completing the initial service plans timely to all caseworkers to comply with Federal requirements.

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DCFS Response:

The Department agrees and continues to stress the importance of adequate and timely documentation for child case files through training and communications to all case staff. In addition, an upcoming SACWIS 5.0 release and the “decoupling” of finalizing the service plan from completion of the integrated assessment which requires more time to complete. By not waiting until the integrated assessment is completed is expected to improve timing of completion of the initial case plan to meet the federal requirement. Trainings will be used to remind case staff of the importance and need for timely completion of the initial case service plan. Through regular and reinforcement trainings, we stress the importance of adequate and timely case planning as a key component of providing quality service to children.

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State Agency: Illinois Department on Aging (IDOA)

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

Program Name: Aging Cluster

CFDA # and Program Expenditures: 93.044/93.045/93.053/93.705/93.707 (\$43,455,000)

Award Numbers: 11AAILT3SP/11AAILNSIP/10AAILT3SP/10AAILNSIP

Questioned Costs: None

Finding 11-47 *Inadequate On-Site Monitoring of Subrecipients*

IDOA is not adequately monitoring subrecipients receiving federal awards for the Aging Cluster.

IDOA passes through federal funding to thirteen area agencies on aging (subrecipients) throughout the State. Each of these agencies works with IDOA to develop an annual area plan detailing how funds will be used to meet the goals and objectives of the Aging Cluster programs. IDOA has established policies and procedures for monitoring its subrecipients, which includes: performing informal evaluations (on-site reviews), reviewing periodic financial, programmatic, and single audit reports, and providing training and guidance to subrecipients as necessary. Additionally, IDOA performs on-site programmatic monitoring procedures on the Advisory Councils for each area agency once every three years. The Advisory Councils were established to advise the area agencies on matters relating to the development and administration of the area plans, but are not responsible for the direct administration of the program benefits.

During our testwork over four subrecipients of the Aging Cluster with total expenditures of approximately \$22,949,000 we noted on-site monitoring procedures had not been performed since 1998 for any the subrecipients selected. Upon further discussion with Agency personnel, we noted fiscal on-site monitoring procedures were not performed for any subrecipients during the year ended June 30, 2011. However, we noted IDOA performs on-site reviews over internal controls related to the operation of the program at each AAAs. The reviews were only over internal controls in place and there were no reviews over financial or programmatic records to ensure the federal awards were used for authorized purposes in compliance with laws and regulations, and the provisions of the grant agreement. Total awards passed through to subrecipients were approximately \$41,261,000 during the year ended June 30, 2011.

According to OMB Circular A-133 ___.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure on-site reviews are performed on a periodic basis.

In discussing these conditions with IDOA officials, they stated on-site monitoring reviews were not implemented during fiscal year 2011 due to scheduling conflicts and critical vacancies within the Division of Fiscal Administration.

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Failure to adequately perform subrecipient monitoring procedures could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the annual area plan. (Finding Code 11-47, 10-43, 09-40, 08-42, 07-40, 06-38, 05-52, 04-38, 03-36)

Recommendation:

We recommend IDOA perform periodic on-site reviews of all subrecipients which include reviewing financial and programmatic records, observation of operations and/or processes to ensure their subrecipients are administering the federal program in accordance with the applicable laws, regulations, and the annual area plan.

IDOA Response:

The Department attempted to correct this finding prior to June 30, 2011. However, on-site reviews did not begin until July 2011, due to scheduling conflicts and critical vacancies in the Division of Fiscal Administration. The Department is continuing its efforts to back-fill these positions. The Department has performed three on-site monitoring visits thus far in fiscal year 2012 and has two additional visits scheduled in April 2012. A minimum of five on-site monitoring visits are scheduled for fiscal year 2013. Procedures are being established to ensure that at least five visits are conducted annually.

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For Year Ended June 30, 2011

State Agency: Illinois Department on Aging (IDOA)

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

Program Name: Aging Cluster

CFDA # and Program Expenditures: 93.044/93.045/93.053/93.705/93.707 (\$43,455,000)

Questioned Costs: None

Finding 11-48 *Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports*

IDOA is not adequately monitoring the OMB Circular A-133 reports submitted by its subrecipients receiving federal awards for the Aging Cluster.

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

During our testwork over A-133 desk reviews for four subrecipients of the Aging Cluster (with total expenditures of approximately \$22,949,000) we noted the following exceptions:

- Expenditures reported in the schedule of expenditures of federal awards for one subrecipient were not reconciled to IDOA's records of amounts passed through as of the reporting date. Amounts passed through to this subrecipient approximated \$8,435,000 during the year ended June 30, 2011.
- A management decision was not issued for a finding reported in the OMB Circular A-133 report of one subrecipient. Amounts passed through to this subrecipient approximated \$7,392,000 during the year ended June 30, 2011.

Total awards passed through to subrecipients of the Aging Cluster were approximately \$41,261,000 during the year ended June 30, 2011.

According to OMB Circular A-133 ____400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 compliance supplement, dated March 2011, a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

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In discussing these conditions with IDOA officials, they stated the position responsible for monitoring the A-133 audit reports was filled by a 75-day contractual employee. A part-time staff person was not sufficient to eliminate the audit finding prior to June 30, 2011.

Failure to obtain and adequately review subrecipient OMB Circular A-133 audit reports in a timely manner may result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 11-48, 10-44, 09-41, 08-43, 07-41, 06-39)

Recommendation:

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

IDOA Response:

The distribution of the desk reviews has been realigned effective March 1, 2012, to ensure all A-133 audit reports are reviewed timely and receive a supervisory review that is properly documented. Management decisions will be issued for all findings reported in the OMB Circular A-133 reports.

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For Year Ended June 30, 2011

State Agency: Illinois Department on Aging (IDOA)

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

Program Name: Aging Cluster

CFDA # and Program Expenditures: 93.044/93.045/93.053/93.705/93.707 (\$43,455,000)

Award Numbers: 11AAILT3SP/11AAILNSIP/10AAILT3SP/10AAILNSIP

Questioned Costs: None

Finding 11-49 *Inadequate Cash Management Procedures for Subrecipients*

IDOA does not have adequate procedures to monitor the cash needs of subrecipients and to determine whether subrecipients are minimizing the time elapsing between the receipt and disbursement of funding for the Aging Cluster program.

IDOA passes through federal funding to thirteen area agencies on aging (subrecipients) throughout the State. The subrecipients request monthly cash advances based upon estimated accrual expenditures. IDOA will disburse estimated accrual expenditures for the requested period not to exceed 1/12th of the subrecipient's grant award. Each subrecipient is required to maintain the federal funds in an interest bearing account. Upon close out of the grant, the subrecipients certify and remit the interest earned back to IDOA.

During our test work, we noted that IDOA requires its subrecipients to prepare a quarterly reconciliation of their net cash position; however, IDOA does not reduce a subrecipient's cash advance if the reconciliation identifies the subrecipient has excess cash on hand. As a result, subrecipients remitted approximately \$17,000 in interest earned on excess federal funds to IDOA. Additionally, IDOA does not have a process in place to determine if the interest remitted is reasonable.

When funds are provided in advance of expenditures, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the US Treasury and disbursement. Specifically, 45 CFR 92.21 requires that pass-through entities monitor cash advances to subrecipients to ensure those advances are for immediate cash needs only. Based on discussions with Federal agencies, we have interpreted "immediate cash needs" as 30 days or less of advance funding. In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include analysis of the subrecipient's cash position prior to advancing program funds.

In discussing these conditions with IDOA officials, they stated the Title III program is funded on a federal fiscal year and they planned their corrective action to occur at the beginning of the federal fiscal year (October 1, 2011).

Providing subrecipients funding advances of greater than 30 days results in additional costs of financing for the US Treasury. (Finding Code 11-49, 10-46, 09-42, 08-44, 07-42, 06-41)

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Recommendation:

We recommend IDOA review its advance funding policies and techniques for subrecipients and implement a monitoring process to ensure subrecipients receive no more than 30 days of funding on an advance basis and that the subrecipient interest certified and remitted appears reasonable.

IDOA Response:

The Department had previously advanced cash to subrecipients, but effective October 1, 2011, the cash disbursements are based primarily on reimbursement for the prior month expenditures. The Department will continue to require a quarterly reconciliation of the subrecipients' net cash position to ensure that all program income is being expended prior to their request for additional federal funds. The Bureau of Business Services will also schedule on-site monitoring visits with the subrecipients to verify the cash requests and ensure all requests are in compliance with federal laws, regulations, and program compliance requirements.

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State Agency: Illinois Department of Public Health (IDPH)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Immunization Grants Program
CFDA # and Program Expenditures: 93.268/93.712 (\$103,831,000)
Award Numbers: 5H23IP522568-09/3H23IP522568-07S1
Questioned Costs: None

Finding 11-50 *Inadequate Monitoring of Immunization Providers*

IDPH is not adequately monitoring providers under the Immunization Grants program.

IDPH receives the majority of its federal Immunization Grants program funding in the form of vaccines which are distributed to medical providers throughout the State. Providers receiving vaccines under the Immunization Grants program are responsible for determining whether vaccine recipients meet program eligibility requirements, ensuring vaccines are properly maintained, accounted for, and safeguarded, and documenting the administration of vaccines in each recipient's permanent medical file. IDPH is responsible for enrolling providers in the program and periodically reviewing the records of its providers to ensure the program requirements are being met. IDPH requires each provider to sign a standardized enrollment form which communicates the provider's responsibilities under the Immunization Grants program and requires the provider to make program records available for IDPH's review.

During our testwork over 45 providers (receiving vaccines valued at \$2,037,743 during the year ended June 30, 2011) of the Immunization Grants program, we noted four providers (receiving vaccines valued at \$142,158 during the year ended June 30, 2011) for which IDPH performed on-site monitoring reviews 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 IDPH.

Additionally, during our review of the enrollment forms for the 45 providers identified above, we noted three providers (receiving vaccines valued at \$120,119 during the year ended June 30, 2011) for which IDPH could not provide a completed enrollment form.

IDPH passed through vaccines valued at \$98,454,000 during the year ended June 30, 2011 to providers of the Immunization Grants program.

According to 42 USC 300aa-25, a record of vaccine administered shall be made in each person's permanent medical record (or in a permanent office log or file to which a legal representative shall have access upon request). According to the A-133 Compliance Supplement, dated March 2011, the State is required to perform procedures to ensure immunization records are appropriately documented by medical providers receiving vaccines under the Immunization Grants program. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control

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designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring all monitoring findings are communicated to providers, corrective actions plans are obtained for any deficiencies identified, and follow up procedures are performed. Effective internal controls should also include ensuring provider signed enrollment forms are on file for all providers of the Immunization Grants program.

In discussing these conditions with IDPH officials, they stated that an unfilled position that was responsible for monitoring submission of enrollment forms prior to providers receiving vaccines resulted in the deficiency. In addition, lack of adequate staff education resulted in the reporting problems noted in the finding.

Failure to adequately monitor providers of the Immunization Grants program could result in vaccines being used for unallowable purposes and providers not properly administering the program in accordance with laws, regulations, and the grant agreement. (Finding Code 11-50)

Recommendation:

We recommend IDPH 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. IDPH should also ensure enrollment forms are on file for all providers receiving vaccines under the Immunization Grants program.

IDPH Response:

The Department concurs with the finding and recommendation. To address this deficiency, in December, 2011 the Illinois Vaccine For Children (VFC) program mandated completion of enrollment forms for all Illinois VFC Providers. Completion of this enrollment form will be an annual requirement. To enforce the receipt of completed enrollment forms, non-compliance will result in suspension of VFC vaccine ordering capability for each affected provider until receipt of completed forms.

On-going Immunization staff and record assessor training now include sections that deal with identified deficiencies, and requirement of submission of corrective action plans, and follow-up visits to monitor the implementation of the corrective action plan.

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State Agency: Illinois Department of Public Health (IDPH)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Public Health Emergency Preparedness
Centers for Disease Control and Prevention – Investigations and Technical Assistance
HIV Care Formula Grants

CFDA # and Program Expenditures: 93.069 (\$31,742,000)
93.283 (\$12,841,000)
93.917 (\$33,277,000)

Award Numbers: 3H75TP000325-01S1/1H75TP000325-01/5U90TP516966-10/
(CFDA Number) 3U90TP516966-10W1/1U90TP000176-01 (93.069)
5H23IP522568-07/5H23IP522568-08 (93.283)
G24HA08494-03-00/2X07HA00013-19/2X07HA00013-12 (93.917)

Questioned Costs: None

Finding 11-51 *Inadequate Monitoring of Subrecipient OMB Circular A-133 Audit Reports*

IDPH does not have an adequate process for ensuring subrecipients of the Public Health Emergency Preparedness (PHEP), Centers for Disease Control and Prevention – Investigations and Technical Assistance (CDC Investigations and Technical Assistance), and HIV Care Formula Grants programs have complied with OMB Circular A-133 audit requirements.

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

During our testwork over 58 subrecipients (25 for PHEP, 25 for CDC Investigations and Technical Assistance and 8 for HIV Care Formula Grants) of the PHEP, CDC Investigations and Technical Assistance, and HIV Care Formula Grants program with expenditures totaling \$18,384,167, \$5,554,126 and \$6,560,670 respectively, during the year ended June 30, 2011, we noted the following:

- For one subrecipient of the PHEP program (with expenditures totaling \$1,311,363 during the fiscal year), and three subrecipients of CDC Investigations and Technical Assistance program (with expenditures totaling \$1,014,392 during the fiscal year), A-133 audit reports were not obtained within the required nine months. We noted that there was no evidence of follow up

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procedures to obtain reports performed by IDPH and the reports had not been obtained as of the date our testwork was performed (December 15, 2011).

- For two subrecipients of CDC Investigations and Technical Assistance program (with expenditures totaling \$207,535 during the fiscal year), the date report was received was not noted/stamped on the subrecipients audit report. As such, we were unable to determine if they were received within the required nine months or reviewed in a timely manner.
- For two subrecipients of the PHEP program (with expenditures totaling \$4,778,526 during the fiscal year), two subrecipients of CDC Investigations and Technical Assistance program (with expenditures totaling \$284,189 during the fiscal year), and one subrecipient of the HIV Care Formula Grants program (with expenditures totaling \$646,267 during the fiscal year), the A-133 reports were received between 13 and 154 days after the nine month requirement.

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

Subrecipient expenditures under the federal programs for the year ended June 30, 2011 were as follows:

Program	Total Fiscal Year 2011 Subrecipient Expenditures	Total Fiscal Year 2011 Program Expenditures	Percentage
Public Health Emergency Preparedness	\$20,806,000	\$31,742,000	65.5%
CDC Investigations and Technical Assistance Program	\$6,933,000	\$12,841,000	54.0%
HIV Care Formula Grants	\$28,558,000	\$33,277,000	8.6%

According to OMB Circular A-133 §___.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 compliance supplement, dated March 2011, a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient’s audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient’s audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

In discussing these conditions with IDPH officials, they stated that staffing shortages have limited their ability to completely meet these requirements.

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Failure to obtain and adequately review subrecipient OMB Circular A-133 audit reports in a timely manner could result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 11-51, 10-49, 09-44, 08-48, 07-45, 06-46, 05-56).

Recommendation:

We recommend IDPH establish procedures to ensure all subrecipients receiving federal funds have audits performed in accordance with OMB Circular A-133. Additionally, desk reviews of A-133 audit reports should be formally documented using the A-133 desk review checklist, which includes procedures to determine whether the audit reports meet the requirements of OMB Circular A-133, federal funds reported in the schedule of expenditures of federal awards reconcile to IDPH records, and Type A programs are audited at least once every three years.

IDPH Response:

The Department concurs with the finding and recommendation. The Department will continue to monitor receipt of audit reports from its subrecipients and be more diligent in its follow up to obtain any missing reports. The Department will be sure that date stamping is performed upon receipt of reports. The Department continues to support efforts to consolidate the A-133 audit function across state agencies recommended in P.A. 96-1141 that would provide both the resources and consistency of review across impacted agencies.

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State Agency: Illinois Department of Public Health (IDPH)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Public Health Emergency Preparedness Program
CFDA # and Program Expenditures: 93.069 (\$31,742,000)
Award Numbers: 3H75TP000325-01S1/1H75TP000325-01/5U90TP516966-10/3U90TP516966-10W1/1U90TP000176-01
Questioned Costs: None

Finding 11-52 *Inadequate Monitoring of PHEP Subrecipients*

IDPH does not sufficiently perform on-site reviews of subrecipients receiving federal awards under the Public Health Emergency Preparedness (PHEP) program.

IDPH passes through PHEP program funding to various local health departments for developing and upgrading state and local response systems for threats from terrorism, pandemic influenza, and other public health emergencies. The awards provided to subrecipients are a combination of cash grants and non-cash awards in the form of vaccines. Subrecipients are also required to provide matching funds from non-federal sources to assist the State in meeting the PHEP program's match requirement.

During our testwork of 25 subrecipients of the PHEP program, we noted IDPH monitors subrecipients of the PHEP program by: (1) reviewing periodic expenditure reports, (2) examining single audit reports and findings, (3) performing on-site reviews of compliance with programmatic requirements on a periodic basis, and (4) periodic communication of program requirements. However, IDPH does not perform on-site monitoring procedures to review the fiscal and administrative capabilities and internal controls of any of its PHEP subrecipients. IDPH also has not established procedures to monitor the matching amounts reported by subrecipients to ensure the expenditures reported by the subrecipients meet general allowable cost requirements or PHEP program specific requirements.

Total federal awards passed through to subrecipients of the PHEP program were approximately \$20,806,000.

According to OMB Circular A-133____.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring on-site review procedures are designed to monitor all applicable compliance requirements and fiscal controls.

In discussing these conditions with IDPH officials, they stated the inadequate monitoring of sub recipients was the result of a lack of staffing dedicated to performing on-site fiscal compliance monitoring.

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Failure to adequately monitor subrecipients could result in federal or matching funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement. (Finding Code 11-52, 10-48)

Recommendation:

We recommend IDPH revise the on-site monitoring procedures to include procedures to review each applicable compliance requirement and the fiscal and administrative controls of its subrecipients. IDPH should also evaluate the current staffing of its monitoring department to ensure resources are adequate to complete reviews within prescribed timeframes.

IDPH Response:

The Department concurs with this finding and recommendation. The administering office has developed on-site monitoring procedures to review each applicable compliance requirement and the fiscal and administrative controls of sub recipients. A fiscal staff member now allocates a portion of their time to perform on-site fiscal reviews. The on-site fiscal compliance monitoring program was implemented January 1, 2012.

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State Agency: Illinois Department of Public Health (IDPH)

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

Program Name: Centers for Disease Control and Prevention – Investigations and Technical Assistance
HIV Care Formula Grants

CFDA # and Program Expenditures: 93.283 (\$12,841,000)
93.917 (\$33,277,000)

Award Numbers: 5H23IP522568-07/5H23IP522568-08 (93.283)
(CFDA Number) G24HA08494-03-00/2X07HA00013-19/2X07HA00013-12 (93.917)

Questioned Costs: None

Finding 11-53 *Inadequate On-Site Monitoring of Subrecipients*

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

IDPH monitors subrecipients of the CDC Investigations and Technical Assistance program by: (1) reviewing periodic expenditure reports, (2) examining single audit reports and findings, (3) performing on-site reviews of compliance with programmatic requirements on a quarterly basis, and (4) periodic communication of program requirements. However, IDPH does not perform on-site monitoring procedures to review the fiscal and administrative capabilities and internal controls of any of the subrecipients.

Subrecipient expenditures under the federal programs for the year ended June 30, 2011 were as follows:

Program	Total Fiscal Year 2011 Subrecipient Expenditures	Total Fiscal Year 2011 Program Expenditures	Percentage
CDC Investigations and Technical Assistance Program	\$6,933,000	\$12,841,000	54.0%
HIV Care Formula Grants	\$28,558,000	\$33,277,000	85.8%

According to OMB Circular A-133 _____.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring on-site review procedures are performed in a timely manner and are designed to monitor fiscal controls.

