



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

William G. Holland, Auditor General

**SUMMARY REPORT DIGEST**

**STATE OF ILLINOIS STATEWIDE SINGLE AUDIT REPORT**

**SINGLE AUDIT**  
**For the Year Ended June 30, 2015**

**Release Date: April 28, 2016**

FINDINGS THIS AUDIT: 75				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	2014	9, 15, 17, 20, 24, 28, 30, 37, 38, 39, 48, 49, 54, 60, 68	40	
<b>Category 1:</b>	<b>23</b>	<b>49</b>	<b>72</b>	2013	8, 12, 58, 64, 66		
Category 2:	0	2	2	2012	6, 18, 23, 32, 44, 67, 71, 74		
Category 3:	0	0	0	2011	10, 11, 14, 35, 63, 69, 73		
<b>TOTAL</b>	<b>23</b>	<b>51</b>	<b>74</b>	2010	21, 22, 75		
<b>Disclaimer:</b>	<b>1</b>	<b>0</b>	<b>1</b>	2009	25	72	
<b>Grand Total</b>	<b>24</b>	<b>51</b>	<b>75</b>	2008	55		
				2007	3, 34		
				2005	33, 65		
				2004	70		
				2003	5		
				2002	1		
				2001	4		
				1999	31		

**FINDINGS LAST AUDIT: 69**  
**Disclaimer: A condition in the audit where the auditor was unable to form an opinion on compliance with the requirements of a major program.**

**SYNOPSIS**

- The State expended approximately \$29.5 billion from federal awards in FY15.
- A total of 31 programs or program clusters were classified and audited as major programs at fourteen (14) State agencies. These programs constituted approximately 95.4% of all federal spending, or about \$28.2 billion. In addition, 41 State agencies expended federal financial assistance in FY15. Eleven (11) State agencies accounted for about 98.7% of federal dollars spent.

**Statewide Finding – Financial Reporting**

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

**Auditor Disclaimer Opinion**

- As described in the audit, we were unable to express, and we did not express, an opinion on the compliance of the State of Illinois with the requirements applicable to its Foster Care Program. Consequently, a disclaimer of opinion was issued.

**Category 1:** Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with laws and regulations (material noncompliance).

**Category 2:** Findings that are **significant deficiencies** in internal control and **noncompliance** with laws and regulations.

**Category 3:** Findings that have **no internal control issues but are in noncompliance** with laws and regulations.

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

- The Department of Human Services has *material weaknesses* for:
  - failing to establish adequate controls over the Integrated Eligibility System of the Supplemental Nutrition Assistance Program Cluster (SNAP), Temporary Assistance for Needy Families (TANF), Children’s Health Insurance Program (CHIP) and Medicaid Cluster programs.
  - inadequately maintaining and controlling beneficiary case file documents of the TANF, CHIP and Medicaid Cluster programs.
  - failing to locate case file documentation supporting eligibility determinations for beneficiaries of the TANF, CHIP and Medicaid Cluster programs.
  - failing to perform eligibility redeterminations within the timeframes prescribed by regulation for the TANF, CHIP, and Medicaid Cluster programs.
  - making improper payments to beneficiaries of the TANF program.
  - failing to maintain the required aggregate State expenditures for the maintenance of effort requirements and not providing adequate supporting documentation for the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) program.
  
- The Department of Healthcare and Family Services has *material weaknesses* for:
  - failing to establish adequate controls over the Integrated Eligibility System of the SNAP, TANF, CHIP and Medicaid Cluster programs.
  - failing to locate case file documentation supporting eligibility determinations for beneficiaries of the CHIP and Medicaid Cluster programs.
  
- The Department of Children and Family Services has a *material weakness* for:
  - making recurring payments of adoption assistance benefits that were not properly supported by adoption assistance agreements for the Adoption Assistance program.
  
- The Department of Insurance has *material weaknesses* for:
  - failing to maintain supporting documentation to substantiate payroll costs claimed for federal reimbursement under the State Planning and Establishment Grants for the Affordable Care Act (ACA)’s Exchanges (ACA Exchanges) program.
  - failing to prepare accurate financial reports for the ACA Exchanges program.
  
- The Illinois State Board of Education has *material weaknesses* for:
  - not performing adequate on-site subrecipient monitoring procedures in accordance with established monitoring plan for the Title I Grants to Local Educational Agencies (Title I), Special Education Cluster (IDEA)(Special Education), Twenty-First Century Community Learning Centers (21<sup>st</sup> Century), and Improving Teacher Quality State Grants programs.
  - not performing on-site fiscal reviews of subrecipients receiving federal award under the Career and Technical Education – Basic Grants to States (CTE) program.
  - not having an adequate process for communicating and following up on monitoring findings for subrecipients of the School Improvement Grants Cluster (SIG) program.
  
- The Department of Employment Security has *material weaknesses* for:
  - failing to implement Federal requirements to improve program integrity and reduce overpayments of the Unemployment Insurance program.
  - failing to maintain supporting documentation to substantiate payroll costs claimed for federal reimbursement under the Employment Services Cluster and Unemployment Insurance programs.
  
- The Department of Transportation has a *material weakness* for:
  - failing to retain documentation for construction projects in the Highway Planning and Construction Cluster in accordance with federal regulations.

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

- The Department of Human Services failed to communicate ARRA information and requirements to subrecipients of the TANF program.