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In discussing these conditions with IDPH officials, they stated that the agency did not have adequate staffing levels to be able to perform on-site fiscal compliance monitoring.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations and the grant agreement. (Finding Code 11- 53, 10-50, 09-45, 08-49, 07-44, 06-44, 05-55, 04-42)

Recommendation:

We recommend IDPH revise the on-site monitoring procedures to include procedures to review the subrecipients' fiscal and administrative capabilities.

IDPH Response:

The Department concurs with the finding and recommendation. The HIV Care program has resolved the issue for upcoming audits by the recent hiring of a staff person to conduct fiscal monitoring of subrecipients. The HIV Care program will now conduct both fiscal and program onsite audits. Any findings will require a correction plan submitted to IDPH within 30-days of the site visit.

The Office of Women's Health (OWH) has developed the Illinois Breast and Cervical Cancer Program (IBCCP) Internal Control and Review Questionnaire. The review tool will pose a series of questions to assess the effectiveness of the fiscal and administrative capabilities and internal controls of the subrecipients. The subrecipients will be asked to complete, certify and submit the review tool as a component of the annual Mid-Year Desk Audit. When a corrective action plan is submitted the OWH will review and follow-up with the subrecipient fiscal agent to monitor implementation and compliance. The utilization of the review tool will commence with the fiscal year 2012 annual Mid-Year Desk Audit cycle and will be an on-going component of subrecipient monitoring.

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State Agency: Illinois Department of Public Health (IDPH)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Medicaid Cluster
CFDA # and Program Expenditures: 93.775/93.777/93.778/93.778 ARRA (\$9,355,906,000)
Award Numbers: 05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN
Questioned Costs: None

Finding 11-54 *Failure to Investigate Provider Complaints within Required Timeframes*

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

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

During our testwork over 40 complaints filed against Medicaid providers during the year ended June 30, 2011, we identified twelve complaints that were not investigated within the timeframes required by the State's law. The delays in investigating these complaints ranged from 10 to 158 days in excess of required timeframes. Additionally, we identified 3 complaints that had not been investigated as of the date of our testwork. As of the date of our testwork, the investigation into these complaints ranged from 94 to 421 days in excess of required timeframes.

According to Section 5010 of The Centers for Medicare and Medicaid Services (CMS) State Operations Manual, each state is expected to have written policies and procedures to ensure that the appropriate response is taken for each complaint received against providers. Among other things, these policies and procedures are required to include timelines for investigating complaints which are at least as stringent as those included in federal regulations. Additionally, the Nursing Home Care Act (210 ILCS 45/3-702(d)) requires complaints to be investigated within 30 days of receipt unless the complaint alleges abuse or neglect. Complaints of abuse or neglect are required to be investigated within 7 days of receipt.

In discussing these conditions with IDPH officials they stated at the time of the audit, there were major staffing issues in one of our regional offices. Due to this lack of staff, the 30 day timeframe for complaint investigations was not consistently met.

Failure to investigate complaints against Medicaid providers within required timeframes may prevent the State from identifying and correcting health and safety violations and from protecting the welfare of Medicaid beneficiaries. (Finding Code 11-54, 10-52, 09-47, 08-53, 07-48)

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Recommendation:

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

IDPH Response:

The Department concurs with the finding and recommendation. Within the past year, the Office of Health Care Regulation, Division of LTC Field Operations has added a significant number of new surveyors pursuant to PA 96-1372. This increased staffing will assist the program in investigating all complaints within the timeframes required by State law.

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State Agency: Illinois Department of Public Health (IDPH)

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

Program Name: Medicaid Cluster

CFDA # and Program Expenditures: 93.775/93.777/93.778/93.778 ARRA (\$9,355,906,000)

Award Numbers: 05-1005IL5MAP/05-1105IL5MAP/05-1005IL5ADM/05-1105IL5ADM/
05-1005ILARRA/05-1105ILARRA/05-1105ILEXTN (93.775/93.777/93.778/93.778ARRA)

Questioned Costs: None

Finding 11-55 *Inadequate Procedures to Verify Provider Licenses*

IDPH does not have adequate procedures to verify medical providers are properly licensed in accordance with applicable State laws.

During our testwork over the licensing of 40 providers of the Medicaid Cluster program for the year ended June 30, 2011, we noted a license was not on file for one providers sampled. Upon further review with IDPH personnel, we noted this provider was an end stage renal disease facility and IDPH stated this provider type was not required to be licensed. The CMS State Operations Manual for End Stage Renal Disease Facilities section 405.2135 requires these facilities to be licenses if State law provides for the licensure of such facilities. The Illinois End Stage Renal Disease Facility Act (210 ILCS 62/10) states that no person shall open, manage, conduct, offer, maintain, or advertise an end stage renal disease facility without a valid license issued by the State.

Payments to this provider under the Medicaid Cluster totaled \$479,840, during the year ended June 30, 2011. Payments to end stage renal disease facilities under the Medicaid Cluster totaled \$87,357,622, during the year ended June 30, 2011.

According to 42 CFR 455.412, IDPH is required to have a method for verifying that any provider purporting to be licensed in accordance with the laws of any State is licensed by such State and to confirm that the provider's license has not expired and that there are no current limitations on the provider's license. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to verify provider licenses directly with licensing agencies upon enrollment of a provider and on a periodic basis.

In discussing these conditions with IDPH officials, they stated that the rulemaking has been delayed due to staffing shortages and other competing priorities.

Failure to verify providers have met the State licensing requirements directly with licensing agencies inhibits the State's ability to determine provider eligibility and could result in payments being made to ineligible providers, which are unallowable. (Finding Code 11-55)

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Recommendation:

We recommend IDPH implement policies and procedures to verify providers have met the State licensing requirements directly with licensing agencies upon enrollment and on a periodic basis.

IDPH Response:

The Department concurs in the finding and recommendation. The rulemaking to implement the Licensing Act has not yet been completed and licenses cannot be issued until the rulemaking is adopted. The Department is working with the End Stage Renal Disease Advisory Committee to draft, propose and adopt the necessary regulations.

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State Agency: Illinois State Board of Education (ISBE)

Federal Agency: US Department of Education (USDE)

Program Name: Title I, Part A Cluster

CFDA # and Program Expenditures: 84.010/84.389ARRA (\$736,180,000)

Award Numbers S010A080013/S010A090013/S010A100013/S010A080013/ S389A100013

Questioned Costs: None

Finding 11-56 *Failure to Sanction Non-Comparable Local Education Agency (LEA) and Inadequate Documentation for Determining Comparability*

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

LEAs must provide educational services for schools receiving Title I funds that are comparable (equal) to those that are not receiving Title I funds within the same school district (“comparability of services”). Based on information provided from a USDE audit and procedures performed during our audit, we noted ISBE did not sanction one LEA which 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.

Section 1120A(c) of the Elementary and Secondary Education Act states that a subrecipient may receive funds under this part only if state and local funds will be used in schools served under this part to provide services that, taken as a whole, are at least comparable to services in schools that are not receiving funds under this part. Each subrecipient must maintain records that are updated biannually, documenting compliance with the comparability requirement. The State Educational Agency is ultimately responsible for ensuring that all subrecipients remain in compliance with the comparability requirement. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure that the subrecipients are effectively monitored in order to ensure they are compliant with the comparability of services requirement.

In discussing these conditions with ISBE officials, they stated the non-comparability issue was first raised in the U.S. Department of Education (ED) Office of the Inspector General Report on Comparability issued June 7, 2007. This report stated that; “Determinations of corrective action to be taken, including

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the recovery of funds, will be made by the appropriate Department of Education officials, in accordance with the General Education Provisions Act.” ISBE has received guidance from the U.S. Department of Education (USDE) regarding corrective action, has entered into a settlement agreement with the USDE on July 12, 2011, and 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.

Failure to ensure that LEAs remain in compliance with the comparability of services requirement may result in: 1) an inequitable education for students attending schools receiving Title I funds and 2) unallowable costs. (Finding Code 11-56, 10-53, 09-48, 08-54, 07-52, 06-51)

Recommendation:

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

ISBE Response:

As has been previously stated, ISBE has taken the appropriate corrective action per the U.S. Department of Education and 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.

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

CFDA # and Program Expenditures: 84.010/84.389ARRA (\$736,180,000)
84.027/84.173/84.391ARRA/84.392ARRA(\$556,784,000)
84.048 (\$40,415,000)
84.287 (\$40,189,000)
84.357 (\$9,526,000)
84.367 (\$110,746,000)

Award Numbers S010A080013/S010A090013/S010A100013/S010A080013/
(CFDA Number) S389A100013(84.010/84.389ARRA)
H027A080072/H027A090072/H027A100072/H391A100014A
(84.027/84.173/84.391ARRA)
V048A080013/V048A090013/V048A100013 (84.048)
S287C080013/S287C090013/S287C100013 (84.287)
S357A080014/S357A090014/S357A100014 (84.357)
S367A080012/S367A090012/S367A100012 (84.367)

Questioned Costs: None

Finding 11-57 Inadequate On-Site Fiscal Monitoring of Subrecipients

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

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

In reviewing the subrecipient risk assessment procedures performed by ISBE, we noted the risk criteria were evaluated on an entity-wide basis for each subrecipient; however, several subrecipients selected for on-site reviews were comprised of numerous individual school sites of which only a portion were subject to on-site fiscal and administrative review procedures. Upon further investigation, we noted ISBE has not

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developed measurable selection criteria for determining which individual school sites will be subject to on-site monitoring procedures for each subrecipient selected for review.

Further, during our testwork over a sample of 40 subrecipients from each of the programs identified above, we noted the following number of subrecipients that were selected for on-site fiscal and administrative reviews based on the criteria identified above for which an actual review was not performed:

Program	Number of Subrecipients Selected but not Reviewed
Title I, Part A Cluster	25
Special Education Cluster	25
Twenty-First Century Community Learning Centers	6
Reading First State Grants State Grants	1
Improving Teacher Quality State Grants	24

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

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

In discussing these conditions with ISBE officials, they stated the level of External Assurance staffing continues to impact the ability of the division to meet scheduled monitoring visits. The External Assurance division has been reorganized and management has added four additional staff members.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement (Finding Code 11-57, 10-54, 09-49, 08-55, 07-53)

Recommendation:

We recommend ISBE evaluate the current staffing of the External Assurance Department to ensure resources are allocated to perform this function. We also recommend ISBE review its risk assessment criteria and establish measurable selection criteria for selecting individual school sites for on-site reviews. Finally, ISBE should review and update its monitoring instruments to ensure they include procedures for all direct and material compliance requirements.

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ISBE Response:

ISBE agrees and understands the importance of on-site fiscal monitoring. The Division of External Assurance was reorganized in March 2011 and a new Division Administrator was hired in April 2011. They have developed a new risk assessment tool for fiscal year 2012, performed the risk assessment for fiscal year 2012, and have implemented a new fiscal year 2012 subrecipient monitoring plan for ISBE with the expectation of completing the fiscal year 2012 plan fieldwork by June 30, 2012. In addition, External Assurance has added four additional staff members.

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State Agency: Illinois State Board of Education (ISBE)
Federal Agency: US Department of Education (USDE)
Program Name: Title I, Part A Cluster
Improving Teacher Quality State Grants
CFDA # and Program Expenditures: 84.010/84.389ARRA (\$736,180,000)
84.367 (\$110,746,000)

Award Numbers S010A080013/S010A090013/S010A100013/S010A080013/
(CFDA Number) S389A100013(84.010/84.389ARRA)
S367A080012/S367A090012/S367A100012 (84.367)

Questioned Costs: None

Finding 11-58 *Inadequate On-Site Programmatic Monitoring of Subrecipients*

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

On-site programmatic monitoring reviews of subrecipients of the Title I, Part A Cluster and Improving Teacher Quality State Grants programs are performed by the External Assurance Department of ISBE in conjunction with the fiscal and administrative reviews. ISBE selects subrecipients in these programs to perform on-site monitoring using a method which combines elements of both cyclical and risk based approaches. This approach is designed to result in all subrecipients being reviewed on an annual, every 2 year, or every 3 year cycle, and all programs being reviewed at least once every 6 years.

Specifically, ISBE places each subrecipient receiving funding into a risk level (low, medium, and high) category that dictates the frequency (annual, every 2 years, and every 3 years, respectively) of on-site monitoring procedures. The risk assessments consider the following factors: the funding level received by the entity, the entity's financial status, the entity's improvement status, any past audit findings, and the type of entity.

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

In reviewing the subrecipient risk assessment procedures performed by ISBE, we noted the risk criteria were evaluated on an entity-wide basis for each subrecipient; however, several subrecipients selected for on-site reviews were comprised of numerous individual school sites of which only a portion were subject to on-site fiscal and administrative review procedures. Upon further investigation, we noted ISBE has not developed measurable selection criteria for determining which individual school sites will be subject to on-site monitoring procedures for each subrecipient.

Further, during our audit procedures, we selected a sample of 40 subrecipients for both Title I, Part A Cluster and Improving Teacher Quality State Grants and noted the following number of subrecipients that

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were selected for an on-site programmatic review based on the criteria above for which an actual review was not performed:

Program	Number of Subrecipients Selected but not Reviewed
Title I, Part A Cluster	25
Improving Teacher Quality State Grants	25

Additionally, the USDE performed a review of ISBE’s administration of the Title I, Part A Cluster and Improving Teacher Quality State Grants programs. During this review, USDE identified several instances of noncompliance with program regulations at the subrecipient level, which have been attributed to deficiencies in ISBE’s monitoring procedures for subrecipients of these programs. These instances of non-compliance at the subrecipient level were noted in the following areas:

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

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

In discussing these conditions with ISBE officials, they stated the level of External Assurance staffing continues to impact the ability of the division to meet scheduled monitoring visits. The External Assurance division has been reorganized and management has added four additional staff members.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 11-58, 10-55, 09-50, 08-56, 07-54)

Recommendation:

We recommend ISBE evaluate the current staffing of the External Assurance department to ensure resources are allocated to perform this function. We also recommend ISBE review its risk assessment criteria and establish measurable selection criteria for selecting individual school sites for on-site reviews. Finally, we recommend ISBE update its monitoring instruments (programs) to ensure that the subrecipients’ compliance with certain program requirements is properly monitored and documented.

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ISBE Response:

ISBE agrees and understands the importance of on-site programmatic monitoring. The Division of External Assurance was reorganized in March 2011 and a new Division Administrator was hired in April 2011. They have developed a new risk assessment tool for fiscal year 2012, performed the risk assessment for fiscal year 2012, and have implemented a new fiscal year 2012 subrecipient monitoring plan for ISBE with the expectation of completing the fiscal year 2012 plan fieldwork by June 30, 2012. In addition, External Assurance has added four additional staff members.

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For Year Ended June 30, 2011

State Agency: Illinois State Board of Education (ISBE)

Federal Agency: US Department of Education (USDE)

Program Name: Title I, Part A Cluster
Special Education Cluster

CFDA # and Program Expenditures: 84.010/84.389ARRA (\$736,180,000)
84.027/84.173/84.391ARRA/84.392ARRA (\$556,784,000)

Award Numbers S010A080013/S010A090013/S010A100013/S010A080013/
(CFDA Number) S389A100013(84.010/84.389ARRA)
H027A080072/H027A090072/H027A100072/H391A100014A
(84.027/84.173/84.391ARRA)

Questioned Costs: None

Finding 11-59 *Inadequate Cash Management Procedures for Subrecipients*

ISBE does not have adequate procedures to monitor the cash needs of subrecipients and to determine whether subrecipients are minimizing the time elapsing between the receipt and disbursement of funding for Title I, Part A Cluster, Special Education Cluster, and the State Fiscal Stabilization Fund (SFSF) Cluster programs.

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

When funds are provided in advance of expenditure, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the US Treasury and disbursement. Specifically, 34 CFR 80.37 requires the pass-through entities monitor cash advances to subrecipients to ensure those advances are for immediate cash needs only. Based on discussions with Federal agencies, we have interpreted "immediate cash needs" as 30 days or less of advance funding. In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include analysis of the subrecipient's cash position prior to advancing program funds.

In discussing these conditions with ISBE officials, they stated that due to a similar finding identified by the Federal Office of Inspector General in a February 2010 audit of ISBE's internal controls regarding Federal stimulus funds, the agency has made a significant policy change in how Federal funds will be distributed to local education agencies beginning in fiscal year 2012.

Failure to monitor the cash position of subrecipients could result in advances in excess of 30 days cash needs and in additional costs of financing for the US Treasury. (Finding Code 11-59, 10-58, 09-51)

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Recommendation:

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

ISBE Response:

ISBE agrees. The agency 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. LEAs no longer receive advance payments based on a pre-approved payment schedule but rather receive payments through a modified reimbursement method. LEAs are reimbursed as cumulative cash basis expenditures are reported. The “modified” option allows LEAs the ability to request a one month advance along with their cumulative cash basis expenditures. However, LEAs that exercise the one month advance are required to submit a cumulative monthly expenditure report that demonstrates the advance was expended before any further funds are requested. The agency communicated this policy change via two State-wide webinars on January 1 and May 5, 2011 as well as electronically via all grant systems in the Illinois State Board of Education’s Web Application Security System and Weekly Superintendent’s messages.

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For Year Ended June 30, 2011

State Agency: Illinois Student Assistance Commission (ISAC)

Federal Agency: US Department of Education (USDE)

Program Name: Federal Family Education Loans

CFDA # and Program Expenditures: 84.032 (\$234,413,000)

Award Numbers: None

Questioned Costs: Cannot be determined

Finding 11-60 *Inadequate Process to Verify Unreported Loans*

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

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

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

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

During our testwork over the accuracy of the loan information included in the guaranty system, we selected a sample of 100 student loans to confirm the accuracy of the loan information with the lender, noting six confirmations were returned ‘incorrect’. For four loans in our sample, the loans had been paid in full/consolidated, however, they were not updated within the guaranty system. For two loans in our sample, the outstanding loan balance in the guaranty system did not agree to the outstanding loan balance reported by the lender. The guaranty system had outstanding loan balances of \$29,350 and \$27,603 as of April 30, 2011, while the lender reported outstanding loan balances of \$27,392 and \$24,704 as of April 30, 2011, respectively.

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In accordance with 34 CFR Section 682.404(a)(4) and (b)(4)(ii)(G)(3) and (c), a guaranty agency shall accurately complete and submit to the Secretary a Form 2000 report as the Secretary uses the ED Form 2000 report for the previous September 30 to calculate the amount of loans in repayment at the end of the preceding fiscal year.

In discussing these conditions with ISAC officials, they stated that ISAC recognizes the importance of obtaining accurate and timely data from its lenders. As there is not a federal requirement for lenders to respond to the unreported loans report, ISAC relies on standard business processes with the approval of the U.S. Department of Education (ED) to verify unreported loans.

An inadequate process to verify loan information in the guaranty system could result in inaccurate reporting to the NSLDS. (Finding Code 11-60, 10-62, 09-58, 08-64)

Recommendation:

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

ISAC Response:

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

- ISAC will continue to process monthly lender manifest submissions.
- ISAC will continue its “presumed paid” process which is a method to change the loan status to presumed paid for loans that have been in repayment status for twelve years and that have not been updated through any lender reporting in the past four years.
- ISAC will continue to create the semi-annual unreported loans report as the means for lenders to report changes and updates to loan records.
- ISAC will continue to initiate an unreported loans follow up process with e-message reminders to lenders/servicers to make the necessary corrections and report loans on their Lender Manifest submission. The reminders will be sent at 60 day intervals to remind lenders/servicers to make the necessary corrections and report loans on their Lender Manifest submission.
- ISAC will continue to participate in the Common Review Initiative (CRI) to conduct the compliance audits of participating lenders. The CRI review process includes a verification and determination that the lender/servicer is diligently working unreported loan reports to reduce overall unreported loan rates.