{Financial Activities and Statistical Information are summarized on the next page.}

**STATE OF ILLINOIS**  
**STATEWIDE SINGLE AUDIT**  
**For the Year Ended June 30, 2015**

<b>FINANCIAL ACTIVITIES (Amounts in Thousands)</b>	<b>Amount</b>	<b>Percent</b>
<b>EXPENDITURES BY PROGRAM</b>		
Major Programs:		
Medicaid Cluster.....	\$ 11,021,872	37.32%
Federal Family Education Loans.....	5,222,729	17.69%
Supplemental Nutrition Assistance Program (SNAP Cluster).....	3,392,532	11.49%
Unemployment Insurance.....	1,968,267	6.67%
Highway Planning and Construction Cluster.....	1,674,316	5.67%
Child Nutrition Cluster.....	654,346	2.22%
Title I Grants to Local Educational Agencies.....	613,109	2.08%
Temporary Assistance for Needy Families.....	590,890	2.00%
Special Education Cluster.....	508,186	1.72%
Children's Health Insurance Program.....	298,905	1.01%
High Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Grants.....	221,875	0.75%
Special Supplemental Nutrition Program for Women, Infants & Children.....	211,940	0.72%
Child Care Development Funds Cluster.....	210,179	0.71%
Foster Care - Title IV-E Program.....	191,238	0.65%
Child and Adult Care Food Program.....	146,991	0.50%
Child Support Enforcement.....	126,064	0.42%
Workforce Investment Act Cluster.....	124,173	0.42%
Rehabilitation Services - Vocational Rehabilitation Grants to States.....	116,262	0.39%
Homeland Security Grant Program.....	101,410	0.34%
Improving Teacher Quality State Grants.....	95,734	0.32%
CDBG - State Administered Small Cities Program Cluster.....	90,831	0.31%
Disability Insurance/SSI Cluster.....	87,267	0.29%
Adoption Assistance.....	84,479	0.29%
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges.....	73,984	0.25%
Block Grants for Prevention and Treatment of Substance Abuse.....	65,837	0.22%
Social Services Block Grant.....	65,180	0.22%
Airport Improvement Program.....	57,753	0.20%
School Improvement Grants Cluster.....	42,021	0.14%
Career and Technical Education - Basic Grants to States.....	36,924	0.13%
Twenty-First Century Community Learning Centers.....	36,084	0.12%
Employment Services Cluster.....	30,739	0.10%
Total Major Programs.....	<u>28,162,117</u>	<u>95.36%</u>
Non-Major Programs.....	1,369,125	4.64%
<b>TOTAL EXPENDITURES.....</b>	<u><b>\$ 29,531,242</b></u>	<u><b>100.00%</b></u>

<b>FEDERAL AGENCIES PROVIDING FUNDING (Amounts in Thousands)</b>	<b>Total</b>	<b>Major Program Expenditures</b>
U.S. Department of Health and Human Services.....	\$ 13,354,140	\$ 12,728,628
U.S. Department of Education.....	6,785,853	6,671,049
U.S. Department of Agriculture.....	4,461,060	4,405,809
U.S. Department of Labor.....	2,146,882	2,123,179
U.S. Department of Transportation.....	2,030,563	1,953,944
U.S. Environmental Protection Agency.....	182,396	0
U.S. Department of Homeland Security.....	147,567	101,410
U.S. Department of Housing and Urban Development.....	97,306	90,831
Social Security Administration.....	87,476	87,267
All Other Federal Agencies.....	237,999	0
<b>TOTAL EXPENDITURES.....</b>	<u><b>\$ 29,531,242</b></u>	<u><b>\$ 28,162,117</b></u>

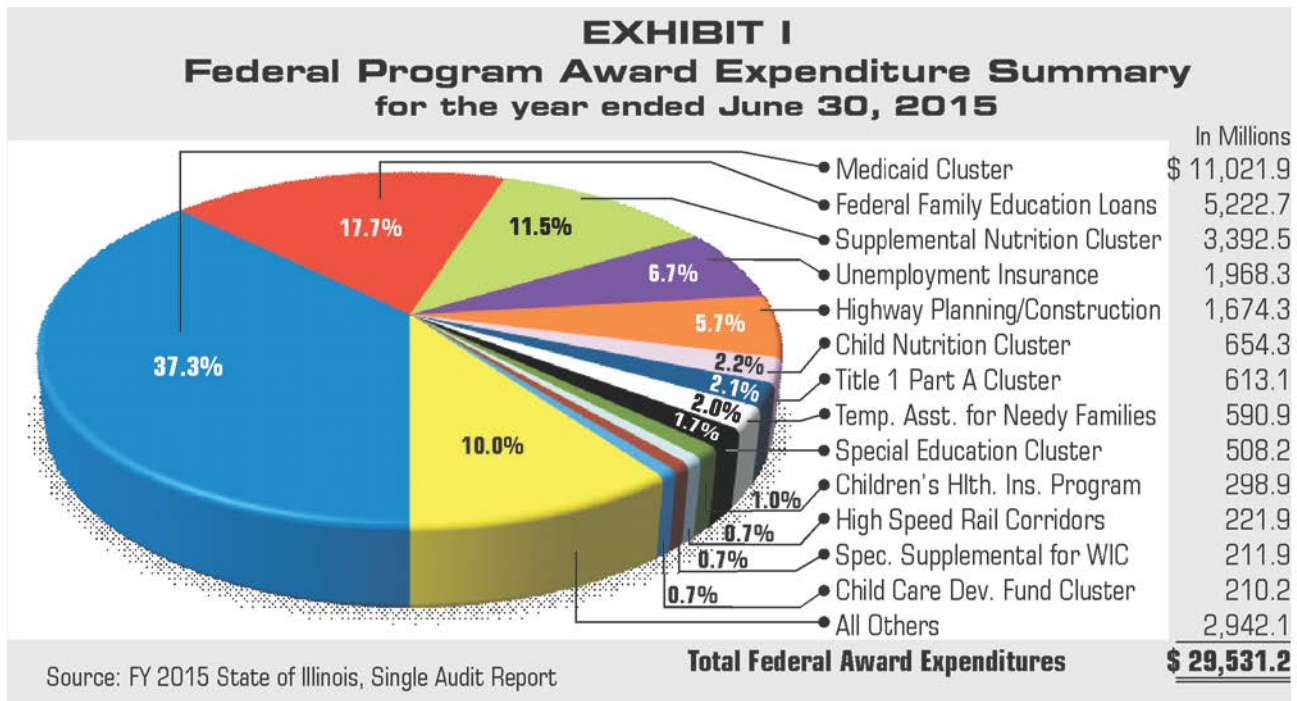
<b>STATISTICAL INFORMATION</b>	
Total Number of Programs in the Schedule of Expenditures of Federal Awards.....	361
Number of Federal Programs or Program Clusters Audited.....	31
Total Number of State Agencies Spending Federal Funds.....	41
Number of State Agencies for Single Audit Requirements (including finding follow-up).....	16
Total American Recovery and Reinvestment Act (ARRA) Expenditures (in thousands).....	292,355
Percentage of ARRA Expenditures.....	0.99%

## INTRODUCTION

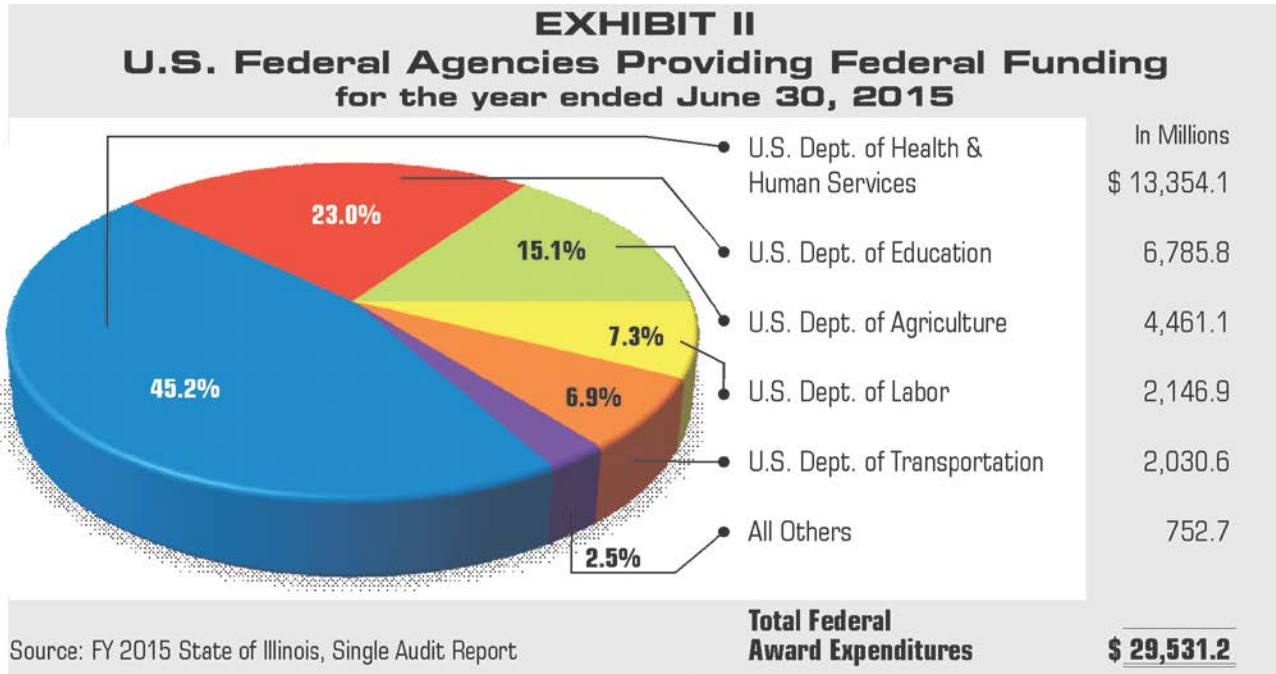
The Illinois Office of the Auditor General conducted a Statewide Single Audit of the FY15 federal grant programs. The audit was conducted in accordance with the federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133.

The Statewide Single Audit includes State agencies that are a part of the primary government and expend federal awards. In total, 41 State agencies expended federal financial assistance in FY15. A separate supplemental report has been compiled by the Illinois Office of the Auditor General. This report provides summary information on federal spending by State agency. The Statewide Single Audit does not include those agencies that are defined as component units such as the State universities and finance authorities. The component units continue to have separate OMB Circular A-133 audits when required.

The Schedule of Expenditures of Federal Awards (SEFA) reflects total expenditures of approximately \$29.5 billion for the year ended June 30, 2015. Overall, the State participated in 361 different federal programs, however, 13 of these programs or program clusters accounted for approximately 90.0% of the total federal award expenditures. (See Exhibit I)



The funding for the 361 programs was provided by 22 different federal agencies. Exhibit II shows that five federal agencies provided Illinois with the vast majority of federal funding in FY15.

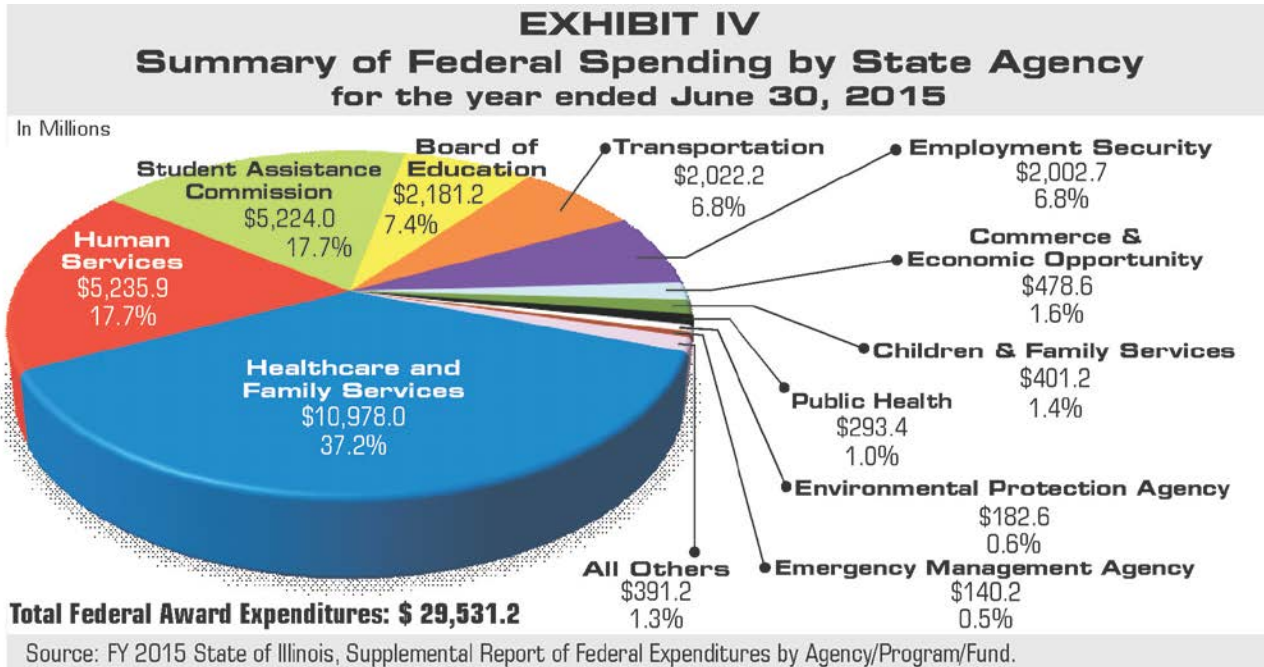


A total of 31 federal programs or program clusters were identified as major programs in FY15. A major program was defined in accordance with Circular A-133 as any program with federal awards expended that meets certain criteria when applying the risk-based approach. Exhibit III provides a brief summary of the number of programs classified as “major” and “non-major” and related federal award expenditures.