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For Year Ended June 30, 2011

State Agency: Illinois Student Assistance Commission (ISAC)

Federal Agency: US Department of Education (USDE)

Program Name: Federal Family Education Loans

CFDA # and Program Expenditures: 84.032 (\$234,413,000)

Award Numbers: None

Questioned Costs: Cannot be determined

Finding 11-61 *Incomplete Lender Agreements*

ISAC did not ensure lender agreements were complete and enforceable.

ISAC works directly with eligible lenders to provide individuals subsidized and unsubsidized Federal Stafford loans and Federal PLUS loans. All lenders must execute an ISAC lender agreement prior to participating in the Federal Family Education Loans (FFEL) program through ISAC. In fiscal year 2009, an internal review of 20 lender agreements identified three lender agreements that did not specify the loan programs ISAC authorized and guaranteed and one lender agreement wherein the lender's authorization signature was not dated on the lender agreement. Further, since this internal review was performed, no follow up has been performed to review the remaining population of lender agreements to ensure they were complete and enforceable.

In accordance with 34 CFR Section 682.503(a)(1), to participate in the Federal Guaranteed Student Loan Programs, a lender must have a guarantee agreement with the Secretary. The Secretary will not guarantee a loan unless it is covered by such an agreement. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure that all lender agreements are complete and enforceable.

In discussing these conditions with ISAC officials, they stated although no new lender agreements have been executed since July 1, 2010 (date that loan origination activities were terminated in the Federal Family Education Loan Program - FFEL), Holder Agreements continue to be executed, as required, with lenders maintaining an FFEL portfolio. Procedures are in place to ensure that holder agreements are complete and enforceable.

Failure to ensure lender agreements are complete and enforceable could result in the payment of claims to ineligible lenders, which are unallowable costs. (Finding Code 11-61, 10-63, 09-59)

Recommendation:

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

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ISAC Response:

ISAC will continue to follow business processes and procedures to ensure that Holder Agreements are complete and enforceable.

In addition, ISAC will make every attempt to ensure properly executed agreements are in place with the four lenders identified during the 2009 Internal Audit. By June 30, 2012, ISAC will execute Holder Agreements where applicable.

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For Year Ended June 30, 2011

State Agency: Illinois Student Assistance Commission (ISAC)

Federal Agency: US Department of Education (USDE)

Program Name: Federal Family Education Loans

CFDA # and Program Expenditures: 84.032 (\$234,413,000)

Award Numbers: None

Questioned Costs: Cannot be determined

Finding 11-62 *Inadequate Process for Assignment of Defaulted Loans*

ISAC does not have an adequate process to ensure all defaulted loans that meet the requirements specified in 34 CFR 682.409 are assigned to the USDE.

ISAC is required to assign all defaulted loans that meet certain criteria as described below as of April 15th of each year to the USDE. During our audit of the Federal Family Education Loan Program, we noted there were approximately 3,646 defaulted loans that meet these criteria as of July 22, 2011 that should have been assigned to the USDE during the fiscal year but were not.

According to 34 CFR 682.409(a)(1), unless the Secretary notifies an agency, in writing, that other loans must be assigned to the Secretary, an agency must assign any loan that meets all of the following criteria as of April 15 of each year:

- i. The unpaid principal balance is at least \$100.
- ii. For each of the two fiscal years following the fiscal year in which these regulations are effective, the loan, and any other loans held by the agency for that borrower, have been held by the agency for at least four years; for any subsequent fiscal year such loan must have been held by the agency for at least five years.
- iii. A payment has not been received on the loan in the last year.
- iv. A judgment has not been entered on the loan against the borrower.

In discussing these conditions with ISAC officials, they stated the Department of Education imposed temporary holds on assigning loans during state fiscal 2011 which limited ISAC's ability to assign loans.

Failure to assign loans to the USDE results in ISAC's noncompliance with federal regulations. (Finding Code 11-62, 10-64, 08-62, 07- 60, 06-59, 05-72, 04-54)

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Recommendation:

We recommend ISAC assign all defaulted loans to the USDE that meet the criteria contained in 34 CFR 682.409 or obtain a written waiver which specified the number and criteria for assignment of loans to the USDE.

ISAC Response:

ISAC will make a more concentrated effort to assign loans to the Department of Education in a timely manner. It should be noted that the Department continued to impose temporary holds on assigning loans which did affect the amount of loans assigned to the USDE. ISAC has taken steps to ensure that more eligible loans will be assigned by improving edits for the loan selection process and advance preparation of promissory notes for eligible loans. Since mandatory assignment is again on hold per instructions from ED, ISAC is prepared to begin assigning more frequently as soon as we are notified that we can do so.

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For Year Ended June 30, 2011

State Agency: Illinois Student Assistance Commission (ISAC)

Federal Agency: US Department of Education (USDE)

Program Name: Federal Family Education Loans

CFDA # and Program Expenditures: 84.032 (\$234,413,000)

Award Numbers: None

Questioned Costs: None

Finding 11-63 *Unapproved Investments in the Federal Fund*

ISAC invests funds held in the Federal Fund in an investment pool which contains securities that do not comply with regulations for the Federal Family Education Loans program.

A guaranty agency must establish and maintain a Federal Student Loan Reserve Fund (the Federal Fund) to pay reimbursable claims and process refund payments made by or on behalf of borrowers. The assets of the Federal Fund and the earnings on those assets are the property of the United States federal government. ISAC maintains its cash and investment accounts, including the Federal Fund, with the State Treasurer's Office. Any federal monies received are commingled with the State general funds, deposited into the appropriate accounts, and subsequently invested in securities in accordance with the Illinois State Treasurer's Investment Act through an investment pool. The investment pool is managed by the State Treasurer's Office to provide the highest return using authorized securities, meet the daily cash flow demands of the State, and to comply with all State statutes governing the investment of public funds.

The investment pool's investment policy outlines securities the State Treasurer's Office can invest public monies in. However, during our testwork, we noted this policy allows investments in securities that are not guaranteed by the United States, not guaranteed by a State, nor approved by the USDE as required by the federal regulations. Further, ISAC does not monitor the investing activities of the investment pool to ensure funds are invested in approved securities or obtain the appropriate approval for such investments. Specifically, we noted the investment policy allows investments in the following:

- short term obligations of corporations organized in the United States meeting certain requirements,
- obligation securities of a foreign government,
- bonds issued by counties or municipal corporations of the State, and
- savings accounts, certificates of deposits, time deposits, or any other investments constituting direct obligations of certain qualified banks.

For the year ended June 30, 2011, the investment pool's \$5,572,615,000 portfolio of investments contained \$2,275,000,000 of bank repurchase agreements, \$1,575,000,000 of corporate commercial paper, and \$14,175,000 in certificates of deposit investments that did not comply with program regulations.

In accordance with Section 422A(b) of the Higher Education Act and 20 USC 1072a(b), a guaranty agency shall invest funds transferred to the Federal Fund in obligations issued or guaranteed by the

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United States or a State, or in other similarly low-risk securities selected by the guaranty agency, with the approval of the Secretary.

In discussing these conditions with ISAC officials, they stated that as a state agency, ISAC is required to invest its funds with the State Treasurer's Office.

Failure to invest funds transferred in the Federal Fund in approved securities or failure to obtain the appropriate approval for such investments results in noncompliance with program regulations. (Finding Code 11-63)

Recommendation:

We recommend ISAC review its process of monitoring the investing activities of funds transferred in the Federal Fund to ensure such funds are invested in approved securities or securities that comply with program regulations.

ISAC Response:

ISAC will request a waiver from the USDE, to allow for investment in the State of Illinois pooled investments maintained by the Illinois State Treasurer.

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State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225/17.225ARRA (\$6,711,775,000)

Award Numbers: UI180180955A17/UI195801055A17/UI210971155A17/UI180180955A17ARRA/
UI195801055A17ARRA/UI210971155A17ARRA

Questioned Costs: Cannot be determined

Finding 11-64 *Failure to Verify Social Security Numbers with the Social Security Administration*

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 numbers 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.

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

In accordance with 820 ILCS 405/614, an alien shall be ineligible for UI benefits unless the alien was an individual who was lawfully admitted for permanent residence at the time such services were performed or otherwise was permanently residing in the United States under color of law at the time such services were performed (including an alien who was lawfully present in the United States as a result of the application of the provisions of Section 212(d) (5) of the Immigration and Nationality Act).

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

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In discussing these conditions with IDES officials, they stated that the upgrade to real-time SSN validation took longer to implement than anticipated.

Failure to verify claimant social security numbers could result in the payment of UI benefits to ineligible claimants, which are unallowable costs. (Finding Code 11-64, 10-70, 09-62)

Recommendation:

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

IDES Response:

We accept the recommendation. IDES has Policy and Procedure (P&P) 5085.10 in place regarding the verification of claimant social security number. The batch process to verify new claimant's social security numbers for our Unemployment Insurance system, IBIS, was reinstated on May 24, 2011. Additionally, on February 2, 2012, IDES submitted a Security Design Plan to the Social Security Administration, which is the first step in enabling IDES to verify social security information in real-time. IDES expects this real-time social security number verification to be in place by June 30, 2012. This will bring IDES in full compliance with P&P 5085.10.

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For Year Ended June 30, 2011

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance Program

CFDA # and Program Expenditures: 17.225/17.225ARRA (\$6,711,775,000)

Award Numbers: UI180180955A17/UI195801055A17/UI210971155A17/UI180180955A17ARRA/
UI195801055A17ARRA/UI210971155A17ARRA

Questioned Costs: None

Finding 11-65 *Failure to Issue Eligibility Determinations within Prescribed Timeframes*

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

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

During our test work we conducted unannounced site visits to three local offices and requested the most recent pending issues detail report as of the date of our visit. We noted a significant backlog in the resolution status of claims in the adjudication process. Specifically, we noted a total of 104 out of 2,605 claims at the three local offices that were outstanding for time periods ranging from 22 to 330 days of the detection date.

Additionally, during our review of the fiscal year 2012 State Quality Service Plan (Plan) submitted by IDES to the USDOL, we noted IDES did not meet the acceptable level of performance for issuing eligibility determinations on certain disqualifying issues as defined by the USDOL (non-monetary issues) for the federal fiscal year 2011, resolving only 70.2% of these determinations within 21 days of the detection date.

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

In discussing these conditions with IDES officials, they stated an increased workload due to the prolonged recession has had a significant impact on timeliness.

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Failure to issue eligibility determinations within prescribed timeframes could result in the untimely and/or improper payment of unemployment benefits. (Finding Code 11-65, 10-69, 09-61, 08-66)

Recommendation:

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

IDES Response:

We agree. An increased workload due to the prolonged recession has had a significant impact on timeliness. However, through load-balancing and revised operational procedures, the determination completion timeframe has significantly improved and has exceeded the ETA requirement for the last four quarters.

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State Agency: Illinois Department of Employment Services (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance Program

CFDA # and Program Expenditures: 17.225/17.225ARRA (\$6,711,775,000)

Award Numbers: UI180180955A17/UI195801055A17/UI210971155A17/UI180180955A17ARRA/
UI195801055A17ARRA/UI210971155A17ARRA

Questioned Costs: None

Finding 11-66 *Inadequate Documentation of Controls over Information Systems*

IDES does not have adequate documentation of the performance of access, program change, and computer operation controls over the information systems that support the Unemployment Insurance (UI) Program.

The information technology systems that support the UI Program include the following:

- The Illinois Benefits Information System (IBIS)
- The Wage Information System (WIS)
- The Benefit Funding System (BFS)
- The Benefit Charging System (BCS)
- The Overpayment Recovery System (ORS)
- The Telephone Certification System (TCS)

The IBIS is the centrally maintained information system designed to perform and document claimant eligibility determinations, to process claims for unemployment insurance benefits, and to assist IDES in complying with the requirements of the UI Act rules, policies, and procedures applicable to the UI benefits. It interfaces with the WIS, which is the system that includes all of the employer wage data and remittance information for the payroll taxes. The BFS includes the employer setup information and the rate calculation process and the BCS is the system that charges the employment tax rates to the employer accounts. The ORS is designed to detect and report over payments. The TCS is used by claimants to certify their continuing eligibility for benefits.

Access to the information systems that support the UI Program is done through the mainframe system utilizing a security software system. The security software utilizes specific, individually-assigned identifiers which control/limit access to the systems that support the UI Program.

Requests for new system access or termination of access must be approved by the cost center manager through the use of the TSS-001 Form. The user IDs are automatically deleted once employment has terminated as each pay period a job is run which checks employee status against the personnel data base. When this job identifies employees who have terminated, the user ID for the individual is removed. Any modification of access must also be approved by the cost center manager through the use of the TSS-006 Form. It is the cost center manager's responsibility to determine the proper on-line access for each employee.

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During our testwork over the access, program change and development, and computer operations controls of the mainframe system, we noted the following:

- Certain individuals have the ability to modify production code and data, as well as, the ability to migrate changes into production. As a result, these individuals may introduce unintentional changes into production that may not be detected.
- Documentation evidencing approval of five changes migrated from production could not be located for our testwork.
- Of 15 new users selected for testwork, IDES could not locate the UserID request form for one user. This user's signature evidences the user's understanding of and agreement to follow IDES' policies relative to computer data, resource usage, passwords, and confidentiality.
- IBIS user account privileges and profiles were not reviewed on a semi-annual basis to confirm the appropriateness of user access.
- Formal policies and procedures related to change management have not been developed for IBIS.
- Formal policies and procedures have not been developed to ensure the Security Administrator is informed of terminations or transfers to ensure access to the data center is revoked in a timely manner. Additionally, a review of data center access rights was not performed by IDES during the year ended June 30, 2011 and procedures have not been implemented to communicate employee terminations and transfers to the Security Administrator. Upon further review of users with access to the data center, we noted the access for 23 of the 81 users was inappropriate.
- Data recovery testing was not performed during the year ended June 30, 2011.

The A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring the information systems associated with the administration of the federal programs are adequately secured and have proper change management controls in place.

In discussing these conditions with IDES officials, they stated several policies and procedures are currently in place to ensure proper documentation of controls of Information Systems, although some are still in process of development. If documentation was missing there is a possibility it was properly collected and simply misfiled. In addition, the implementation of IBIS impacted the timing of some routine reviews and testing.

Failure to adequately secure the information systems that are used to administer the federal programs could result in noncompliance with laws, regulations and the grant agreement. (Finding Code 11-66)

Recommendation:

We recommend IDES implement procedures to ensure policies and procedures are adequately documented and followed. In addition, we recommend IDES segregate the duties for developing and migrating program changes and perform user access reviews for IBIS and the data center.

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IDES Response:

Bullet 1: We are currently working to reorganize the Technical Services and Support (TS&S) group in ISB who have access to the production environment. As part of this reorganization, we plan to separate work duties so staff who access the development environment to pick-up and merge code are not the same staff who will be responsible for migrating this code to production. By separating this work, we will ensure that no one member of the TS&S team has access to both our development and production environments.

Bullet 2: The documentation for the five changes was provided to the auditors but not accepted by them.

Bullet 3: IDES will update our policy to clarify that unsigned RACF UserID requests will not be processed but instead returned to the cost center manager.

Bullet 4: RACF access rights for all IDES staff to access IBIS on and after the August 30, 2010 IBIS launch date were reviewed and modified in order to adhere to the security model developed for IBIS. These changes were finalized and implemented between July 1, 2010 and August 30, 2010, when the security tables were frozen as part of the implementation plan. Because IBIS users accounted for over 70% of RACF accounts at IDES, and as a review of these accounts had just been conducted in conjunction with the IBIS launch, the decision was made not to conduct the semi-annual review of RACF access during the first half of fiscal year 2011 as it would have been redundant. The second half review was conducted in March 2011.

Bullet 5: ISB's new Quality Assurance unit is in the process of developing change management processes for all Information Technology initiatives. These processes will be implemented for changes to all current IT systems and new system implementations. Once this policy is formalized, IDES Policy and Procedures will be properly updated to reflect these new requirements.

Bullet 6: Policy and Procedure Section 4004, Information Technology Security, will be modified to require Human Resource Management to notify ISB's Technical Services and Security unit to deactivate security badges for individual that have been terminated. The P&P will also be modified to specify that a review of data center access rights be performed and documented on an annual basis. However, IDES just completed a review of data center access rights in April of 2012 and access has now been limited to 59 individuals down from 73.

Bullet 7: IDES is currently working with the Department of Central Management Services to build out a warm alternate disaster recovery site at the State's alternate data center. We have been working with CMS on this project for several years. According to CMS leadership, CMS has been experiencing delays in procuring the necessary hardware to stand-up our alternate data center environment. IDES was informed that CMS expects to have the environments stood-up in 2012. As soon as the environment is available at CMS' alternate data center, IDES will request to resume our annual Disaster Recovery testing.

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For Year Ended June 30, 2011

State Agency: Illinois Department of Employment Services (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance Program

CFDA # and Program Expenditures: 17.225/17.225ARRA (\$6,711,775,000)

Award Numbers: UI180180955A17/UI195801055A17/UI210971155A17/UI180180955A17ARRA/
UI195801055A17ARRA/UI210971155A17ARRA

Questioned Costs: None

Finding 11-67 *Inadequate Documentation of Controls over System Implementation*

IDES does not have adequate documentation evidencing the performance of certain controls over its implementation of the Illinois Benefits Information System (IBIS) for the Unemployment Insurance (UI) program.

In August 2010, IDES implemented IBIS, a new information system designed to perform and document claimant eligibility determinations, process claims for unemployment insurance benefits, and assist IDES in complying with the requirements of the UI Act rules, policies, and procedures applicable to the UI benefits. During our testwork over the program development controls relative to the IBIS implementation, we noted the following exceptions:

- Documentation evidencing access rights granted to IBIS users were reviewed and approved by IDES management was dated after the IBIS system went live; however, management indicated access reviews were performed prior to the IBIS system go live date. Accordingly, the consideration of whether duties were appropriately segregated relative to the compliance requirements managed by the IBIS system was not documented prior to rolling out the system.
- Documentation supporting user testing could not be provided for five of 25 user test scripts sampled.

The A-102 Common Rule requires non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include ensuring adequate documentation exists to evidence implementation controls were operating effectively for information systems associated with the administration of the federal programs.

In discussing these conditions with IDES officials, they stated that in the push for a timely implementation of IBIS, some decisions were not as thoroughly documented as they could have been.

Failure to adequately document controls over the implementation of information systems that are used to administer the federal programs could result in inadequate controls over and noncompliance with the compliance requirements managed by those information systems. (Finding Code 11-67)

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Recommendation:

We recommend IDES ensure adequate documentation evidencing the performance of system implementation controls are maintained.

IDES Response:

We agree. During the past year, IDES created a new Quality Assurance (QA) unit in ISD by hiring of Business Architect, two Senior Quality Assurance Analysts, and working to hire several IT Business Analysts to monitor and approve the implementation of IT systems. Currently all changes to current system and system implementation require documentation of the change, approval of requirements, approval of design, testing approval and sign-off to implement. Once this policy is officially formalized, IDES Policy and Procedures will be properly updated to reflect these new requirements.

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State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225/17.225ARRA (\$6,711,775,000)

Award Numbers: UI180180955A17/UI195801055A17/UI210971155A17/UI180180955A17ARRA/
UI195801055A17ARRA/UI210971155A17ARRA

Questioned Costs: None

Finding 11-68 *Inadequate Documentation of Resolution of Exceptions and Supervisory Review of the Claim Exception and Monitoring Reports*

The IDES local offices did not clearly document the resolution of the issues identified on the claim exception and monitoring reports, and the reports did not always indicate that a supervisory review had been performed.