**EXHIBIT III**  
**Classification of Federal Programs**  
**“Major vs. Non-Major”**  
**and Related Federal Award Expenditures**  
**for the year ended June 30, 2015**

Audit Coverage	No.	Expenditures (in millions)	%
Major Programs (or clusters)	31	\$28,162.1	95.4%
Non-Major Programs (or clusters)	330	1,369.1	4.6%
Total	361	\$29,531.2	100.0%

Eleven State agencies accounted for approximately 98.7% of all federal dollars spent during FY15 as depicted in Exhibit IV.



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

The auditors' report contained a disclaimer and qualifications on compliance as summarized below. The complete text of the Auditors' Report may be found on pages 26-31 of the audit.

**Disclaimer**

The auditors disclaimed an opinion on the Foster Care program as a result of an inability to evaluate and perform sufficient audit procedures to satisfy themselves that the Department of Children and Family Services complied with the provisions of laws and regulations related to the Foster Care – Title IV-E Program. The auditors were unable to express, and did not express, an opinion on the Department of Children and Family Services' compliance with the requirements applicable to its Foster Care program.

**Qualifications (Noncompliance)**

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

State Agency	Federal Program	Compliance Requirement	Finding Number	Page Numbers
IL Department of Human Services	Supplemental Nutrition Assistance Program Cluster	Allowable Costs/Cost Principles, Matching, and Special Tests and Provisions	2015-002	44-46
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles, Eligibility, and Maintenance of Effort	2015-002	44-46

<b>State Agency</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding Number</b>	<b>Page Numbers</b>
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles, Eligibility, and Matching	2015-002	44-46
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles, Eligibility, and Matching	2015-002	44-46
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles, Eligibility, and Maintenance of Effort	2015-003	47-49
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles, Eligibility, and Matching	2015-003	47-49
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles, Eligibility, and Matching	2015-003	47-49
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles, Eligibility, and Maintenance of Effort	2015-004	50-53
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles, Eligibility, and Matching	2015-004	50-53
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles, Eligibility, and Matching	2015-004	50-53
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles, Eligibility, and Maintenance of Effort	2015-005	54-56
IL Department of Human Services	Children's Health Insurance Program	Allowable Costs/Cost Principles, Eligibility, and Matching	2015-005	54-56
IL Department of Human Services	Medicaid Cluster	Allowable Costs/Cost Principles, Eligibility, and Matching	2015-005	54-56
IL Department of Human Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles, Eligibility, and Maintenance of Effort	2015-006	57-58
IL Department of Human Services	Block Grants for Prevention and Treatment of Substance Abuse	Allowable Costs/Cost Principles and Maintenance of Effort	2015-009	65-66
IL Department of Healthcare and Family Services	Supplemental Nutrition Assistance Program Cluster	Allowable Costs/Cost Principles, Matching, and Special Tests and Provisions	2015-019	90-93
IL Department of Healthcare and Family Services	Temporary Assistance for Needy Families Cluster	Allowable Costs/Cost Principles, Eligibility, and Maintenance of Effort	2015-019	90-93
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost Principles, Eligibility, and Matching	2015-019	90-93

<b>State Agency</b>	<b>Federal Program</b>	<b>Compliance Requirement</b>	<b>Finding Number</b>	<b>Page Numbers</b>
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles, Eligibility, and Matching	2015-019	90-93
IL Department of Healthcare and Family Services	Children's Health Insurance Program	Allowable Costs/Cost Principles, Eligibility, and Matching	2015-020	94-95
IL Department of Healthcare and Family Services	Medicaid Cluster	Allowable Costs/Cost Principles, Eligibility, and Matching	2015-020	94-95
IL Department of Children and Family Services	Adoption Assistance	Allowable Costs/Cost Principles, Eligibility, and Matching	2015-028	110-111
IL Department of Insurance	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	Allowable Costs/Cost Principles	2015-037	128-129
IL Department of Insurance	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	Reporting	2015-039	132-133
IL State Board of Education	Title I - Grants to Local Educational Agencies	Subrecipient Monitoring	2015-041	136-138
IL State Board of Education	Special Education Cluster (IDEA)	Subrecipient Monitoring	2015-041	136-138
IL State Board of Education	Twenty-First Century Community Learning Centers	Subrecipient Monitoring	2015-041	136-138
IL State Board of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	2015-041	136-138
IL State Board of Education	Career and Technical Education – Basic Grants to States	Subrecipient Monitoring	2015-042	139-140
IL State Board of Education	School Improvement Grants Cluster	Subrecipient Monitoring	2015-044	143-144
IL Department of Employment Security	Unemployment Insurance	Special Tests & Provisions	2015-056	168-169
IL Department of Employment Security	Employment Services Cluster	Allowable Costs/Cost Principles	2015-061	178-180
IL Department of Transportation	Highway Planning and Construction Cluster	Allowable Costs/Cost Principles and Procurement/Suspension and Debarment	2015-068	194-195

### **Internal Control Over Financial Reporting**

We noted a matter involving internal control over financial reporting for the Schedule of Expenditures of Federal Awards (Schedule) that was considered to be a material weakness. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's Schedule will not be prevented, or detected and corrected on a timely basis. The auditors noted that during the past thirteen years there have been various errors identified and reported on the audits of State agencies and the Office of the State Comptroller (IOC) in its annual data gathering on the SCO forms that are used to present the Schedule. Thus, the auditors recommended the Office of the Governor and the Illinois Office of the Comptroller work together with the State agencies to establish a corrective action



plan to address the quality of the accounting information provided to and maintained by the IOC as it relates to year-end preparation of the Schedule.

### **Internal Control Over Compliance**

We noted certain matters involving internal control over compliance that were considered to be significant deficiencies. A control deficiency in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. Overall, 2 of the 75 findings reported in the single audit were classified as compliance significant deficiencies.

Material weaknesses were also disclosed in our report. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. Overall, 72 of the 75 findings reported in the single audit were classified as a material weakness.

**FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

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

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

<b>State Agency</b>	<b>Number of Findings</b>	<b>Number of Repeat Findings</b>	<b>Page References to Findings</b>
State Comptroller/Office of the Governor	1	1	36-38
Human Services	17	13	44-89
Healthcare and Family Services	8	6	90-107
Children and Family Services	6	4	108-119
Public Health	3	3	120-125
Insurance	5	4	126-135
State Board of Education	9	3	136-156
Illinois Community College Board	2	0	157-159
Student Assistance Commission	4	2	160-167
Employment Security	10	5	168-189
Commerce and Economic Opportunity	2	2	190-193
Transportation	7	7	194-206
Governor's Office of Management and Budget	<u>1</u>	<u>1</u>	207-208
Totals	<u>75</u>	<u>51</u>	

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

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

<b>Year</b>	<b>Number of Findings</b>	<b>Number of Repeated Findings</b>	<b>Percentage of Repeated Findings</b>
2015	75	51	68%
2014	69	47	68%
2013	74	59	80%
2012	91	63	69%
2011	101	71	70%
2010	103	64	62%
2009	93	65	70%
2008	97	58	60%
2007	87	59	68%
2006	95	55	58%

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

### **Inadequate process for compiling the Schedule of Expenditures of Federal Awards**

The State of Illinois' current financial reporting process does not allow the State to prepare a complete and accurate Schedule of Expenditures of Federal Awards in a timely manner.

Accurate 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 towards major State agencies under the organizational structure of the Office of the Governor and towards the Office of the State Comptroller (IOC).

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

The IOC has made significant 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 even though the Illinois Office of the Auditor General has repeatedly informed State agency officials that the post-audit function is not a substitute for appropriate internal controls at State agencies.

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

The State of Illinois has a highly decentralized financial reporting process. The system requires State agencies to prepare financial reporting packages designed by the IOC. These financial reporting packages are completed by accounting personnel within each State agency who have varying levels of knowledge, experience, and understanding of IOC accounting policies and procedures. Agency personnel involved with this process are not under the organizational control or jurisdiction of the IOC.

Although these financial reporting packages are subject to review by the IOC's financial reporting staff during the Comprehensive Annual Financial Report preparation process and the Financial Reporting Standards Board has adopted minimum qualifications for all new GAAP Coordinators who oversee the preparation of financial reporting forms, the current process still lacks sufficient internal controls at State agencies. As a result, adjustments relative to the SEFA continue to occur.

Errors identified in the SEFA reporting process in the current year included: (1) corrections to amounts reported; (2) adjustments to report loan balances; and (3) unreconciled amounts. These items have been reported in agency level findings for the Illinois Department of Human Services (Finding Code 2015-008), the Illinois Department of

**Errors identified at DHS, HFS, DOI, ISBE, ICCB, ISAC, DES, DCEO and DOT**

Healthcare and Family Services (Finding Code 2015-024), the Illinois Department of Insurance (Finding Code 2015-036), the Illinois State Board of Education (Finding Code 2015-049), the Illinois Community College Board (Finding Code 2015-051), the Illinois Student Assistance Commission (Finding Code 2015-052), the Illinois Department of Employment Security (Finding Code 2015-064), the Illinois Department of Commerce and Economic Opportunity (Finding Code 2015-066), and the Illinois Department of Transportation (Finding Code 2015-073). Additionally, other correcting entries were required in order to accurately state the financial information provided by various other State agencies.

Failure to establish effective internal controls at all agencies regarding financial reporting for the preparation of the SEFA may prevent the State from completing an audit in accordance with timelines set forth by OMB Circular A-133 and may result in the suspension of federal funding. (Finding 1, pages 36-38) **This finding was first reported in the Statewide Single Audit in 2002.**

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

**Governor will continue to address the core issues regarding the quality of accounting information**

The Office of the Governor concurred with the recommendation and stated they will continue to work with the Office of the State Comptroller to address the core issues and establish sufficient internal control processes in State agencies regarding the quality of the accounting information provided to and maintained by the IOC as it relates to year-end preparation of the SEFA. *(For previous agency response, see Digest Footnote #1.)*

**State Comptroller is working with Governor's Office to design, program and implement new system**

The State Comptroller's Office accepted the recommendation and stated that while the 2014 SEFA audit was submitted prior to the March 31<sup>st</sup> deadline, the Office agrees that the existing financial reporting systems need to be replaced with a new statewide accounting and grants management system that is designed to provide the information needed to complete the SEFA report and to improve the quality of the accounting information provided to the IOC. In addition, the IOC stated the Office is engaged in a project with the Governor's Office and other stakeholders and outside consultants to design, program and implement a new statewide financial accounting and grants management system to better meet the State's financial tracking and reporting needs. *(For previous agency response, see Digest Footnote #1.)*

## **POSSIBLE UNALLOWABLE COSTS CHARGED TO THE FOSTER CARE PROGRAM**

**DCFS identified adequate documentation not obtained and maintained**

The Department of Children and Family Services (DCFS) identified adequate documentation may not have been obtained and maintained in beneficiary case files supporting eligibility determinations made related to the Foster Care – Title IV-E (Foster Care) maintenance payments claimed for Federal reimbursement. (Finding 27, pages 108-109)

**Auditors issue a disclaimer of an opinion**

As a result of the auditor's inability to evaluate DCFS' compliance with the provisions of laws and regulations related to the eligibility of Foster Care beneficiaries and the related allowability of payments made on behalf of those beneficiaries, the auditors issued a disclaimer of opinion.