The IDES Central Office generates several system (exception and monitoring) reports to facilitate proper benefit payment which are distributed to and monitored by personnel at local IDES offices. Per federal program emphasis, several of the common reports reviewed locally are designed to report claims with unresolved issues that are preventing payment, as a tool to ensure payments to eligible individuals are made timely. These reports include the following:

- *Certification Batch Reconciliation Report* – This report identifies the batches of paper eligibility certifications entered each day as completed or pending. Batches identified as pending are reviewed and processed by the local office.
- *Appeals Requiring Local Action Report* – This report identifies all appealed claims with a central office action that is in conflict with the initial local office action. These claims are reviewed by the local office to ensure the resulting payment actions are appropriate.
- *TRA Modified WBA/DC Report*– This report identifies any changes to a TRA claimant's information and provides the local office with a detailed listing of all manual changes made to the weekly benefit amount (WBA) or dependent information. The case records are reviewed for claimants identified on this report to ensure appropriate documentation exists to support the changes.
- *Determination End Date Report* – This report identifies all new claims that were stopped because of an issue that should have been resolved at the time the claim was filed. These claims are reviewed by the local office prior to the first certification to prevent late payments.
- *Post Office Box Comments Report* – This report identifies claimants whose benefits are sent to a post office box and whose address was modified in the prior week. The case records for these claimants are verified to ensure the reason why a post office box is being used is appropriately documented.

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During our test work we noted policies and procedures had not been established relative to the review process and retention time period for the six reports identified above. IDES only retains claim exception and monitoring reports for a period of three months after the end of a quarter.

We conducted unannounced site visits to three local offices and requested the above claim exception and monitoring reports for the most recent date that had been reviewed by the local office staff. We reviewed a total of 18 reports and noted that resolution of exceptions and supervisory review was not consistently documented. Specifically, we noted the following:

- Five claim and exception monitoring reports did not contain evidence of being worked by the local office staff within three days
- Eight claim exception monitoring reports (including the five identified in the previous bullet) did not contain evidence of supervisory review.

Additionally, during our on-site reviews, we noted IDES only retains claim exception and monitoring reports for a period of three months after the end of a quarter. As such, we were unable to determine whether claim exception and monitoring reports had been worked within three business days or subject to supervisory reviews prior to April 1, 2011.

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

In discussing these conditions with IDES officials, they stated the procedures require the reports be reviewed, but do not specify how to document the review or that they be retained.

Failure to adequately document resolution of claim exception and monitoring reports could result in the payment of UI benefits to ineligible claimants, which are unallowable costs. (Finding Code 11-68, 10-73, 09-65, 08-70, 07-63, 06-62, 05-88)

Recommendation:

We recommend IDES complete and document the resolution of each claim in a timely manner on the exception and monitoring reports (including supervisory review), and retain the reports as considered necessary to facilitate completion of the audit.

IDES Response:

We agree. On February 3, 2012, regional management staff were reminded that the above mentioned reports must be printed and worked daily and reviewed by a supervisor and that the signed copies must be retained. We are currently revising procedures to ensure clarity on how to document that the review has occurred and how to retain these documents for future review. Additionally, we are reviewing the reports in question to determine whether, with the launch of the new benefit system, they still require manual review because of the changes in operational procedures.

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For Year Ended June 30, 2011

State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225/17.225ARRA (\$6,711,775,000)

Award Numbers: UI180180955A17/UI195801055A17/UI210971155A17/UI180180955A17ARRA/
UI195801055A17ARRA/UI210971155A17ARRA

Questioned Costs: None

Finding 11-69 *Untimely Verification of Out-of-State Wages for EUC08 Beneficiaries*

IDES did not perform all required out-of-state wages verification procedures for Emergency Unemployment Compensation (EUC08) beneficiaries.

The EUC08 program was established by the American Recovery and Reinvestment Act and is administered as a part of the Unemployment Insurance (UI) Program. The EUC08 program is a federally funded benefit extension program which provides up to 33 weeks of benefits to claimants who have exhausted their benefit rights to regular unemployment compensation under the applicable state law with respect to the applicable benefit year. The benefit year is the one year period beginning with the Sunday of the week in which the worker first files a valid claim for benefits.

A claimant eligible for regular UI benefits in another state is considered to have established a new benefit year and has not exhausted all rights to regular benefits and, therefore, is not eligible for EUC08 benefits.

Based on a review performed by the U.S. Department of Labor – Employment and Training Administration and discussion with management, we noted IDES does not examine out-of-state wages at the beginning of the initial EUC08 and initial extended benefit claim or at the end of each quarter to determine if UI eligibility could be established in another state. IDES procedures for verifying whether a claimant has exhausted all rights to regular benefits only include examining out-of-state wages each time a claimant establishes new benefit year.

According to Unemployment Insurance Program Letter (UIPL) No. 23-08, Attachment A, page A-3, #1(b)(2), at each quarter change, a state must check to see if an individual meets the state's requirements to establish a new benefit year. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to perform verification procedures related to claimant eligibility in accordance with Federal regulations.

In discussing these conditions with IDES officials, they stated that a viable option to implement out of state wage verifications remains elusive.

Failure to perform required out of state wage verifications could result in the payment of EUC08 benefits to ineligible recipients. (Finding Code 11-69, 10-75, 09-69)

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Recommendation:

We recommend IDES continue working with USDOL to perform out of state wage verifications at the beginning of the initial EUC08 and extended benefit periods, and at the end of each quarter to determine if UI eligibility could be established in another state.

IDES Response:

We accept the recommendation. Currently there are limited options available for IDES to verify that a claimant has out of state wages sufficient to establish a claim in another state. The Employment and Training Administration has previously suggested two options, but both involve a very manual, labor intensive process. Regardless, IDES implemented one of these options, the SID system, on April 23, 2012. Recently, a more automated, batch type third option has been explored. IDES is in the process of defining the requirements and procedures for using this system to implement the recommendations of this finding in a more automated, streamlined fashion.

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State Agency: Illinois Department of Employment Security (IDES)

Federal Agency: US Department of Labor (USDOL)

Program Name: Unemployment Insurance

CFDA # and Program Expenditures: 17.225/17.225ARRA (\$6,711,775,000)

Award Numbers: UI180180955A17/UI195801055A17/UI210971155A17/UI180180955A17ARRA/
UI195801055A17ARRA/UI210971155A17ARRA

Questioned Costs: Cannot be determined

Finding 11-70 *Improper System Configuration for Offset of Overpayments*

IDES has not configured its information technology systems to properly offset overpayments related to the Federal Additional Compensation (FAC) program, which were established by the American Recovery and Reinvestment Act and administered as a part of the Unemployment Insurance (UI) Program.

The FAC program provides a \$25 weekly supplement to the unemployment compensation of eligible claimants, and is 100% funded from Federal general revenues. FAC overpayments may only be offset by FAC payments. Other federally funded benefits, such as EUC08 benefits, can also be used to offset FAC overpayments.

Based on a review performed by the U.S. Department of Labor – Employment and Training Administration and discussion with management, we noted IDES had not properly configured its information technology system to offset the FAC overpayments with FAC benefits. IDES' information technology system was configured to offset the FAC overpayments against the EUC08 benefit payments and other federally funded benefits, which resulted in slower collections of FAC overpayments. Total FAC payments made during the fiscal year ended June 30, 2011 were \$200,041,466, of which \$10,795,226 or 5.40% consisted of overpayments.

According to Unemployment Insurance Program Letter (UIPL) 11-09, Attachment A, Section D, FAC may only be used to offset FAC overpayments.

Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure system configurations are in place to properly offset benefit overpayments in accordance with the Federal regulations.

In discussing these conditions with IDES officials, they stated that resources had been diverted to performing tasks related to the implementation of the new benefit system, IBIS.

Failure to properly offset benefit payment overpayments could result in inaccurate benefit payments. (Finding Code 11-70, 10-74, 09-68)

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Recommendation:

We recommend IDES follow established procedures to ensure the information technology systems are properly configured to offset overpayments in accordance with the Federal regulations.

IDES Response:

We accept the recommendation. On August 30, 2010, two months into the fiscal year 2011 audit finding period, IDES launched our new Unemployment Insurance system, IBIS. Upon the launch of IBIS, all FAC overpayments were being offset by FAC payments and IDES was in compliance with the recommendation. Additionally, it is worth noting that the FAC program expired on December 11, 2010 and therefore this issue no longer exists.

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

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

Program Name: Weatherization Assistance for Low Income Persons
Low Income Home Energy Assistance Program

CFDA # and Program Expenditures: 81.042 (\$134,318,000)
93.568 (\$189,280,000)

Award Number: DE-EE0000490/DE-EE0000125 (81.042)
(CFDA Number) G-09B2ILLIEA/G-0901ILLIE2/G-1002ILLIEA/G-1002ILLIE2/
G-1102ILLIEA (93.568)

Questioned Costs: Cannot be determined

Finding 11-71 *Inadequate Process for Following Up on Monitoring Findings*

DCEO did not have an adequate process in place for following up on monitoring findings for subrecipients of the Weatherization Assistance for Low Income Persons (Weatherization) program and Low Income Home Energy Assistance Program (LIHEAP) program.

DCEO's subrecipient monitoring process for the Weatherization and LIHEAP programs includes performing fiscal and programmatic on-site reviews, A-133 audit report desk reviews, external audit reviews, and expenditures report reviews. DCEO has developed standardized monitoring checklists for each of its federal programs which are used by DCEO personnel in performing and documenting on-site reviews.

During our review of monitoring reports and checklists prepared for on-site reviews conducted for 10 Weatherization subrecipients (with expenditures of \$121,025,181) and 10 LIHEAP subrecipients (with expenditures of \$130,305,483) during the respective grant periods, we noted DCEO identified and reported several instances of non-compliance with program requirements to its subrecipients. Findings identified in monitoring reports included items such as: (1) failing to refund amounts in overage, (2) failing to ensure contractor costs were reasonable, and (3) failure to provide required analyses. Upon further review of the monitoring files, we noted the following:

- DCEO had not performed procedures to ensure timely corrective action was taken by one subrecipient of both the Weatherization and LIHEAP programs prior to reimbursing program expenditures and, as a result, unallowable costs may have been paid to subrecipients during the year ended June 30, 2011. Amounts passed through to this subrecipient under the Weatherization and LIHEAP program were \$79,121,763 and \$87,931,107, respectively.
- DCEO had not issued a management decision on the corrective action taken by one subrecipient of both the Weatherization and LIHEAP programs. Although the subrecipient returned a portion of their funding to DCEO in relation to one of the monitoring findings reported, evidence of follow up was not performed for the other matters noted in the monitoring report. Amounts

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passed through to this subrecipient under the Weatherization and LIHEAP programs were \$4,764,000 and \$5,717,273, respectively.

DCEO passed through approximately \$131,660,000 and \$186,095,000 of federal funding to subrecipients of the Weatherization and LIHEAP programs, respectively, during the year ended June 30, 2011.

According to OMB Circular A-133 §____.400(d)(3), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. In addition, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to follow up on findings identified during subrecipient reviews prior to reimbursing program expenditures. Effective internal controls should also include performing follow up procedures for monitoring findings.

In discussing these conditions with DCEO personnel, they stated the regular follow-up process was not followed due to a federal investigation of a subrecipient which impeded the ability to obtain additional documentation. In addition, they did not think the second exception warranted follow-up with the subrecipient as it involved an immaterial suggestion that posed no risk to grant funds, nor did it involve noncompliance with program rules, regulations or grant requirements.

Failure to adequately monitor subrecipients and to ensure on-site reviews were properly completed could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 11-71)

Recommendation:

We recommend DCEO establish procedures to follow up on on-site monitoring findings to verify corrective actions are being implemented by subrecipients prior to reimbursing program expenditures.

DCEO Response:

The Department accepts the finding and will review the existing monitoring tracking processes for these programs, including follow-up efforts with subrecipients, to determine if opportunities exist to improve the verification of subrecipients' implementation of corrective actions.

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

Federal Agency: US Department of Labor (USDOL)
US Department of Energy (USDOE)
US Department of Health and Human Services (USDHHS)

Program Name: Workforce Investment Act Cluster
Weatherization Assistance for Low Income Persons
Community Services Block Grant Cluster

CFDA # and Program Expenditures: 17.258/17.258ARRA/17.259/17.259ARRA/17.260/
17.260ARRA/17.277/17.278 (\$176,774,000)
81.042 (\$134,318,000)
93.569/93.710 (\$49,794,000)

Award Number: AA-16026-07-55-A-17/AA-17119-08-55-A-17/AA-18637-09-55A-17/
EM-20488-10-60-A-17/EM-18079-09-60-A-17 (17.258/17.258ARRA/17.259/
17.259ARRA/17.260/17.260ARRA/17.277/17.278)
DE-EE0000490/DE-EE0000125 (81.042)
G-09B1ILCOSR/G-10B1ILCOSR/G-11B1ILCOSR (93.569/93.710)

Questioned Costs: None

Finding 11-72 *Failure to Communicate ARRA Information and Requirements to Subrecipients*

DCEO did not communicate American Recovery and Reinvestment Act (ARRA) information and requirements to subrecipients of the Workforce Investment Act Cluster (WIA Cluster), Weatherization Assistance for Low Income Persons (Weatherization), and Community Services Block Grant Cluster (CSBG Cluster) program.

During our testwork over communications of grant awards to subrecipients of the WIA Cluster, Weatherization, and CSBG Cluster programs, we noted DCEO's grant agreements executed prior to fiscal year 2011 did not communicate the requirements for subrecipients to separately report ARRA program expenditures on their schedule of expenditures federal awards (SEFA) and data collection form. DCEO passed through approximately \$44,168,000, \$125,623,000, and \$18,013,000 of ARRA funding to subrecipients of the WIA Cluster, Weatherization, and CSBG Cluster programs, respectively, during the year ended June 30, 2011.

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

In discussing these conditions with DCEO personnel, they stated they became aware of this issue in May 2010 when it was identified as a finding for the previous audit period (State Fiscal Year 2009) and completed corrective action in June 2010. The corrective action implemented appropriate language in all

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grants established after June 2010; however, these same provisions were not amended into the active ARRA grants that were executed prior to June 2010.

Failure to communicate required ARRA information could result in subrecipients not properly administering the federal programs in accordance with federal regulations. (Finding Code 11-72, 10-78, 09-70)

Recommendation:

We recommend DCEO properly communicates ARRA information and requirements to its subrecipients.

DCEO Response:

The Department accepts the recommendation but is unable to apply further corrective action for the Workforce Investment Act Cluster (WIA Cluster) and the Community Services Block Grant Cluster (CSBG Cluster) since the period of availability has expired and all related subrecipients agreements have been terminated. The Weatherization Assistance for Low Income Persons (Weatherization) agreements will be modified to include the required ARRA language.

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

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

Program Name: Weatherization Assistance for Low Income Persons
Low Income Home Energy Assistance Program

CFDA # and Program Expenditures: 81.042 (\$134,318,000)
93.568 (\$189,280,000)

Award Number: DE-EE0000490/DE-EE0000125 (81.042)
(CFDA Number) G-09B2ILLIEA/G-0901ILLIE2/G-1002ILLIEA/G-1002ILLIE2/
G-1102ILLIEA (93.568)

Questioned Costs: None

Finding 11-73 *Inaccurate Financial Status Reports*

DCEO did not accurately report expenditures in the quarterly SF-425 report for the Weatherization Assistance for Low Income Persons (Weatherization) program and in the annual SF-269 report for the Low Income Home Energy Assistance Program (LIHEAP) program.

Financial status reports (SF-269 for awards prior to and SF-425 for awards after October 1, 2009) are required to be prepared periodically to report expenditure information for each open federal award under the Weatherization and LIHEAP programs. During our testwork of financial status reports for the Weatherization and LIHEAP programs, we noted amounts reported by DCEO did not agree to financial accounting records. Specifically, we noted the following information was not accurately reported:

Program and Report Type	Reporting Period	Line Item	Actual Amount	Reported Amount	Difference
Weatherization SF-425 (EE0000125)	Quarter ended December 31, 2010	Federal cash disbursements	\$117,778,307	\$83,543,491	\$34,234,816
LIHEAP SF-269 (G-1002ILLIEA)	Year ended September 30, 2010	Indirect expense base	\$135,199	\$177,934	(\$42,735)
LIHEAP SF-269 (G-09B2ILLIEA)	Year ended September 30, 2010	Indirect expense rate	34.8%	45.8%	11.0%

According to 10 CFR 600.241(b) and 45 CFR 92.41(b), the State is required to submit a financial status report within 90 days of the performance period expiration date for awards with annual reports or within 30 days for awards with quarterly reports. These reports are required to report all costs incurred within the reporting period and all administrative costs incurred to date within the performance period. In addition, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and

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program compliance requirements. Effective internal controls should include procedures to ensure reported expenditures are accurate and the correct reporting format is used.

In discussing these conditions with DCEO personnel, they stated the SF-269 LIHEAP reports in question were filed with the Indirect Rate information known at the time of the report submission. Appropriate cumulative adjustments were made in the month after the reporting period and reported properly on the next required annual submission. The SF-425 Weatherization report issue was an oversight of not recording an amount in two different areas on the same reporting form. The Federal Share of Expenditures amount was properly recorded but the respective and identical Cash Disbursements amount was inadvertently omitted.

Failure to accurately report expenditures in periodic financial status reports prevents the USDOE and USDHHS from effectively monitoring the Weatherization and LIHEAP programs. (Finding Code 11-73)

Recommendation:

We recommend DCEO review the process and procedures in place to prepare and submit financial status reports to ensure expenditures reported are accurate and reconcile to DCEO's financial records.

DCEO Response:

The Department accepts the finding and will review its process and procedures for federal financial report preparation to determine if further refinement is necessary.

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

Federal Agency: US Department of Labor (USDOL)
US Department of Energy (USDOE)
US Department of Health and Human Services (USDHHS)

Program Name: Workforce Investment Act Cluster
Weatherization Assistance for Low Income Persons
Low Income Home Energy Assistance Program

CFDA # and Program Expenditures: 17.258/17.258ARRA/17.259/17.259ARRA/17.260/
17.260ARRA/17.277/17.278 (\$176,774,000)
81.042 (\$134,318,000)
93.568 (\$189,280,000)

Award Number: AA-16026-07-55-A-17/AA-17119-08-55-A-17/AA-18637-09-55A-17/
EM-20488-10-60-A-17/EM-18079-09-60-A-17 (17.258/17.258ARRA/17.259/
17.259ARRA/17.260/17.260ARRA/17.277/17.278)
DE-EE0000490/DE-EE0000125 (81.042)
G-09B2ILLIEA/G-0901ILLIE2/G-1002ILLIEA/G-1002ILLIE2/G-1102ILLIEA
(93.568)

Questioned Costs: None

Finding 11-74 *Failure to Report Subaward Information Required by FFATA*

DCEO has not developed procedures to report information required by the Federal Funding Accountability and Transparency Act (FFATA) for awards granted to subrecipients of the Workforce Investment Act (WIA) Cluster, Weatherization Assistance for Low Income Persons (Weatherization), and Low Income Home Energy Assistance Program (LIHEAP) programs.

FFATA requires the State to report certain identifying information related to awards made to subrecipients in amounts greater than or equal to \$25,000 under federal grants awarded on or after October 1, 2010. Information required to be reported includes: (1) the agreement date, (2) the subrecipient's nine-digit Data Universal Numbering System (DUNS) number, (3) the amount of the subaward, (4) the date the sub-award agreement was signed, and (5) the subaward or other identifying number assigned by the State. During our testwork, we noted DCEO has not identified which, if any, of its federal awards were subject to FFATA reporting requirements. As a result, DCEO did not report information required by FFATA for subawards made to subrecipients of the WIA Cluster, Weatherization, and LIHEAP programs during the year ended June 30, 2011. Federal awards passed through to subrecipients of the WIA Cluster, Weatherization, and LIHEAP programs subject to FFATA reporting requirements totaled \$89,297,000, \$6,037,000, and \$186,095,000 for the year ended June 30, 2011.