We recommended DCFS continue to review its procedures for payment of Foster Care benefits and implement changes necessary to ensure benefits are only paid on behalf of eligible individuals.

**DCFS officials accept auditor recommendation**

DCFS officials stated they are continuing their review of procedures for payments of Foster Care benefits initiated in 2016 to resolve this matter and expect to complete implementation by September 2016.

## **FAILURE TO ESTABLISH ADEQUATE CONTROLS OVER THE INTEGRATED ELIGIBILITY SYSTEM**

**Lack of controls over Integrated Eligibility System**

The Department of Human Services (DHS) and the Department of Healthcare and Family Services (HFS) did not have appropriate controls over the Integrated Eligibility System (IES) used for certain eligibility determinations performed for the Supplemental Nutrition Assistance Program (SNAP) Cluster, Temporary Assistance for Needy Families (TANF) Cluster, Children's Health Insurance Program (CHIP), and Medicaid Cluster programs.

DHS administers the SNAP Cluster, the TANF Cluster, and certain Medicaid Cluster waiver programs and HFS administers the CHIP and Medicaid Cluster programs. The Affordable Care Act of 2010 required the State to consolidate and modernize its eligibility determination functions into a single system which is known as the Integrated Eligibility System (IES). Effective October 1, 2013, the State implemented IES and began performing and documenting eligibility determinations for certain beneficiaries of its Medicaid Cluster program and later expanded the use of IES to certain eligibility determinations for beneficiaries of the SNAP Cluster, TANF Cluster, and CHIP programs. IES was developed through a partnership between IDHS and DHFS with each agency providing system requirements specific to their respective federal programs.

During our testwork, we noted several deficiencies in the controls over the implementation of IES. Specifically, we

**System not completed and documented prior to going live**

noted DHS and HFS had not adequately completed and documented system testing performed prior to going live with IES. We were also unable to perform adequate procedures to satisfy ourselves that general information technology controls over the IES system were operating effectively. Lastly, we noted several instances of noncompliance during our review of system data obtained from IES. Accordingly, we were not able to rely on IES with respect to our testing of the eligibility and related allowability compliance requirements for beneficiary payments made under the TANF Cluster, CHIP, and Medicaid Cluster programs.

**Noncompliance noted during system review**

**Auditor qualification due to lack of controls**

As a result of DHS' and HFS' failure to have appropriate controls over the Integrated Eligibility System the auditors qualified their opinion on the SNAP, TANF, CHIP and Medicaid Cluster programs.

Failure to establish adequate controls over systems used to determine the eligibility of program beneficiaries inhibits the ability of the State to properly determine eligibility in accordance with program requirements and may result in ineligible beneficiaries receiving federal benefits which are unallowable costs. (Findings 2 and 19, pages 44-46 and 90-93, respectively)

We recommended DHS and HFS evaluate the known IES system issues, implement monitoring procedures to identify potential noncompliance relative to its federal programs resulting from these items, and consider the changes necessary with respect to internal controls over eligibility determinations to ensure only eligible beneficiaries receive assistance under its federal programs. We also recommended DHS and HFS implement adequate general information technology control procedures for the IES system.

**DHS and HFS officials accepted the recommendation**

DHS and HFS officials accepted the recommendation and stated they have taken steps since June 2015 to establish improved controls over general information technology control procedures.

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

**Inadequate control over beneficiary records**

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

**Case files could not be located timely**

During our testwork, we noted the procedures in place to maintain and control manual beneficiary case file records do not provide adequate safeguards against the potential for loss of such records. Specifically, in our review of case files at five separate local offices, we noted manual case files were generally available to all DHS personnel and that formal

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

procedures have not been developed for checking hard-copy case files in and out of the file rooms or for tracking their locations. We also noted a number of case files were provided several weeks past the original date due to the fact that case files had been transferred between local offices and were not easily located by DHS. We also noted three CHIP case files for which DHS could not locate any case file documentation supporting the eligibility determinations performed on or prior to the service date sampled. Lastly, we noted 2 missing CHIP eligibility case files.

Failure to properly maintain and control beneficiary case file records may result in the loss of source documentation necessary to establish beneficiary eligibility and in unallowable costs being charged to the federal programs. (Finding 3, pages 47-49) **This finding was first reported in the Statewide Single Audit in 2007.**

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

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

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

**DHS accepted the auditors recommendation**

DHS officials accepted the recommendation and stated they are now utilizing an electronic document management system that is capturing a portion of the information that was previously printed and stored in a paper case file which is assisting in the reduction of the overwhelming size and amount of paper files in the offices. *(For previous agency response, see Digest Footnote #2.)*

**MISSING DOCUMENTATION IN BENEFICIARY ELIGIBILITY FILES**

**DHS delinquent in performing recipient eligibility redeterminations**

The Department of Human Services (DHS) and the Department of Healthcare and Family Services (HFS) could not locate case file documentation supporting eligibility determinations for beneficiaries of the Temporary Assistance for Needy Families (TANF) Cluster, Children's Health Insurance Program (CHIP) and the Medicaid Cluster programs.

During our testwork of 50 TANF, 65 CHIP and 125 Medicaid beneficiary payments for compliance with eligibility requirements and the allowability of the relevant benefits provided we noted numerous exceptions. We noted DHS could either not locate items needed for testing, could not provide adequate support of items tested or could not provide evidence that various items had been performed or completed. We also noted HFS could not locate case file documentation and did not complete redetermination procedures within

required timeframes.

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.

(Findings 4 and 20, pages 50-53 and 94-95, respectively)

**This finding was first reported in the Statewide Single Audit in 2001 for DHS.**

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

As a result of DHS' and HFS' failure to locate case file documentation supporting eligibility determinations for beneficiaries, the auditors qualified their report on the TANF, CHIP and Medicaid Cluster programs.

We recommended DHS and HFS review their current processes for maintaining documentation supporting eligibility determinations and consider changes necessary to ensure all eligibility determination documentation is properly maintained.

**DHS agreed with auditors recommendation**

DHS officials agreed with the recommendation and stated the Department continues to ensure staff understands the importance of proper and accurate filing processes. In addition, DHS officials stated they are increasing the use of electronic document management systems that capture some of the information that has been traditionally printed and maintained in paper case files. *(For previous agency response, see Digest Footnote #3.)*

**DHFS accepted auditors recommendation**

HFS officials accepted the recommendation and stated they are working with DHS to incorporate all initial eligibility and redeterminations of eligibility into the new Integrated Eligibility System which will significantly improve record retention.