According to 2 CFR 170, a pass through entity is required report certain identifying information for each subaward of federal funds greater than or equal to \$25,000. In addition, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control

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designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Effective internal controls should include establishing procedures (1) to identify awards subject to FFATA and (2) to ensure subawards are properly reported in accordance with FFATA.

In discussing this finding with DCEO personnel, they stated the failure to report under the FFATA requirements came from a lack understanding of the reporting requirements based on the initial federal guidance available during this period.

Failure to identify awards subject to FFATA inhibits the State's ability to meet its reporting requirements under FFATA. (Finding Code 11-74)

Recommendation:

We recommend DCEO establish procedures to: (1) identify awards subject to FFATA reporting requirements and (2) report required subaward information in accordance with FFATA.

DCEO Response:

The Department accepts the recommendation to establish procedures to identify awards subject to FFATA reporting and report the required subaward information in accordance with FFATA.

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State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Airport Improvement Program

CFDA # and Program Expenditures: 20.106/20.106ARRA (\$83,401,000)

Award Numbers: All awards

Questioned Costs: None

Finding 11-75 *Inadequate On-Site Monitoring of Airport Improvement Subrecipients*

IDOT is not adequately performing and documenting on-site monitoring procedures for subrecipients receiving federal awards under the Airport Improvement Program.

IDOT passed through approximately \$29,330,000 to 43 subrecipients of the Airport Improvement program during the fiscal year ended June 30, 2011. The majority of the subrecipient grants pertain to construction projects for airport improvement or for noise abatement projects. As a pass through entity, IDOT monitors its subrecipients primarily by reviewing procurement files, receiving periodic expenditure reports, reviewing invoices and cancelled checks prior to reimbursing subrecipients, receiving OMB Circular A-133 Audit Reports, and performing on-site reviews.

Effective in fiscal year 2010, IDOT developed standardized checklists for conducting on-site reviews of its subrecipients receiving federal awards under the Airport Improvement Program. During our review of the on-site monitoring procedures, we noted IDOT has not established criteria for determining which subrecipients will be subject to on-site monitoring procedures on an annual basis. We also noted only eight subrecipients (none of which received ARRA funding) were subject to on-site reviews during the fiscal year ended June 30, 2011. Upon review of the monitoring review files for the eight subrecipients subject to on-site reviews, we noted the standardized checklists were not utilized for six of the reviews conducted. Amounts passed through to the eight subrecipients tested totaled approximately \$2,493,000.

According to the OMB Circular A-133 Compliance Supplement, dated March 2011, a pass-through entity is responsible for monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulation, and provisions of contracts or grant agreements and that performance goals are achieved. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures for identifying which subrecipients will be subject to on-site monitoring review procedures and following established procedures to document such reviews.

In discussing these conditions, IDOT officials stated they monitored subrecipients by reviewing grant applications, receiving periodic expenditure reports, reviewing invoices for noise abatement projects and reviewing OMB Circular A-133 audit reports.

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Failure to adequately perform and document subrecipient monitoring procedures could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 11-75, 10-81, 09-73, 08-78, 07-70, 06-71, 05-76)

Recommendation:

We recommend IDOT develop formal policies and procedures to perform periodic on-site reviews and adequately document such reviews to ensure subrecipients are administering the federal program in accordance with the applicable laws and regulations.

IDOT Response:

The Department agrees with the finding. The Department will develop formal policies and procedures to perform periodic on-site reviews and will adequately document such reviews to ensure compliance with OMB Circular A-133. Aeronautics will develop a random selection process that will ensure that 20 percent of all locally let projects receiving federal funds will undergo an on-site review. Detailed written procedures will be in place for projects starting in fiscal year 2013 and will include a random selection process based on the chronological order of executed Agency Agreements.

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Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Highway Planning and Construction Cluster

CFDA # and Program Expenditures: 20.205/20.205ARRA/20.219 (\$1,690,501,000)

Award Numbers: All awards

Questioned Costs: Cannot be determined

Finding 11-76 *Failure to Retain Documentation in Accordance with Federal Regulations*

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

Contractors must receive advance approval from IDOT to bid on construction projects. As a condition of obtaining IDOT's advance approval contractors are required to submit an affidavit of availability, which identifies the total value of work previously awarded but not yet complete by the contractor, the contractor's commitment of equipment and personnel on payroll for the planned project, any proposed work on which the contractor is the low bidder which has not yet been awarded, all subcontractors used by the contractor on its projects, and the value of work sublet by the contractor. This affidavit is used by IDOT to determine whether the contractor has available capacity to complete the project.

Prior to making a payment to contractor, IDOT personnel prepare a summary of project costs from reports prepared and approved by the assigned resident engineer. The summary of project costs identifies the appropriation code and source of funding for the project. This summary is required to be reviewed and approved by the chief accountant prior to making payment to the contractor.

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

- The affidavit of availability could not be located for six contractors (with sampled payments of \$3,122,697).
- The summary of project costs approved by the chief accountant could not be located for our testwork for three contractors (with sampled payments of \$1,201,512).

Upon further review, we noted these projects were originally bid prior to fiscal year 2005 and the affidavits of availability and approved summary of project costs were purged in accordance with IDOT's record retention policy which only requires documentation of this nature to be retained for a five year period. Accordingly, IDOT has purged the affidavits of availability and summaries of project costs for all projects which were bid prior to July 1, 2005, including those for open constructions projects and advance construction projects claimed in the current period. As federal regulations require records to be retained for a period of three years after final payments and all other pending matters are closed, these affidavits of

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availability, contractor invoice, and weekly certified payrolls and statement of compliance should have been retained by IDOT.

In each of the procurement and contract files missing the affidavit of availability and summary of project costs, each of the advance approval criteria and cost information was verified through additional supporting documentation in IDOT's electronic records. Therefore all information necessary to establish and support the advance approval procedures had been performed for the period was available; however, evidence of IDOT personnel's review and approval could not be located.

Payments made to or claimed under advanced construction projects for the contractors identified as exceptions in our testwork for the projects sampled were \$2,060,000 for the year ending June 30, 2011. Payments made to contractors whose projects were bid prior to July 1, 2005 approximated \$278,064,000 during the year ended June 30, 2011. Payments made for construction contracts under the Highway Planning program were approximately \$1,506,513,000 during the year ended June 30, 2011.

According to 49 CFR Section 18.36(i)(10-11), records must be retained for three years after grantees or subgrantees make final payments and all other pending matters are closed to allow access to the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives for the purpose of making audits or examinations. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing record retention policies that comply with federal regulations.

In discussing these conditions with IDOT officials, they stated the Department followed the approved retention requirements for the time period in which these contracts were processed.

Failure to retain documentation in accordance with Federal regulations may result in unallowable costs being charged to the federal program and prevents Federal agencies from properly monitoring the State's compliance with program requirements. (Finding Code 11-76, 10-82)

Recommendation:

We recommend 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 Response:

The Department agrees with the finding. It is IDOT's policy to prepare all construction projects according to federal regulations even if the contract will not be paid with federal funds. Occasionally, IDOT is allowed to convert non-federally funded contracts and reclaim federal funds for a portion of the work. At the time the contract work was performed, these contracts did not have federal funds. Last fiscal year, the Department was able to convert this group of contracts from state funded to federally funded and seek reimbursement from FHWA for the allowable costs. The Department will review current processes to ensure all required documents are being properly retained.

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State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Highway Planning and Construction Cluster

CFDA # and Program Expenditures: 20.205/20.205ARRA/20.219 (\$1,690,501,000)

Award Numbers: All awards

Questioned Costs: Cannot be determined

Finding 11-77 *Failure to Obtain Certified Payrolls Prior to Contractor Payments*

IDOT did not obtain certified payrolls prior to making payments to contractors for the Highway Planning and Construction Cluster (Highway Planning) program.

Non-federal entities are required to comply with the requirements of the Davis-Bacon Act and the Department of Labor regulations applicable to contracts governing federally financed and assisted construction. These regulations require, in part, that all laborers and mechanics employed by contractors or subcontractors who work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid prevailing wage rates established for the locality of the project. Each subcontractor subject to the Davis Bacon Act must submit payrolls on a weekly basis and include a signed certification that they have complied with the prevailing wage rates. The resident engineer on each project uses a two week calendar report which records the receipt of the certified payrolls. The two week calendar report is reviewed by the resident engineers prior to approving contractor payments to ensure the required certifications and related payrolls have been received.

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:

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

Payments made for construction contracts under the Highway Planning program were approximately \$1,506,513,000 during the year ended June 30, 2011.

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According to 29 CFR Section 5.5(a)(3)(ii)(A), the contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the Resident Engineer. Each payroll submitted shall be accompanied by a "Statement of Compliance" signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure certified payrolls are received prior to making payments to the contractors.

In discussing these conditions with IDOT personnel, they stated certified payrolls are required to be submitted each week.

Failure to obtain certified payrolls prior to making payments to the contractors could result in contractors not paying the prevailing wage rate to employees. (Finding Code 11-77)

Recommendation:

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

IDOT Response:

The Department agrees with the finding. The collection of weekly payroll certifications is done in the individual district offices. The Supplemental Specifications and Recurring Special Provision, Check Sheet #5, IV, 3, states that certified payrolls must be submitted each week. Construction Memorandum 09-14 also outlines the requirements for reporting and submission of payrolls. We will reiterate these contract requirements and policies to the districts.

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State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Airport Improvement Program
Highway Planning and Construction Cluster

CFDA # and Program Expenditures: 20.106/20.106ARRA (\$83,401,000)
20.205/20.205ARRA/20.219 (\$1,690,501,000)

Award Numbers: All awards (20.106/20.106ARRA)
(CFDA Number) All awards (20.205/20.205ARRA/20.219)

Questioned Costs: None

Finding 11-78 *Inadequate Monitoring of Subrecipient OMB Circular A-133 Reports*

IDOT does not have an adequate process to review subrecipient OMB Circular A-133 reports.

IDOT passed through approximately \$29,330,000 and \$146,090,000 to subrecipients of the Airport Improvement Program, and the Highway Planning and Construction Cluster (Highway Planning) program, respectively, during the year ended June 30, 2011. During our testwork of thirteen subrecipients of the Airport Improvement Program with total expenditures of approximately \$23,529,000, and 42 subrecipients of the Highway Planning program with total expenditures of approximately \$113,973,000, we noted the following regarding the desk review process:

- The OMB Circular A-133 audit reports for three subrecipients of the Airport Improvement Program and nine subrecipients of the Highway Planning program were not received timely and IDOT did not perform follow up procedures to obtain the reports. The number of days delinquent ranged from 5 to 150 days. Amounts passed through to these subrecipients during the year ended June 30, 2011 totaled \$2,706,000 and \$81,473,000, respectively.
- The OMB Circular A-133 reports for three subrecipients of the Airport Improvement Program and five subrecipients of the Highway Planning program were not reviewed by IDOT as of the date of our testwork. Amounts passed through to these subrecipients during the year ended June 30, 2011 totaled \$11,866,000 and \$2,766,000, respectively.
- The OMB Circular A-133 audit report for one subrecipient of the Highway Planning program was not date stamped, thus we were unable to determine if it was reviewed in a timely manner. Amounts passed through to this subrecipient totaled \$3,499,000 during the year ended June 30, 2011.
- IDOT did not issue a management decision related to findings reported by one subrecipient of the Highway Planning program. Amounts passed through to this subrecipient totaled \$68,448,000 during the year ended June 30, 2011.
- IDOT did not issue management decisions related to findings reported by two subrecipients of the Airport Improvement Program. Amounts passed through to these subrecipients totaled \$4,342,000 during the year ended June 30, 2011.

Additionally, the standard checklist used by IDOT to document the review of A-133 reports received from subrecipients of the Airport Improvement Program and Highway Planning programs did not include

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procedures to determine whether: (1) the audit reports met the audit requirements of OMB Circular A-133; (2) federal funds reported in the schedule of expenditures of federal awards reconciled to IDOT records to ensure subrecipients properly included amounts in the SEFA; and (3) Type A programs were audited at least every three years.

According to OMB Circular A-133 §___.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to OMB Circular A-133 §___.400(d)(5), a pass-through entity is required to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure (1) federal awards passed through to subrecipients have been properly included in the subrecipients' OMB Circular A-133 audits, (2) subrecipients expending \$500,000 or more in Federal awards during the subrecipients fiscal year have met the audit requirements of OMB Circular A-133, including that the audits are completed within nine months after the end of the subrecipients fiscal year end, (3) the subrecipient audit reports are reviewed in a timely manner, and (4) management decisions on reported findings are issued within six months after receipt of the subrecipients' audit reports.

In discussing these conditions with IDOT officials, they stated due to transitioning responsibilities to a new area, the process was not properly monitored due to lack of availability of staff.

Failure to obtain and adequately review subrecipient OMB Circular A-133 audit reports in a timely manner and issue management decisions in accordance with OMB Circular A-133 may result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 11-78, 10-84, 09-76, 08-80, 07-72, 06-72, 05-77, 04-62, 03-54, 02-48)

Recommendation:

We recommend IDOT establish procedures to ensure that: (1) expenditures passed through to subrecipients per IDOT's records are reconciled to the schedule of expenditures of federal awards submitted in the subrecipients' OMB Circular A-133 audit reports, (2) follow up procedures are performed for all delinquent OMB Circular A-133 reports (3) desk reviews are performed on a timely basis, and (4) management decisions are issued within six months after receipt of the subrecipients' OMB Circular A-133 audit reports.

IDOT Response:

The Department agrees with the finding. The Department recognizes the importance of monitoring the OMB Circular A-133 Single Audit requirements. Staff has been allocated to focus on revising and implementing proper procedures as necessary to address the federal requirements and recommendations of the auditors.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Airport Improvement Program
Highway Planning and Construction Cluster
High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants Program

CFDA # and Program Expenditures: 20.106/20.106ARRA (\$83,401,000)
20.205/20.205ARRA/20.219 (\$1,690,501,000)
20.319ARRA (\$81,641,000)

Award Numbers: All awards (20.106/20.106ARRA)
(CFDA Number) All awards (20.205/20.205ARRA/20.219)
FR-HSR-0015-11-01-00/FR-HSR-0015-11-01-01 (20.319ARRA)

Questioned Costs: None

Finding 11-79 Failure to Notify Subrecipients of Federal Funding

IDOT did not provide required program information relative to federal funds passed through to the subrecipients of the Airport Improvement Program, Highway Planning and Construction Cluster (Highway Planning), and the High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance (High-Speed Rail) programs for the year ended June 30, 2011.

During our testwork of forty grant awards to 30 subrecipients who received approximately \$13,740,000 of Airport Improvement Program funds, 40 grant awards to 30 subrecipients who received approximately \$4,845,000 of Highway Planning funds, and one subrecipient who received approximately \$76,732,000 of High Speed Rail funds, we noted the following:

- Twenty grant award notices for the Airport Improvement Program and fifteen grant award notices for the Highway Planning program did not communicate the need for an audit in accordance with OMB Circular A-133.
- Twenty grant award notices for the Airport Improvement Program and seventeen grant award notices for the Highway Planning program included incorrect information regarding the need for an audit in accordance with OMB Circular A-133. Specifically, IDOT notified those subrecipients that an audit in accordance with OMB Circular A-133 is required if the subrecipient receives (rather than expends) proceeds totaling \$500,000 or more in federal financial assistance from any source during its fiscal year.
- Four grant award notices for the Airport Improvement Program and twenty-two grant award notices for the Highway Planning program did not communicate the specific program or CFDA number and title under which federal funding had been provided.
- The grant award notice for the High-Speed Rail Program communicated the incorrect CFDA number for the program (20.312 rather than 20.319).

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

Subrecipient expenditures under the federal programs for the year ended June 30, 2011 were as follows:

Program	Total Fiscal Year 2011 Subrecipient Expenditures	Total Fiscal Year 2011 Program Expenditures	%
Airport Improvement Program	\$29,330,000	\$83,401,000	35.2%
Highway Planning Program	\$146,090,000	\$1,690,501,000	8.6%
High Speed Rail Program	\$76,732,000	\$81,641,000	94.0%

According to OMB Circular A-133__400(d), a pass-through entity is required to identify federal awards made by informing each subrecipient of the CFDA title and number, award name and number, and award year. The pass through entity is also required to advise subrecipients of the need for an audit in accordance with OMB Circular A-133 if a subrecipient expends more than \$500,000 in federal financial assistance during its fiscal year. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure required federal award notifications are made to subrecipients.

In discussing these conditions with IDOT officials, they stated that the projects identified were initiated prior to the full implementation of prior year corrective actions.

Failure to inform subrecipients of federal award information could result in subrecipients improperly omitting expenditures from their schedule of expenditures of federal awards, expending federal funds for unallowable purposes, or not receiving a single audit in accordance with OMB Circular A-133. (Finding Code 11-79, 10-86, 09-77, 08-81, 07-73, 06-74, 05-78, 04-63)

Recommendation:

We recommend IDOT review its current process for preparing subrecipient funding notifications to ensure all required information is properly communicated to its subrecipients.

IDOT Response:

The Department partially agrees with the finding. The Department implemented a revised version of the standard agreement in fiscal year 2010. The projects identified in this finding were initiated prior to full implementation of the revised agreement. The Department is exploring the cost and requirements involved with notifying all subrecipients with open agreements that were initiated prior to the implementation of the revised agreement.

The Department disagrees with the finding for the High Speed Rail program. It is the Department's interpretation that this program does not have any subrecipients.

Auditors' Comment:

As discussed in our auditors' comment in finding 11-85, we believe the for-profit entity to which IDOT passed through High Speed Rail funding is a subrecipient. Accordingly, IDOT was required to communicate the CFDA number, CFDA title, award number and year, and program regulations to this entity.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Highway Planning and Construction Cluster

CFDA # and Program Expenditures: 20.205/20.205ARRA/20.219 (\$1,690,501,000)

Award Numbers: All awards

Questioned Costs: None

Finding 11-80 *Failure to Follow Sampling and Testing Program for Construction Materials*

IDOT did not test materials used for construction activities under the Highway Planning and Construction Cluster (Highway Planning) program in accordance with their approved sampling and testing program.

The Highway Planning program administered by IDOT provides federal funding to construct and rehabilitate interstate highways and public roads. IDOT is required to have a sampling and testing program in place to ensure that materials and workmanship generally conform to approved plans and specifications. Each State is required to develop their own sampling and testing program which must conform to requirements established by Federal law and must be approved by the Federal Highway Administration (FHWA). IDOT has developed a comprehensive sampling and testing program as documented in the Project Procedures Guide for Sampling Frequencies for Materials Testing and Inspection (the Guide) and the Manual for Materials Inspection (the Manual) that meets these requirements.

IDOT utilizes the Materials Integrated System for Test Information and Communication (MISTIC) system to track which materials require testing and the method of testing to be used. This system is integrated with IDOT's construction billing system in which resident engineers enter quantities used during construction to generate payments to the contractors. If quantities entered do not have a test number which conforms to the type of testing required by the Guide assigned in MISTIC, it is the resident engineer's responsibility to ensure the proper test is completed before payment is made.

During our test work, we selected 65 materials from ongoing (open) construction projects and advanced construction projects and noted two instances where materials were accepted using a method of acceptance that was not in accordance with the Manual.

According to 23 CFR Section 637.205(a), each State's transportation department shall develop a quality assurance program which will assure that the materials and workmanship incorporated into each Federal-aid highway construction project on the National Highway System are in conformity with the requirements of the approved plans and specifications, including approved changes. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure materials used in each Federal-aid highway construction project on the National Highway System are tested in accordance with the sampling and testing plan approved by the FHWA.

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In discussing these conditions with IDOT officials, they stated after discussions with the districts involved it was determined that the correct method of acceptance was used in both cases; however, the materials inspection (method of acceptance) was not documented correctly. In these two cases, inspected and approved materials were used. One of these two instances involved a brand new inspector who apparently was not familiar with the difference between a failing test and a failing comparison on a split test. The other instance involved documenting the use of approved material from a two year old pile which is not a routine situation.

Failure to follow the sampling and testing program approved by the FHWA could result in substandard materials and workmanship in the State's interstate highways and public roads. (Finding Code 11-80, 10-87, 09-79)

Recommendation:

We recommend IDOT implement procedures to ensure all materials are tested in accordance with the sampling and testing program approved by the FHWA.

IDOT Response:

The Department agrees with the finding. The documentation problems associated with these findings are so unique that general training and education would not adequately address these subjects. The Bureau of Materials and Physical Research (BMPR) will notify the districts of the specific findings and provide information as to the correct documentation for each. The BMPR has already worked with the one district to change the failing test (FAIL) to an approved test (APPR) in MISTIC.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

Agency: Illinois Department of Transportation (IDOT)
Federal Agency: US Department of Transportation (USDOT)
Program Name: Airport Improvement Program
Highway Planning and Construction Cluster
High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants Program

CFDA # and Program Expenditures: 20.106/20.106ARRA (\$83,401,000)
20.205/20.205ARRA/20.219 (\$1,690,501,000)
20.319ARRA (\$81,641,000)

Award Numbers: All awards (20.106ARRA)
(CFDA Number) All awards (20.205ARRA)
FR-HSR-0015-11-01-00/FR-HSR-0015-11-01-01 (20.319ARRA)

Questioned Costs: None

Finding 11-81 Failure to Communicate ARRA Information and Requirements to Subrecipients

IDOT did not communicate American Recovery and Reinvestment Act (ARRA) information and requirements to subrecipients of the Airport Improvement Program (Airport Improvement), the Highway Planning and Construction Cluster (Highway Planning), and the High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants (High-Speed Rail) program.

During our testwork over five ARRA disbursements totaling approximately \$2,562,000 to five subrecipients of the Airport Improvement program, six ARRA disbursements totaling approximately \$973,000 to five subrecipients of the Highway Planning program, and 40 ARRA disbursements totaling approximately \$19,484,000 to one subrecipient of the High-Speed Rail program, we noted IDOT did not identify the federal award number, catalog of federal domestic assistance (CFDA) title and number, or the amount of the award attributable to ARRA at the time of each disbursement. Additionally, IDOT’s grant agreements for the Airport Improvement and the Highway Planning programs did not identify the requirement for their subrecipients to separately report ARRA program expenditures on the schedule of expenditures federal awards (SEFA) and the data collection form. IDOT passed through ARRA funds of approximately \$9,550,000 to eight subrecipients of the Airport Improvement program, approximately \$17,463,000 to 37 subrecipients of the Highway Planning program, and approximately \$76,732,000 to one subrecipient of the High-Speed Rail program during the year ended June 30, 2011.

According to 2 CFR, Chapter I, Part 176.210 (c) and (d), recipients of ARRA funds agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal Award number, CFDA number, and the amount of ARRA funds. When a recipient awards ARRA funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental ARRA funds from regular subawards under the existing program. Recipients of ARRA funds also agree to require their subrecipients to provide similar identification in their SEFA and data collection form. The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the required ARRA information is communicated to subrecipients.

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In discussing these conditions with IDOT officials, they stated that appropriate staff has been made aware of the requirements and the information is now being provided.

Failure to communicate required ARRA information could result in subrecipients not properly administering the federal programs in accordance with federal regulations. (Finding Code 11-81, 10-85)

Recommendation:

We recommend IDOT implement procedures to ensure ARRA information and requirements are properly communicated to its subrecipients.

IDOT Response:

The Department partially agrees with the finding. In December, 2011 the Department implemented corrective action required to properly communicate ARRA information to subrecipients. The Department disagrees with the finding for the High Speed Rail program. It is the Department's interpretation that this program does not have any subrecipients.

Auditors' Comment:

As discussed in our auditors' comment in finding 11-85, we believe the for-profit entity to which IDOT passed through High Speed Rail funding is a subrecipient. Accordingly, ARRA communications were required to be made with each disbursement of program funds.

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For Year Ended June 30, 2011

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Airport Improvement Program

CFDA # and Program Expenditures: 20.106/20.106ARRA (\$83,401,000)

Award Numbers: All awards

Questioned Costs: None

Finding 11-82 *Inadequate Cash Management Procedures*

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

Annually, the State of Illinois negotiates the Treasury-State Agreement (TSA) with the US Department of the Treasury (the Treasury) which details the funding techniques to be used for the draw down of federal funds. The TSA specifies that IDOT draw funds for the Airport Improvement Program using the pre-issuance method, an advance funding technique. This method requires IDOT to request funds such that they are deposited in a state account not more than three days prior to the day the state makes a disbursement. During our review of eighty (80) expenditures totaling approximately \$23,752,800, we noted warrants were not issued for three expenditure vouchers totaling approximately \$810,700 within three business days of receiving the federal funds intended to finance these expenditures. The number of days between receipt of federal funds and the issuance of warrants for these expenditures ranged from four to six business days.

The A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the cash draws are performed in accordance with the US Treasury Regulations.

In discussing this condition with Department officials, they state the Division of Aeronautics monitors when the expenditures are vouchered in the FOA system. Once the expenditures are vouchered in the FOA system, then the cash draws are performed in order for there to be funds to cover the warrants when they are issued. Typically, the warrant is issued within the three business days of receiving the federal funds.

Failure to draw funds in accordance with the US Treasury Regulations could result in an interest liability to the Federal government. (Finding Code 11-82, 10-88)

Recommendation:

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

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IDOT Response:

The Department agrees with the finding. The acceptable audit method requires the Department to request funds such that they are deposited in a state account not more than three days prior to the day the state makes a disbursement. This finding states the number of days between receipt of federal funds and the issuance of warrants for three expenditures ranged from four to six business days. The Department's policy is to draw the federal funds once the FOA system indicates the expenditure is vouchered in the FOA system. The cash draw takes one to two business days to be deposited into the State account. Therefore, depending on the number of business days taken to issue a warrant from the time it is vouchered in the FOA system, affects the number of days between receipt of federal funds and the issuance of warrants for these expenditures. The current policy is structured to balance the timing of the issuance of the warrant with the timing of the deposit. In addition, as required by the Cash Management Interest Act, the Department analyzes, calculates and remits interest according to the Treasury State Agreement. The Department will research the implementation of the cash hold process as a possible resolution to this recommendation.

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For Year Ended June 30, 2011

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Highway Planning and Construction Cluster

CFDA # and Program Expenditures: 20.205/20.205ARRA/20.219 (\$1,690,501,000)

Award Numbers: All awards

Questioned Costs: Cannot be determined

Finding 11-83 *Inaccurate ARRA 1512 Reports*

IDOT did not accurately report expenditures in the quarterly ARRA 1512 report for the Highway Planning and Construction Cluster (Highway Planning) program.

The ARRA 1512 report is required to be submitted on a quarterly basis to report expenditures and other information related to the Highway Planning program. During our review of 40 quarterly reports submitted during the fiscal year ended June 30, 2011, we noted one quarterly ARRA 1512 report erroneously reported expenditure amounts as follows:

Contract Number	Quarter End	Actual Expenditures	Reported Expenditures	Difference
97407	December 31, 2010	\$ 323,440	\$ 321,000	\$ 2,440

Additionally, we noted several differences were identified between the ARRA 1512 reports and IDOT’s financial records which were not investigated and resolved before the reports were submitted. Specifically, differences identified between the amounts reported on the 1512 report for ARRA funds received/invoiced and ARRA expenditures were not reconciled to IDOT financial records and corrected, as appropriate.

According to the OMB Circular A-133 compliance supplement, dated March 2011, IDOT is required to submit quarterly ARRA 1512 reports within 10 days after the reporting period. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure the key data elements reported on the ARRA 1512 reports are accurate and agree to IDOT’s financial records.

In discussing these conditions with IDOT officials, they stated that expenditures were being reconciled monthly and at project close-out.

Failure to accurately report expenditures on the ARRA 1512 prevents the USDOT from effectively monitoring and evaluating the performance of the program. (Finding Code 11-83)

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Recommendation:

We recommend IDOT review the process and procedures in place to prepare and submit ARRA 1512 reports to ensure amounts reported are accurate and reconcile to IDOT's financial records.

IDOT Response:

The Department agrees with the finding. Highways currently run a quarterly report comparing the 1512's against FMIS. A 'Phase A' review is done each quarter when a project is first entered into the system. A 'Phase B' review, which is a random sample of all projects, is also conducted each quarter and compares job creation numbers and expenditure amounts.

Once a project is finalized, the 1512's will be verified for expenditure amounts, award amounts and sub awards. If there are any discrepancies, the 1512's will be adjusted at that time. IDOT does maintain documentation which tracks and identifies any discrepancies. To effectively utilize both the state and project resources, reconciliation takes place at the time of the project closeout.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Highway Planning and Construction Cluster

CFDA # and Program Expenditures: 20.205/20.205ARRA/20.219 (\$1,690,501,000)

Award Numbers: All awards

Questioned Costs: None

Finding 11-84 *Inadequate On-Site Monitoring of Highway Planning Subrecipients*

IDOT is not adequately performing and documenting on-site monitoring procedures for subrecipients receiving federal awards under the Highway Planning and Construction Cluster (Highway Planning) program.

IDOT passed through approximately \$138,177,000 to 394 subrecipients of the Highway Planning program during the fiscal year ended June 30, 2011. The majority of the subrecipient grants pertain to construction projects for road projects. As a pass through entity, IDOT monitors its subrecipients primarily by reviewing procurement files, receiving periodic expenditure reports, reviewing invoices and cancelled checks prior to reimbursing subrecipients, receiving OMB Circular A-133 audit reports, and performing on-site reviews. IDOT has developed standardized checklists to perform the subrecipient on-site monitoring procedures.

During our review of monitoring reports and checklists prepared for on-site programmatic reviews conducted for eight Highway Planning subrecipients (with expenditures of \$46,061,000) during fiscal year 2011, we noted IDOT identified and reported several instances of subrecipient non-compliance with program requirements, including specific IDOT construction policies and procedures. Upon further investigation, we noted IDOT had not performed procedures to ensure subrecipients have taken timely corrective action on monitoring findings prior to reimbursing program expenditures. IDOT's current practice is to follow up on monitoring findings during its final on-site review at the conclusion of the construction project. As these final reviews may occur several months or years later, the follow up procedures are not timely and IDOT may be reimbursing unallowable costs during the course of the project.

According to OMB Circular A-133 §____.400(d)(3), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. In addition, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to follow up on findings identified during subrecipient reviews prior to reimbursing program expenditures.

In discussing these conditions, IDOT officials stated that the in place follow-up protocols would benefit from a revision to perform more timely follow-up.

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Failure to adequately monitor subrecipients and to ensure timely corrective action has been taken for on-site monitoring findings could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 11-84)

Recommendation:

We recommend IDOT establish procedures to follow up on on-site monitoring findings to verify corrective actions have been implemented by subrecipients prior to reimbursing program expenditures.

IDOT Response:

The Department agrees with the finding. The Department agrees that we need to provide timelier follow-up to the findings noted during the joint construction reviews. The finding in part takes issue not with the quality of the Department's industry recognized joint construction review program but with the subsequent timeliness of the follow-up on findings. The reviews of concern by the auditors in general and specific to this finding are evaluations of the quality of work performed by the Department's resident engineers overseeing the projects and not the work of construction contractors. They are not reviews of billings prior to payment. The office in question does have audit follow-up procedures which will now be strengthened to timelier follow-up to ensure the resident engineer cited in the finding has taken corrective action.

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For Year Ended June 30, 2011

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants Program

CFDA # and Program Expenditures: 20.319ARRA (\$81,641,000)

Award Number: FR-HSR-0015-11-01-00/FR-HSR-0015-11-01-01

Questioned Costs: Cannot be determined

Finding 11-85 *Inadequate Monitoring of High Speed Rail Program Subrecipient*

IDOT did not monitor all applicable compliance requirements for a subrecipient receiving funding under the High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants (High-Speed Rail) program.

IDOT received a grant for approximately \$1.1 billion to construct and install the infrastructure necessary to operate high speed passenger rail service between Illinois and Missouri. The agreement between USDOT and IDOT specified a for-profit organization would assist IDOT in completing the construction and installation of the high speed rails. Although IDOT did not consider this entity a subrecipient, the organization is responsible for carrying out significant compliance requirements that normally would be carried out by the State relative to this program. Specifically, the for-profit organization (for-profit subrecipient) is responsible for: (1) designing and engineering the rails, (2) purchasing any materials required to construct and install the rails, (3) selecting and contracting with vendors to assist in constructing and installing the rails, and (4) purchasing real estate along the project route and paying relocation assistance, as necessary.

During our testwork, we noted IDOT has implemented certain procedures to monitor its for-profit subrecipient, which include: reviewing supporting documentation relative to time and material charges incurred by the for-profit subrecipient and its subcontractors, inspecting materials used in the construction of the rails, and performing site visits to monitor the progress of on-going construction and installation activities. However, IDOT has not established procedures to monitor whether the for-profit subrecipient and its subcontractors have complied with the Davis Bacon Act prevailing wage rate requirements or procured services relative to this project in accordance with the Illinois Procurement Code.

Amounts passed through under the High-Speed Rail program to IDOT's for-profit subrecipient during the year ended June 30, 2011 totaled \$76,732,000.

According to OMB Circular A-133 section .210(b), characteristics indicative of a federal award received by a subrecipient include when the organization, among other things, has responsibility for programmatic decision making and uses the federal funds to carry out a program of the organization as compared to providing goods and services for a program of the pass-through entity. OMB Circular A-133 section .210(c), also states characteristics indicative of a payment for goods and services received from a vendor

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include when the organization, among other things, provides goods or services that are ancillary to the operations of the program and are not subject to the compliance requirements of the federal program.

In addition, according to the OMB Circular A-133 Compliance Supplement, dated March 2011, a pass-through entity is required to monitor its subrecipients' activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements.

Finally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure procedures designed to monitor subrecipients cover all applicable program compliance requirements.

In discussing these conditions with IDOT officials, they stated they followed the conclusion of the FRA that this for-profit entity was not a subrecipient.

Failure to properly monitor subrecipients results in noncompliance with OMB Circular A-133 and could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 11-85)

Recommendation:

We recommend IDOT implement procedures to monitor each compliance requirement administered by its for-profit subrecipient of the High Speed Rail program.

IDOT Response:

The Department disagrees with the finding. The High-Speed Rail program is breaking new ground across the country and we respect the Office of the Auditor General's position on the vendor/subrecipient issue.

One additional criterion in OMB Circular A-133 for subrecipient determination is the use of judgment in making the determination. The Circular provides, "there may be unusual circumstances or exceptions to the listed characteristics. In making the determination of whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. It is not expected that all of the characteristics will be present and judgment should be used in determining whether an entity is a subrecipient or vendor."

Given that virtually all funding for our high-speed rail program comes from the U.S. Department of Transportation and its Federal Railroad Administration, we rely on USDOT/FRA's judgment on many issues concerning the program. And we believe that the circumstances surrounding this issue are such that their judgment should come into play. FRA and the USDOT/OIG's recognized National Single Audit Coordinator have both stated that in their judgment, railroads are not subrecipients. We believe it would be inappropriate for us to dismiss the judgment of these transportation experts.

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Auditors' Comment

As stated in the finding above, in our judgment, the for-profit entity receiving the High Speed Rail program funding is a subrecipient of IDOT because it is responsible for making programmatic decisions on IDOT's behalf and carrying out significant compliance requirements that normally would have been performed by IDOT. IDOT indicated in its response that the Federal Railroad Administration and US Department of Transportation Office of the Inspector General both stated that the for-profit entity referenced in this finding is not a subrecipient; however, IDOT was not able to provide documentation supporting this statement.

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For Year Ended June 30, 2011

State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants Program

CFDA # and Program Expenditures: 20.319ARRA (\$81,641,000)

Award Number: FR-HSR-0015-11-01-00/FR-HSR-0015-11-01-01

Questioned Costs: None

Finding 11-86 *Inaccurate Financial Reports*

IDOT did not prepare accurate periodic financial reports for the High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants (High-Speed Rail) program.

IDOT is required to prepare quarterly financial status (SF-425) and ARRA 1512 reports for the High Speed Rail program. In addition, IDOT is required to prepare a request for advance or reimbursement (SF-270) report to support each of its cash requests for the High Speed Rail program. During our testwork over one quarterly SF-425 report, one quarterly ARRA 1512 report, and one SF-270 report, we noted several errors in the reports selected for testwork as described below.

During our testwork over one ARRA 1512 report and one SF-270 report (each prepared for the period ended March 31, 2011), we noted IDOT improperly reported required financial information as follows:

Report	Report Line Item	Amount Reported	Actual Amount	Difference
ARRA 1512	Total Federal Amount of ARRA Expenditures	\$78,282,179	\$74,353,681	\$3,928,498
SF-270	Total Program Outlays to Date	\$74,394,250	\$74,353,681	\$40,569

In addition, we noted the SF-425 report and SF-270 report (each prepared for the period ended March 31, 2011) improperly reported other required award information, as follows:

- the Catalog of Federal Domestic Assistance number was reported as 20.317, instead of 20.319 on the SF-425;
- the reporting period was reported as ending March 31, 2010, instead of March 31, 2011 on the SF-425 report; and
- the reporting period was reports as ending February 28, 2011, instead of March 31, 2011 on the SF-270 report.

According to the OMB Circular A-133 Compliance Supplement, dated March 2011, IDOT is required to submit quarterly ARRA 1512 report within 10 days after the reporting period. According to 74 Federal Register 29916, Appendix 3.5, IDOT is required to submit quarterly financial status reports (known as

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SF-425 reports effective October 1, 2010) within 30 days after the reporting period. According to the grant agreement executed between IDOT and USDOT dated December 9, 2010 for the High Speed Rail Program, IDOT is required to submit the SF-270 report to receive reimbursement for federal expenditures. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure financial and other award information reported in required financial reports is accurate.

In discussing these conditions with IDOT officials, they stated this was the initial reporting for the High Speed Rail, the administrative reporting process was not fully developed to ensure typographical errors were not occurring.

Failure to accurately prepare financial reports prevents the USDOT from effectively monitoring the High Speed Rail program. (Finding Code 11-86)

Recommendation:

We recommend IDOT review the process and procedures in place to prepare financial reports required for the High Speed Rail program and implement the additional procedures necessary to ensure the reports are accurate.

IDOT Response:

The Department agrees with the finding. The period cited in the review was the first in which construction was taking place along the Chicago-St. Louis high-speed rail corridor. Since that time, IDOT has implemented additional reviews in the ARRA report preparation process to ensure that the typographical errors noted in the finding are not repeated.

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State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Transportation (USDOT)

Program Name: Airport Improvement Program
 Highway Planning and Construction Cluster Program
 High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants Program

CFDA # and Program Expenditures: 20.106/20.106ARRA (\$83,401,000)
 20.205/20.205ARRA/20.219 (\$1,690,501,000)
 20.319ARRA (\$81,641,000)

Award Numbers: All awards (20.106/20.106 ARRA)
 All awards (20.205/20.205 ARRA/20.219)
 FR-HSR-0015-11-01-00/FR-HSR-0015-11-01-01 (20.319ARRA)

Questioned Costs: None

Finding 11-87 *Inaccurate Reporting of Federal Expenditures*

IDOT did not accurately report Federal expenditures under the Airport Improvement Program, the Highway Planning and Construction Cluster (Highway Planning) Program, and the High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants (High-Speed Rail) Program.