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

**DHS delinquent in performing recipient eligibility redeterminations**

The Department of Human Services (DHS) did not perform 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.

During our testwork of required eligibility criteria, we noted the State was delinquent (overdue) in performing the eligibility redeterminations of individuals for the three programs during June 2015 as follows:

TANF	3,805 of 44,443 cases	8.56%
CHIP	141,519 of 1,336,064 cases	10.59%
Medicaid	38,545 of 476,054 cases	8.10%



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 5, pages 54-56) **This finding was first reported in the Statewide Single Audit in 2003.**

**Auditor qualification due to untimely eligibility redeterminations**

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

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

**DHS agreed with the auditors recommendation**

DHS officials agreed with the recommendation and stated they will continue to work with the Department of Healthcare and Family Services to review current processes for performing eligibility redeterminations and consider changes necessary to ensure all redeterminations are performed within the prescribed timeframes. (*For previous agency response, see Digest Footnote #4.*)

**IMPROPER TANF CLUSTER BENEFICIARY PAYMENT**

The Department of Human Services (DHS) made improper payments to beneficiaries of the Temporary Assistance for Needy Families (TANF) Cluster program.

**Monthly payments overstated by \$508 to 4 beneficiaries**

**Monthly payments understated by \$207 to 3 beneficiaries**

During our testwork of 50 TANF Cluster program beneficiary payments, we noted seven beneficiaries received payments for the addition of a family member to the family unit that were improperly calculated. As a result of the calculation errors, the monthly payments for four beneficiaries (with payments of \$2,057) were overstated in total by \$508 and the monthly payments for three beneficiaries (with payments of \$1,331) were understated in total by \$207. Total payments made to these beneficiaries under the TANF Cluster were \$16,856 for the year ended June 30, 2015. As of the date of our testing (December 19, 2015), the payment errors identified in our sample had not been corrected by IDHS.

Failure to properly calculate benefit payments may result in unallowable costs being charged to the TANF Cluster. (Finding 6, pages 57-58)

**Auditor qualification due to improper payments**

As a result of DHS making improper payments to beneficiaries, the auditors qualified their opinion on the TANF Cluster program.

We recommended DHS review its current process for calculating beneficiary payments and consider changes necessary to ensure payments are properly calculated and paid.

**DHS agreed with the auditors recommendation**

DHS officials accepted the recommendation and stated the implementation of Phase 2 of the Integrated Eligibility System will reduce or eliminate the need for manual calculations of initial prorated entitlements.

**FAILURE TO MEET AND PROVIDE ADEQUATE DOCUMENTATION FOR THE SAPT MOE REQUIREMENT**

The Department of Human Services (DHS) did not maintain the required aggregate State expenditures for the maintenance of effort (MOE) requirements and was unable to provide adequate supporting documentation to substantiate DHS met the MOE requirements for the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) program.

**Shortfall of \$4,395,006 to meet SAPT MOE expenditures**

During the current fiscal year, we noted DHS was short \$4,395,006 of the aggregate expenditures needed to meet the SAPT MOE requirement. Additionally, during our testwork over 25 expenditures used by the State to meet the SAPT MOE requirements (totaling \$19,733,117), we noted DHS could not provide detailed supporting documentation for 17 expenditures sampled (totaling \$8,672,505). Accordingly, these expenditures are not allowable for purposes of meeting the maintenance of effort. Upon further review, we noted an additional \$108,486,392 for which detailed supporting documentation was not readily available.

Failure to maintain required State expenditure levels for MOE and maintain adequate supporting documentation to support expenditures used to meet the MOE requirement results in unallowable costs and noncompliance with program requirements. (Finding 9, pages 65-66)

**Auditor qualification due to not meeting maintenance of effort**

As a result of DHS not meeting its maintenance of effort expenditures, the auditors qualified their opinion on the Block Grants for Prevention and Treatment of Substance Abuse program.

We recommended DHS review its process for monitoring compliance with the SAPT MOE and for maintaining documentation for expenditures used to meet its SAPT MOE requirement.

**DHS agreed with the auditors recommendation**

DHS officials accepted the recommendation and staff will continue to work to obtain the necessary reports.

**FAILURE TO PROPERLY DOCUMENT OR EXECUTE ADOPTION ASSISTANCE AGREEMENTS**

The Department of Children and Family Services (DCFS) made recurring payments of adoption assistance benefits that were not properly supported by adoption assistance agreements.

**Subsidy payments not adequately supported**

During our testwork of adoption assistance beneficiary payments, we reviewed 50 case files and related benefit payments (totaling \$59,107) for compliance with eligibility requirements and allowability of related benefits. We noted two subsidy payments were not supported by adequate documentation resulting in payments made that differed from the adoption assistance agreements. As of the date of our testing, DCFS has not evaluated whether additional errors exist or quantified the impact of this error on the population.

Failure to maintain case file documentation, including documentation support changes in the amount of the subsidy paid, may result in payments to ineligible beneficiaries, which are unallowable costs. (Finding 28, pages 110-111)

**Auditor qualification due to lack of supporting documentation**

As a result of DCFS not maintaining case file documentation supporting payments made, the auditors qualified their opinion on the Adoption Assistance program.

We recommended DCFS implement procedures to ensure adoption assistance subsidy payments are consistent with the approved subsidy payment amount in the adoption assistance agreement and to obtain and include proper supporting documentation for subsidy payment changes in the adoption assistance case files.

**DCFS agreed with the auditors recommendation**

DCFS officials agreed with the recommendation and stated in 2014 the Department consolidated adoption functions into one unit which will ensure the approval and monitoring of all subsidy agreements and that all supporting documentation is located in the subsidy file.

**INADEQUATE SUPPORTING DOCUMENTATION FOR PAYROLL COSTS**

**Documentation does not exist to substantiate payroll costs**

The Department of Insurance (DOI) did not retain adequate supporting documentation to substantiate payroll costs, totaling \$2,488,093 claimed for federal reimbursement under the State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges (ACA Exchanges) program.