IDOT inaccurately reported federal expenditures which were used to prepare the schedule of expenditures of federal awards (SEFA) to the Illinois Office of the Comptroller (IOC) using an estimate based on revenues and receipts, instead of actual expenditures. Specifically, we noted the following differences for the year ended June 30, 2011:

	Federal Expenditures Reported on the SEFA	Federal Expenditures Reported on the Expenditure Pattern	Difference
Airport Improvement Program	\$ 69,157,000	\$ 68,951,000	\$ 206,000
Airport Improvement Program - ARRA	14,244,000	14,123,000	121,000
Highway Planning Program	1,429,462,000	1,406,643,000	22,819,000
Highway Planning Program - ARRA	261,039,000	258,441,000	2,598,000

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Additionally, IDOT did not separately identify the federal expenditures of \$81,641,000 expended under the High-Speed Rail Program as being funded under the American Reinvestment and Recovery Act (ARRA).

According to OMB Circular A-133 §__.300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the SEFA. According to 2 CFR 176.210(b), recipients must separately identify the expenditures for federal awards under ARRA on the SEFA. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures to ensure federal expenditures are accurately reported on the SEFA.

In discussing this with IDOT officials, they stated the expenditure pattern is completed prior to the finalized year-end financial reporting that may not contain complete information.

Failure to accurately report federal expenditures prohibits the completion of an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding Code 11-87)

Recommendation:

We recommend IDOT establish procedures to accurately report federal expenditures used to prepare the SEFA to the IOC.

IDOT Response:

The Department accepts the recommendation. The Department has accurately reported the expenditures in the SEFA. The expenditure pattern work paper is an audit questionnaire completed prior to financial reporting and is not used by the Department to complete the SEFA reporting. The expenditure pattern was not updated to match the final SEFA, but was reconciled to the SEFA, identifying all discrepancies. The Department will make a better effort at ensuring the expenditure pattern is completed using all financial information available and will revise as necessary.

Auditors' Comment

As noted in the finding above, IDOT was not able to adequately reconcile the differences between the expenditure pattern questionnaire provided to us for our audit testwork and the amounts reported to the Comptroller for reporting in the SEFA. IDOT's responses noted that the expenditure pattern was prepared with incomplete information; however, the final expenditure pattern was provided in December 2011 and was prepared on the *cash basis*. Accordingly, we would not expect there to be significant changes in cash basis numbers more than six months after year end.

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State Agency: Illinois Department of Transportation (IDOT)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.067 (\$85,536,000)

Award Numbers: 2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012/2009-SS-T9-0031/2010-SS-T0-0026

Questioned Costs: Cannot be determined

Finding 11-88 *Failure to Account For and Remit Interest Earned on Advance Funding*

IDOT did not account for and remit interest earned on advance funding received under the Homeland Security Cluster program.

During the year ended June 30, 2011, IDOT received approximately \$2,374,000 in advance funding under the Homeland Security Cluster program. During our audit, we noted IDOT deposited the advance funding into an interest-bearing account with the State Treasurer which is commingled with other funds. However, IDOT did not account for and remit interest earned on the Homeland Security Cluster program funds to the U.S. Treasury.

According to the OMB Circular A-133 Compliance Supplement dated March 2011, grantees are permitted to draw down funds up to 120 days prior to expenditure/disbursement, but must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury. Additionally, Chapter III.B of the 2005 Homeland Security Program Guidelines and Application Kit (HSP Guidelines), Chapter II.C.3 of the 2006 HSP Guidelines, and Appendix B, Section B, of the 2007 HSP Guidelines, and Appendix F, Section C, of the 2008 HSP Guidelines applicable to the Homeland Security Cluster Grants state that funds received by both grantees and subgrantees must be placed in an interest-bearing account.

In discussing these conditions with IDOT personnel, they stated that the prior year corrective action was not fully implemented during fiscal year 2011.

Failure to account for and remit interest earned results in lost interest earnings to the U.S. Treasury. (Finding Code 11-88, 10-89, 09-80, 08-82, 07-75, 06-76)

Recommendation:

We recommend IDOT account for and remit interest earned on the Homeland Security Cluster program funds to the U.S. Treasury.

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IDOT Response:

The Department agrees with the finding. A separate appropriation was created in 2009 to reimburse Homeland Security expenditures to vendors prior to drawing down any Federal funds. Unfortunately, funds were still deposited before reimbursement was made to the vendor. A new procedure when requesting reimbursement funds has been developed to coincide with the drawdown of Federal funds for this appropriation. This approach will ensure the processing of Homeland Security invoices are paid to the vendor, and reimbursement deposited thereafter. This corrective action was implemented March 1st, 2012 and will address the issue that will alleviate this finding.

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State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.067 (\$85,536,000)

Award Numbers: 2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012/2009-SS-T9-0031/2010-SS-T0-0026

Questioned Costs: None

Finding 11-89 *Inadequate Supervisory Review of On-Site Monitoring of Subrecipients*

IEMA is not sufficiently documenting supervisory reviews of the certification form of subrecipients receiving federal awards under the Homeland Security Cluster program.

The Illinois Terrorism Task Force (ITTF) within IEMA passes through Homeland Security Cluster program funding to various local governments to develop, maintain, and improve the responsiveness of Illinois local governments to terrorist acts. A significant portion of the grants made to these subrecipients fund the purchase of special equipment to be used in the event of terrorist attacks.

ITTF monitors its subrecipients by reviewing invoices and expenditure reports, receiving OMB Circular A-133 audit reports, and requiring subrecipients annually to submit an inventory report for all equipment purchased with Homeland Security Cluster program funds. ITTF's policy statement requires staff to conduct site visits to ensure the accuracy of the inventory reports. IEMA developed an ITTF Inventory Certification Form (certification form) to document the equipment observations.

During our testwork over 40 subrecipients (expending \$33,189,000) who received site visits in fiscal year 2011, we noted the certification forms for 38 subrecipients (expending \$32,042,000) contained no evidence that a supervisory review had been performed by IEMA. Total federal awards passed through to subrecipients of the Homeland Security Cluster program were approximately \$79,217,000 during the year ended June 30, 2011.

According to OMB Circular A-133 § __.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. The A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include performing and documenting supervisory reviews of subrecipient inventory certification forms.

In discussing these conditions with IEMA personnel, they stated they appropriate ITTF policies and procedures had been established and followed during the audit period.

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Failure to adequately perform and document supervisory reviews of subrecipient inventory certifications could result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 11-89, 10-90, 09-85, 08-87)

Recommendation:

We recommend IEMA implement procedures to ensure supervisory reviews of inventory certification forms are performed and documented.

IEMA Response:

IEMA accepts this finding. IEMA will work towards updating the policies and including a supervisory review over the inventory certifications.

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State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.067 (\$85,536,000)

Award Numbers: 2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012/2009-SS-T9-0031/2010-SS-T0-0026

Questioned Costs: None

Finding 11-90 *Inadequate Review of Subrecipient OMB Circular A-133 Reports*

IEMA is not adequately performing the reviews of OMB Circular A-133 reports which are required to be received from subrecipients of the Homeland Security Cluster.

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

During our testwork of 40 subrecipients of the Homeland Security Cluster with total expenditures of \$55,252,749, we noted four subrecipient OMB Circular A-133 reports were received late, and IEMA did not retain documentation of its attempts to collect the reports and to follow-up with the subrecipients. Specifically, these reports were received between 26 and 150 days after the nine-month submission requirement. Total amounts passed through to these four subrecipients were \$22,498,916 during the year ended June 30, 2011. Total awards passed through to subrecipients of the Homeland Security Cluster were approximately \$79,217,000 during the year ended June 30, 2011.

According to OMB Circular A-133 __.400(d), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure the federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to the OMB Circular A-133 compliance supplement, dated March 2011, a pass-through entity is required to 1) ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, 2) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report, and 3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In the cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

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In discussing these conditions with IEMA officials, they stated procedures had been established to ensure compliance with OMB Circular A-133.

Failure to obtain and adequately review subrecipient OMB Circular A-133 audit reports in a timely manner may result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 11-90, 10-91)

Recommendation:

We recommend IEMA establish procedures to ensure subrecipient OMB Circular A-133 audit reports are received within federally prescribed timeframes and to ensure appropriate follow up procedures are performed and documented for any late audit reports.

IEMA Response:

IEMA accepts this finding. IEMA does have established procedures in place. IEMA management will continue to work with staff to ensure compliance with established procedures.

In addition, IEMA will be implementing a tracking system to ensure all deadlines are met. This will include tracking any follow up to findings required by OMB Circular A-133 and ensuring receipt of the required documentation of the subrecipients.

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State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.067 (\$85,536,000)

Award Numbers: 2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012/2009-SS-T9-0031/2010-SS-T0-0026

Questioned Costs: Cannot be determined

Finding 11-91 *Failure to Deposit Funds in an Interest-Bearing Account*

IEMA did not deposit Homeland Security Cluster program funds received in advance of issuing warrants into an interest-bearing account.

During the year ended June 30, 2011, IEMA received \$79,674,896 in draws under the Homeland Security Cluster program that were not deposited into an interest-bearing account. Additionally, IEMA did not calculate or remit any potential interest owed to the U.S. Treasury on funds received in advance of disbursement.

According to the OMB Circular A-133 Compliance Supplement dated March 2011, grantees are permitted to draw down funds up to 120 days prior to expenditure/disbursement, but must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury. Additionally, Chapter III.B of the 2005 Homeland Security Program Guidelines and Application Kit (HSP Guidelines), Chapter II.C.3 of the 2006 HSP Guidelines, Appendix B, Section B, of the 2007 HSP Guidelines, and Appendix F, Section C, of the 2008 HSP Guidelines applicable to the Homeland Security Cluster Grants state that funds received by both grantees and subgrantees must be placed in an interest-bearing account.

In discussing these conditions with State Police personnel, they stated an interest bearing account was created by 20 ILCS 3305/17.5, but was not in effect until January 2012.

Failure to deposit federal advances in an interest-bearing account results in lost interest earnings to the U.S. Treasury. (Finding Code 11-91, 10-94, 09-83, 08-85)

Recommendation:

We recommend IEMA deposit all federal funds received in an interest-bearing account and calculate and remit interest owed to the U.S. Treasury.

IEMA Response:

IEMA accepts this finding.

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State Agency: Illinois Emergency Management Agency (IEMA)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.067 (\$85,536,000)

Award Number 2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012/2009-SS-T9-0031/2010-SS-T0-0026

Questioned Costs: None

Finding 11-92 *Failure to Follow Established Internal Control Procedures for Equipment*

IEMA did not follow their established internal control procedures to reconcile equipment expenditures to additions recorded in the property (equipment) records.

IEMA's internal control procedures to maintain accurate property records include a monthly reconciliation between expenditures for equipment recorded in their general ledger to equipment additions recorded in the property records. During our audit, we noted IEMA did not complete reconciliation for the month ending June 30, 2011.

According to the OMB Circular A-133 Compliance Supplement dated March 2011, a State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with the State's laws and procedures. According to the Illinois Compiled Statutes State Property Control Act, 30 ILCS 605/6.02, each responsible officer shall maintain a permanent record of all items of property under his jurisdiction and control. The listing shall include all property being acquired under agreements which are required by the State Comptroller to be capitalized for inclusion in the statewide financial statements. The A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include following established internal control procedures to reconcile equipment expenditures to additions recorded in the property records.

In discussing these conditions with IEMA personnel, they stated the reconciliations were not completed by the Public Safety Shared Services Center (as required by Executive Order 6 (2006) and the established Interagency Agreement).

Failure to follow established internal control procedures for equipment could result in inaccurate or incomplete property records. (Finding Code 11-92, 10-95, 09-88)

Recommendation:

We recommend IEMA follow their established internal control procedures to reconcile equipment expenditures to additions recorded in the property records.

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IEMA Response:

IEMA cannot accept or reject this finding. Public Safety Shared Services Center accepts this finding. Per Executive Order (6) 2006, the fixed assets administrative functions were transferred to the Public Safety Shared Services Center (SS) at the Department of Corrections.

Per the Interagency Agreement dated September 25, 2008, between IEMA and SS, SS is responsible for performing the inventory reconciliations. The Agreement states, "*In the event either the Auditor General or the Office of Internal Audits makes recommendations or audit findings with respect to any of the administrative functions performed by Shared Services under this Agreement, it shall be the responsibility of Shared Services to ensure corrective action and to account to the affected agency or agencies with respect to such action.*"

The Public Safety Shared Services Center will perform the reconciliation of fixed assets (property) to expenditures on AIS on a monthly basis going forward.

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For Year Ended June 30, 2011

State Agency: Illinois Emergency Management Agency (IEMA)
Federal Agency: US Department of Homeland Security (USDHS)
Program Name: Disaster Grants – Public Assistance (Presidentially Declared Disasters)
CFDA # and Program Expenditures: 97.036 (\$27,020,000)

Award Numbers: 1513DRILP00000001/1850DRILP00000001/1935DRILP00000001
1960DRILP00000001

Questioned Costs: None

Finding 11-93 *Failure to Draw Funds Only for Immediate Cash Needs*

IEMA did not minimize the time elapsing between the drawdown of federal funds from the U.S. Treasury and their disbursement for program purposes.

During our review of 25 expenditures (totaling \$8,902,751) related to the Disaster Grants Public Assistance (Presidentially Declared Disasters) program, we noted warrants were not issued for 22 expenditure vouchers, totaling \$5,291,760 within three business days of receiving federal funds intended to finance these expenditures. The number of days between the receipt of federal funds and the issuance of warrants ranged from four to nineteen business days. Total expenditures for the Disaster Grants Public Assistance (Presidentially Declared Disasters) program administered by IEMA were \$27,020,000 during the year ended June 30, 2011.

According to 44 CFR 13.21(b), grantees are required to implement methods and procedures for payment which minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement of funds in accordance with the Treasury Regulations at 31 CFR part 205 (Treasury Regulations). The Treasury Regulations require programs with less than \$65,520,000 in expenditures follow Subpart B – Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State agreement. According to 31 CFR 205.33(a), grantees following Subpart B are required to implement procedures to ensure that the timing and amount of fund transfers be as close as is administratively feasible to a State's actual cash outlay for program costs, which based on discussions with Federal agencies has been interpreted to be within 3 days of receipt of federal funds. In addition, the A-102 Common Rule requires non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal control should include procedures in place to minimize the time elapsing between the receipt of federal funds and their disbursement.

In discussing these conditions with IEMA personnel, they stated the payment vouchers and federal fund draws have historically been processed simultaneously; however, processing a voucher and creating a warrant has taken more than three business days during fiscal year 2011. This process was a shared responsibility between the Public Safety Shared Services Center and IEMA (as required by Executive Order 6 (2006) and the established Interagency Agreement).

Failure to draw and disburse federal funds in accordance with program regulations may result in an interest liability to the federal government. (Finding Code 11-93, 10-93, 09-87)

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Recommendation:

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

IEMA Response:

IEMA accepts this finding. Public Safety Shared Services Center (SS) accepts this finding. The Agency and SS currently work to minimize the time between draws and payment. The current process is to submit vouchers to SS where they are entered for payment into AIS. Once the vouchers are entered, grant fiscal staff submit a request for federal funds online. It then requires at least two days for the Treasurer to receive the funds and for the Comptroller to post to their appropriate fund. An additional two days are required for assembling schedules at SS and delivering that information to the Comptroller.

Both the Agency and Shared Services will review the processes to identify opportunities for improvement. However, neither the Agency nor SS has control over the length of time vouchers spend at the Office of the Comptroller. We will reach out to that office to determine if the timeframe can be shortened.

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State Agency: Illinois State Police (State Police)

Federal Agency: US Department of Homeland Security (USDHS)

Program Name: Homeland Security Cluster

CFDA # and Program Expenditures: 97.067 (\$85,536,000)

Award Numbers: 2006-GE-T6-0025/2007-GE-T7-0022/2008-GE-T8-0012/2009-SS-T9-0031/2010-SS-T0-0026

Questioned Costs: Cannot be determined

Finding 11-94 *Failure to Deposit Funds in an Interest-Bearing Account*

State Police did not deposit Homeland Security Cluster program funds received in advance of issuing warrants into an interest-bearing account.

During the year ended June 30, 2011, State Police received approximately \$2,216,485 in draws under the Homeland Security Cluster program that were not deposited into an interest-bearing account. Additionally, State Police did not calculate or remit any potential interest owed to the U.S. Treasury on funds received in advance of disbursement.

According to the OMB Circular A-133 Compliance Supplement dated March 2011, grantees are permitted to draw down funds up to 120 days prior to expenditure/disbursement, but must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury. Additionally, Chapter III.B of the 2005 Homeland Security Program Guidelines and Application Kit (HSP Guidelines), Chapter II.C.3 of the 2006 HSP Guidelines, Appendix B, Section B, of the 2007 HSP Guidelines, and Appendix F, Section C, of the 2008 HSP Guidelines applicable to the Homeland Security Cluster Grants state that funds received by both grantees and subgrantees must be placed in an interest-bearing account.

In discussing these conditions with State Police personnel, they stated the Department has been working on legislation to amend the ISP Federal Projects Fund to be an interest-bearing account.

Failure to deposit federal advances in an interest-bearing account results in lost interest earnings to the U.S. Treasury. (Finding Code 11-94, 10-96, 09-89, 08-90)

Recommendation:

We recommend State Police deposit all federal funds received in an interest-bearing account and calculate and remit interest owed to the U.S. Treasury.

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State Police Response:

Concur. 20 ILCS 2605/2605-407 was established; however, the Comptroller's Office interpreted the legislation to mean a new fund should be created. ISP is working with the Comptroller's Office as well as the State Treasurer to amend this legislation so that the Comptroller's Office can allow the current ISP Federal Projects Fund to receive interest.

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State Agency: Illinois Environmental Protection Agency (IEPA)

Federal Agency: US Environmental Protection Agency (USEPA)

Program Name: Clean Water State Revolving Fund
Drinking Water State Revolving Fund

CFDA # and Program Expenditures: 66.458/66.458 ARRA (\$194,432,000)
66.468/66.468 ARRA (\$73,269,000)

Award Numbers: 2W00E77501-1/CS17000107/CS17000108/CS17000109 (66.458/66.458 ARRA)
2W00E77701-1/FS98577707-0/ FS98577708-0 (66.468/66.468 ARRA)

Questioned Costs: None

Finding 11-95 *Inadequate Monitoring of Subrecipient OMB A-133 Audit Reports*

IEPA does not have an adequate process in place for obtaining OMB Circular A-133 audit reports and issuing management decisions on A-133 findings for subrecipients of the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) program.

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

During our testwork over OMB Circular A-133 desk review procedures performed for subrecipients of the CWSRF and DWSRF program who were required to submit OMB Circular A-133 audit reports during the year end June 30, 2011, we noted the following exceptions:

- Of the ten OMB Circular A-133 audit reports tested for the DWSRF program, one report identified findings for which a management decision was not issued.
- Of the 47 OMB Circular A-133 audit reports required to be submitted during the year ended June 30, 2011, one report for a subrecipient of the CWSRF program and seven reports for subrecipients of the DWSRF program were not obtained by IEPA as of the date of our testwork. Each subrecipient file contained an initial request to obtain the audit and one follow-up letter sent approximately eight months after the first letter. However, there was no evidence of additional follow-up procedures performed by IEPA to obtain the missing reports.
- Of the 47 OMB Circular A-133 audit reports required to be submitted during the year ended June 30, 2011, two reports for subrecipients of the CWSRF program were not received within the required timeframes. There was no evidence of follow up procedures performed by IEPA to

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obtain the missing reports. Delays in receiving these reports were received 70 and 143 days after the required due date.

According to OMB Circular A-133 §__.400(d)(3), a pass-through entity is required to monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. According to OMB Circular A-133 §__.400(d)(5), a pass-through entity is required to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure subrecipient A-133 audit reports are obtained in a reasonable timeframe and management decisions are issued within required timeframes.

In discussing these conditions with IEPA officials, they stated that they believed their procedures were adequate until the fiscal year 2010 single audit finding was received.

Failure to obtain subrecipient A-133 audit reports and issue management decisions for subrecipient findings may result in federal funds being expended for unallowable purposes and subrecipients not properly administering federal programs in accordance with laws, regulations, and the grant agreement. (Finding Code 11-95, 10-97)

Recommendation:

We recommend IEPA establish procedures to ensure: (1) subrecipient A-133 audit reports are obtained in a reasonable timeframe and (2) management decisions are issued for all findings affecting its federal programs in accordance with OMB Circular A-133.

IEPA Response:

Accepted. The Illinois EPA subrecipient monitoring procedures have been modified to target the weaknesses identified in the 2010 Single audit.

Specifically, the Illinois EPA strengthened the follow-up procedures to address subrecipients who fail to produce audit reports as required under the Single Audit Act. The Illinois EPA modified the notice letters to specifically reference the potential consequences of noncompliance, including the commencement of legal action. The notice letters now state that noncompliance will be in violation of the loan agreement and that the Illinois EPA may seek all remedies as set forth in the loan rules (35 IL. Admin. Code 365.310, 35 IL. Adm. Code 662.310) and refer the matter to the Federal Clearinghouse for further action as prescribed by Circular A-133.

Although the Agency reviewed all material findings under our prior A-133 procedures; management decision letters were not always issued. Effective July 1, 2011, the Illinois EPA modified its Single Audit review procedures to mandate a management decision letter for all material findings reported in the subrecipient's audits.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

State Agency: Illinois Environmental Protection Agency (IEPA)

Federal Agency: US Environmental Protection Agency (USEPA)

Program Name: Clean Water State Revolving Fund
Drinking Water State Revolving Fund

CFDA # and Program Expenditures: 66.458/66.458 ARRA (\$194,432,000)
66.468/66.468 ARRA (\$73,269,000)

Award Numbers: 2W00E77501-1 (66.458 ARRA)
2W00E77701-1 (66.468 ARRA)

Questioned Costs: None

Finding 11-96 Failure to Communicate ARRA Information to Subrecipients

IEPA did not communicate American Recovery and Reinvestment Act (ARRA) information and requirements to subrecipients of the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) programs at the time of each disbursement.

During our testwork over 50 disbursements (25 for each program) to subrecipients of the CWSRF (who expended \$30,463,070) and DWSRF (who expended \$40,742,916) programs, we noted IEPA did not identify the federal award number and catalog of federal domestic assistance (CFDA) number at the time of each disbursement. IEPA passed through approximately \$85,038,000 and \$30,670,000 of ARRA funds under the CWSRF and DWSRF programs, respectively, for the year ended June 30, 2011. Total subrecipient expenditures were \$194,432,000 and \$71,621,000 for the CWSRF and DWSRF, respectively, for the fiscal year ended June 30, 2011.

According to the American Recovery and Reinvestment Act, federal agencies must require recipients to agree to: (1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal Award number, CFDA number, and the amount of ARRA funds; and (2) require their subrecipients to provide similar identification in their SEFA and data collection form. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal Awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure required information is communicated to subrecipients at the time of each disbursement.

In discussing these conditions with IEPA officials, they stated that existing procedures had been considered adequate to track, monitor and report expenditures of the program until the fiscal year 2010 single audit finding was received.

Failure to communicate required ARRA information at the time of each disbursement could result in subrecipients not properly identifying ARRA funding in their accounting records and on the schedule of expenditures of federal awards. (Finding Code 11-96, 10-98)

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

Recommendation:

We recommend IEPA implement procedures to ensure ARRA information is properly communicated to its subrecipients at the time of each disbursement.

IEPA Response:

Accepted. Since receiving the Fiscal Year 2010 Single Audit finding on June 8, 2011, the Illinois EPA has not issued any ARRA disbursements in Fiscal Years 2011 or 2012. The Illinois EPA has modified our payment procedures to include the federal award number and catalog of federal domestic assistance number at the time of disbursement. When the Illinois EPA issues the one remaining \$80,000 ARRA payment, the disbursement will include the federal award number and catalog of federal domestic assistance number.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

State Agency: Illinois Environmental Protection Agency (IEPA)

Federal Agency: US Environmental Protection Agency (USEPA)

Program Name: Clean Water State Revolving Fund
Drinking Water State Revolving Fund

CFDA # and Program Expenditures: 66.458/66.458 ARRA (\$194,432,000)
66.468/66.468 ARRA (\$73,269,000)

Award Numbers: 2W00E77501-1 (66.458 ARRA)
2W00E77701-1 (66.468 ARRA)

Questioned Costs: None

Finding 11-97 Inaccurate ARRA 1512 Reports

IEPA did not accurately report expenditures in the quarterly ARRA 1512 report for the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) programs.

The ARRA 1512 report is required to be submitted on a quarterly basis to report expenditure and other information related to the CWSRF and DWSRF programs. During our review of one of the four quarterly reports submitted during the fiscal year ended June 30, 2011, we noted the Expenditure Amount reported did not agree to IEPA's financial records or to the program expenditures reported on the SF-425 Federal Financial Report filed for the applicable quarter. Specifically, we noted Expenditure Amounts were erroneously reported in the ARRA 1512 reports, as follows:

Program	Quarter End	Actual Expenditures	Reported Expenditures	Difference
CWSRF	Sep. 30, 2010	\$ 134,547,514	\$ 136,352,812	\$ 1,805,298
DWSRF	Sep. 30, 2010	\$ 67,743,599	\$ 67,845,487	\$ 101,888

According to the OMB Circular A-133 Compliance Supplement, dated March 2011, IEPA is required to submit quarterly ARRA 1512 reports within 10 days after the reporting period. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include procedures in place to ensure expenditure information reported on the ARRA 1512 reports are accurate and agree to supporting documentation.

In discussing these conditions with IEPA officials, they stated that they believed current procedures were adequate to properly report expenditures and receipts on the ARRA 1512 reports until the fiscal year 2010 single audit finding was received.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

Failure to accurately report expenditures on the ARRA 1512 reports prevents the USEPA from effectively monitoring and evaluating the performance of the programs and could result in an improper allocation of future funding by the USEPA. (Finding Code 11-97, 10-99)

Recommendation:

We recommend IEPA review the process and procedures in place to prepare and submit ARRA 1512 reports to ensure expenditures reported are accurate and reconcile to IEPA's financial records.

IEPA Response:

Accepted. The Illinois EPA utilized expenditures as reported by the Office of the Comptroller as this system was identified by the State as the public accounting system of record. Utilizing this system provided for reconciling differences for payments in transit when compared to expenditures as reported from the common accounting system used by state agencies. The Illinois EPA's internal control processes correctly identified the specific reconciling items. Since receiving the fiscal year 2010 Single Audit finding on June 8, 2011, the Illinois EPA has had no reconciling differences between the expenditures reported by the Office of the Comptroller and the accounting system used by the Agency.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

State Agency: Illinois Environmental Protection Agency (IEPA)

Federal Agency: US Environmental Protection Agency (USEPA)

Program Name: Clean Water State Revolving Fund
Drinking Water State Revolving Fund

CFDA # and Program Expenditures: 66.458/66.458 ARRA (\$194,432,000)
66.468/66.468 ARRA (\$73,269,000)

Award Numbers: 2W00E77501-1/CS17000107/CS17000108/CS17000109 (66.458/66.458 ARRA)
2W00E77701-1/FS98577707-0/ FS98577708-0 (66.468/66.468 ARRA)

Questioned Costs: None

Finding 11-98 Inaccurate Federal Financial Report

IEPA does not have adequate procedures in place to ensure expenditures reported on quarterly financial reports of the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) programs are accurate.

The SF-425 Federal Financial Report is required to be submitted on a quarterly basis to report expenditure and other information related to the CWSRF and DWSRF grants. During our review of two of the four quarterly reports submitted for each program during the fiscal year ended June 30, 2011, we noted IEPA incorrectly reported the Federal Share of Expenditures for the CWSRF and DWSRF programs as follows:

Program	Quarter End	Actual Expenditures	Reported Expenditures	Difference
CWSRF	December 31, 2010	\$ 158,299,112	\$ 158,635,343	\$ 336,231
DWSRF	December 31, 2010	\$ 78,204,917	\$ 78,559,176	\$ 354,259
DWSRF	September 30, 2010	\$ 2,102,637	\$ 2,233,305	\$ 130,668

According to the OMB Circular A-133 Compliance Supplement, dated March 2011, IEPA is required to submit quarterly SF-425 Federal Financial reports within 30 days after the reporting period. Additionally, the A-102 Common Rule requires non-Federal entities receiving Federal awards to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing procedures to ensure financial reports submitted to federal agencies are accurate and agree to supporting documentation.

In discussing these conditions with IEPA officials, they stated all financial records were updated, however due to oversight the SF-425 was not initially revised.

Failure to accurately report expenditures on federal financial reports prevents the USEPA from effectively monitoring and evaluating the performance of the programs and could result in an improper allocation of future funding by the USEPA. (Finding 11-98, 10-100)

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

Recommendation:

We recommend IEPA review the process and procedures in place to prepare and submit federal financial reports to ensure expenditures are accurately reported and supported.

IEPA Response:

Accepted. A procedure has been put in place to require a review of reports and work paper documentation by the Manager of the Finance Section before reports are submitted. In addition, the checklist that the Finance Section uses to monitor report due dates has been revised to provide for a check-off for revisions to accounting data/ any revised report submissions and date.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

State Agency: Illinois Governor's Office of Management and Budget (GOMB)

Federal Agency: US Department of Education (USDE)

Program Name: Education Jobs Fund

CFDA # and Program Expenditures: 84.410 (\$285,059,000)

Award Numbers S410A100014

Questioned Costs: Cannot be determined

Finding 11-99 *Inadequate Supporting Documentation for Maintenance of Effort Requirement*

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.

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 collection 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. Specifically, we noted the tax collections reported by GOMB appear to have been understated (exclusive of the overstatement in the previous paragraph) by \$1,545,391,000. The effect of correcting this understatement results in tax collections for 2009 exceeding tax collections for 2006. As a result, the State does not appear to be eligible to determine its MOE requirement using Method 3.

As of the date of our testing (February 3, 2012), the State had not provided documentation supporting the amounts reported or prepared a revised MOE calculation using one of the other prescribed methods.

According to Public Law 111-226 (dated August 10, 2010), the State is required 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, *Initial Guidance for States on the Education Jobs Fund*

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For Year Ended June 30, 2011

Program (dated April 15, 2011) requires the State to maintain adequate documentation to support its MOE data.

In discussing these conditions with GOMB officials, they stated they used the information provided by the USDE.

Failure to adequately support the MOE calculation may result in the State not meeting its MOE requirement and not being eligible to receive program funding. (Finding Code 11-99)

Recommendation:

We recommend 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 Response:

GOMB acknowledges that the U.S. Census Bureau's numbers do not agree with the original numbers that were used by the State of Illinois. The U.S. Census numbers as they stand today indicate that revenue for 2009 is greater than revenue for 2006. As a result the state would not have qualified for method 3 if the numbers currently on the website had been used. The Census Bureau's numbers originally used were provided to the State of Illinois by the U.S. Department of Education (USDE). These numbers were used by the State of Illinois to qualify for method 3 to demonstrate the maintenance of effort (MOE). The state was reviewed twice by the USDE in 2011. Each time the state has not been asked to provide any additional information on the Census Bureau numbers. After the last review the State of Illinois was told the following " We have completed our Maintenance-of-Effort (MOE) review for Illinois and, based on the information that was presented to us, have determined that Illinois has met the MOE requirement in the Education Jobs Fund (Ed Jobs) statute. Specifically, our review indicates that Illinois met the MOE requirement under Method 3." As stated in the finding Method 3 could be used if the tax receipts for 2009 are less than the tax receipts for 2006. The attached schedule used when the application for funding was made demonstrates that fact. (The State acknowledges that the original sheet added the total at the top twice in effect doubling the amounts). The State applied for the grant using the numbers supplied by the USDE in good faith and has not subsequently been asked to verify or review those numbers.

The state was not aware of the changes in the census numbers until the audit. The census data clearly says "Revised" above the specific quarterly tax column for Illinois. Numerous emails with staff at the Census Bureau failed to provide any information on why and how the numbers changed. Staff for the State was told that the original data is sent by the Illinois Comptroller's office. The Comptroller staff person charged with the task of supplying the information said they simply provide a 'data dump' to the Census Bureau on a quarterly basis. To the best of her knowledge there is only one file sent per quarter and an updated version has never been sent. Because the categories of taxes are determined by the census bureau the numbers do not agree to State of Illinois categories. There is no possibility of reconciliation.

The State of Illinois will work with USDE to determine the result of this finding.

STATE OF ILLINOIS

Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

State Agency: Illinois Governor's Office of Management and Budget (GOMB)

Federal Agency: US Department of Transportation (USDOT)
US Department of Treasury (USDT)
US Department of Energy (USDOE)
US Department of Education (USDE)
US Department of Health and Human Services (USDHHS)

Program Name: High Speed Rail Corridors and Intercity Passenger Rail Service –
Capital Assistance Grants
Weatherization Assistance for Low Income Persons
Education Jobs Fund
Block Grants for Prevention and Treatment of Substance Abuse

CFDA # and Program Expenditures: 20.319 (\$81,641,000)
81.042 (\$134,318,000)
84.410 (\$285,059,000)
93.959 (\$78,204,000)

Award Number: FR-HSR-0015-11-01-00/FR-HSR-0015-11-01-01 (20.319)
(CFDA Number) DE-FG45-04R530678, DE-FG26-04R530678, DE-EE0000490 (81.042)
S410A100014 (84.410)
09B1ILSAPT/10B1ILSAPT/11B1ILSAPT (93.959)

Questioned Costs: None

Finding 11-100 *Inadequate Procedures for Amending the Treasury State Agreement*

The State does not have adequate procedures in place to ensure the Treasury State Agreement (TSA) is amended in accordance with federal regulations.

Annually, the State of Illinois negotiates the TSA with the U.S. Department of the Treasury (the Treasury), which details the funding techniques to be used for the draw down of federal funds. The TSA is required to include all major federal assistance programs exceeding \$65,520,000 based on the most recent Statewide Single Audit Report; however, the State is also required to amend the TSA within 30 days of determining that a program will exceed the \$65,520,000 threshold.

During our audit, we noted the High Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants, Education Jobs Fund, and Weatherization Assistance for Low Income Persons programs were expected to exceed the \$65,520,000 program expenditure threshold in fiscal year 2011 based on amounts awarded; however, the TSA was not amended to include these programs during fiscal year 2011. In addition, we noted the State amended the TSA to remove the Block Grants for Prevention and Treatment of Substance Abuse program because the expenditures reported in the schedule of expenditures of federal awards included in the 2009 Single Audit were less than the threshold for including a program in the TSA; however, the program award amount for 2011 was expected to exceed the threshold.

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For Year Ended June 30, 2011

According to 31 CFR 205.9(b), a State must use its most recent Single Audit report as a basis for determining the funding thresholds for major Federal assistance programs to be included in the TSA, and the TSA must be amended as needed to change or clarify its language when the terms of the existing agreement are either no longer correct or no longer applicable. According to 31 CFR 205.7(c), a State must notify the Treasury within 30 days of the time the State becomes aware of a change, and must describe the change in the notification. Amendments may address, but are not limited to, additions and deletions of Federal assistance programs subject to the TSA.

In discussing these conditions with GOMB personnel, they stated a centralized grants management function does not exist administer TSA changes.

Failure to amend the TSA when required is a violation of the Cash Management Improvement Act (CMIA) and may result in interest liabilities being assessed to the State. (Finding Code 11-100, 10-101)

Recommendation:

We recommend the State establish procedures to ensure the TSA is amended for any necessary changes in accordance with federal regulations.

GOMB Response:

The Governor's Office of Management and Budget recognizes that there is no central management of grants and relies on the agencies to notify of changes in federal awards that may affect the State's compliance with the Cash Management Improvement Act (CMIA). Currently GOMB relies on the once a year submission based on the most recent single audit. Agencies are aware of the CMIA interest obligation and GOMB believes all interest has been properly paid.

GOMB has written procedures to address this issue. These procedures include notifying all agencies of the 30 day rule and following up with the agencies on a monthly basis to determine if grants have been received that may necessitate filing an amendment to the agreement within the required 30 days. A copy of the procedures is attached.

In addition, GOMB is part of a steering committee that is preparing a request for proposals from software companies and implementers. The purpose of this RFP is to draft the necessary requirements for implementing a new statewide financial accounting system. One of the modules included in the proposal is for a grants management system. The full implementation is expected to take several years but eventually the system will provide a central location for all grants so that GOMB does not have to rely on notification by the agency.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

State Agency: Office of the Illinois State Treasurer (State Treasurer)
Federal Agency: US Department of Health and Human Services (USDHHS)
Program Name: Child Support Enforcement
CFDA # and Program Expenditures: 93.563/93.563ARRA (\$127,015,000)
Award Numbers: 0904IL4004/1004IL-4002/1004IL-4004/1104IL-4004
Questioned Costs: Cannot be determined

Finding 11-101 *Failure to Properly Maintain Procurement Records*

The State Treasurer did not maintain all documentation required by the Illinois Procurement Code for contractual services claimed by the Department of Healthcare and Family Services (DHFS) under the Child Support Enforcement program.

During our testwork of 40 contractual expenditures allocated to the Child Support Enforcement program (totaling \$410,808), we noted one expenditure (in the amount of \$4,685) under a professional services contract for which all required documentation supporting the procurement could not be located. Upon further investigation, we noted DHFS had worked with the State Treasurer to use an existing vendor contract (executed in November 2004) for the required services. During our review of the State Treasurer's procurement file relative to this contract, we noted the procurement evaluation forms completed by each member of the procurement committee and the tabulation of the evaluation forms documenting the selection of the successful bidder were not present in the file and could not be located by the State Treasurer as of the date of our testwork (January 15, 2012).

Total contractual expenditures allocated to the Child Support Enforcement program under this contract totaled \$243,590 during the year ended June 30, 2011. Total contractual expenditures allocated to the Child Support Enforcement program totaled \$25,962,000 during the year ended June 30, 2011.

In accordance with 45 CFR 92.36(a), a State must follow the same policies and procedures it uses for procurements for its non-Federal funds. Section 20-155b of the Illinois Procurement Code (30 ILCS 500/20-155b) requires the procurement file to contain the basis on which the award is made, all submitted bids and proposals, all evaluation materials, score sheets and all other documentation related to or prepared in conjunction with evaluation, negotiation, and the award process. Additionally, the A-102 Common Rule requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements. Effective internal controls should include maintaining all required procurement documentation.

In discussing these conditions with State Treasurer officials, they concur the procurement file did not adequately display the evaluation scoring matrix in the appropriate form. This error was an over site by the Office and current policies and procedures ensure these records are present in all current procurements.

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Schedule of Findings and Questioned Costs

For Year Ended June 30, 2011

Failure to properly maintain procurement records in accordance with the Illinois Procurement Code violates federal procurement regulations and could result in unallowable costs being charged to federal program. (Finding Code 11-101)

Recommendation:

We recommend the State Treasurer review its current process for maintaining procurement files and consider any changes necessary to ensure all required documentation is maintained in accordance with state and federal regulations.

State Treasurer Response:

The Treasurer agrees with the finding and recommendation.

This procurement procedure was handled under a previous administration by staff that is no longer with the Treasurer's Office. Our current policies and procedures require all evaluation materials to be scored and documented according to Section 20-155b of the Illinois Procurement Code.