**Timesheets could not be provided by DOI**

During our testing of five payroll expenditures, totaling \$20,319, charged to the ACA Exchanges program we noted DOI was unable to provide adequate supporting documentation for the sampled expenditures. Upon further investigation, we noted IDOI does not obtain certifications from employees who work solely on the ACA Exchanges program to verify they spent 100% of their time on the federal program. We also noted the timesheets on file for hourly employees did not contain information detailing the activity or federal program to which the time pertained.

In addition, we noted DOI did not have standard forms (CMS-2 forms or equivalent documentation) on file to document annual salary amounts for the payroll expenditures sampled.

Inadequate documentation of payroll costs may result in the federal funds being expended for unallowable purposes. (Finding 37, pages 128-129)

**Qualification due to inadequate documentation**

As a result of inadequate supporting documentation, the auditors qualified their opinion on the ACA Exchanges program.

We recommended DOI implement procedures to properly document payroll costs in accordance with the applicable program guidance.

**DOI concurred with the auditors**

DOI officials concurred with the finding and stated they will review the federal guidelines and develop a process to document staff certifications of time spent on the ACA Exchanges Program.

**INACCURATE ACA EXCHANGES FINANCIAL REPORTS**

**Errors noted in preparation of reports**

The Department of Insurance (DOI) did not prepare accurate financial reports for the State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges (ACA Exchanges) program.

During our testwork of two quarterly SF-425 reports and three monthly Budget reports, we noted several errors in the preparation of the reports. Specifically, amounts reported did not agree to supporting documentation or only reported current period (quarterly or monthly) activity where cumulative information was required.

**No review performed to ensure amounts reported are reasonable**

Additionally, in considering the reporting process for all required financial reports, we noted adequate internal controls have not been established to ensure reports prepared by DOI personnel are accurate. Specifically, we noted DOI does not perform analytical or other procedures during the report preparation process or supervisory reviews to ensure amounts reported are reasonable in relation to previously reported information or expectations relative to current program activities.

Failure to accurately prepare and review financial reports prevents the USDHHS from effectively monitoring the ACA Exchanges program. (Finding 39, pages 132-133)

**Qualification due to inadequate reporting**

As a result of inaccurately preparing financial reports, the auditors qualified their opinion on the ACA Exchanges program.

We recommended DOI review the process and procedures in place to prepare financial reports required for the ACA Exchanges program and implement the additional procedures necessary to ensure the reports agree or reconcile to its financial records.

**DOI officials concurred with recommendation**

DOI officials concurred with the finding and stated the Get Covered Illinois (GCI) finance division was primarily composed of only one employee who was not properly trained in federal reporting, and therefore, incorrectly reported the receipts and disbursements on required federal reporting. In addition, DOI officials stated GCI has since reviewed the requirements of the various federal reports and established a consistent and correct method to report the receipts and disbursements.

**FAILURE TO FOLLOW ON-SITE MONITORING PLAN FOR SUBRECIPIENTS**

The Illinois State Board of Education (ISBE) did not perform adequate on-site subrecipient monitoring procedures in accordance with its established monitoring plan for the Title I Grants to Local Educational Agencies (Title I), Special Education Cluster (IDEA) (Special Education), Twenty-First Century Community Learning Centers (21<sup>st</sup> Century), and Improving Teacher Quality State Grants (Title II) programs.

**Monitoring procedures not performed according to plan**

During our review of the subrecipients selected for review, we noted one subrecipient common across all Education programs which represented the single largest subrecipient for each program. As we reviewed the monitoring procedures performed for this subrecipient, we noted the procedures performed were limited to on-site reviews of nine schools and analytical expenditure reviews at additional schools for the purpose of determining whether further on-site reviews were deemed necessary, within the school district which has in excess of 600 schools. We also noted no on-site monitoring procedures were performed for the 21<sup>st</sup> Century program at this subrecipient. Given the significance of this individual subrecipient, we do not believe the on-site monitoring procedures performed by ISBE during the year ended June 30, 2015 were adequate. We also noted ISBE did not follow timeframes established in its on-site monitoring plan for communicating findings and closing out monitoring files.

**No monitoring of 21<sup>st</sup> Century program subrecipient**

Failure to properly monitor subrecipients and communicate monitoring results may result in undetected noncompliance and subrecipients not properly administering Federal programs in accordance with laws, regulations, and grant agreements. (Finding 41, pages 136-138)

**Qualification due to subrecipient monitoring**

As a result of inadequate monitoring of subrecipients, the auditors qualified their opinions on the Title I, Special Education, 21<sup>st</sup> Century and Title II grants.

We recommended ISBE review its monitoring procedures relative to individually significant subrecipients and implement additional procedures as necessary to ensure proper monitoring procedures are performed for all programs. Additionally, we recommended ISBE review its procedures for communicating monitoring results and closing out audit

files and implement additional procedures to ensure timely completion of these activities.

**ISBE officials agreed with the auditors**

ISBE officials agreed with the finding and stated they will modify the risk scoring process to ensure individually significant subrecipients are adequately monitored and will improve project management related to the monitoring function.

**FAILURE TO CONDUCT ON-SITE MONITORING VISITS OF CTE PROGRAM SUBRECIPIENTS**

The Illinois State Board of Education (ISBE) did not perform on-site fiscal reviews of subrecipients receiving federal awards under the Career and Technical Education – Basic Grants to States (CTE) program.

**On-site fiscal reviews not performed**

ISBE passed through approximately \$21,382,000 to subrecipients of the CTE program during the year ended June 30, 2015. The majority of funding was passed through to vocational schools to implement educational programs for technical careers. As a pass-through entity, ISBE monitors subrecipients of the CTE program by receiving and reviewing periodic expenditure reports. However, ISBE does not perform on-site reviews of CTE subrecipients.

Failure to adequately monitor subrecipients may result in subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding 42, pages 139-140)

**Qualification due to subrecipient monitoring**

As a result of inadequate monitoring of subrecipients, the auditors qualified their opinion on the CTE program.

We recommended ISBE develop and implement formal monitoring procedures to perform on-site reviews to ensure subrecipients are administering its CTE program in accordance with the applicable laws and regulations.

**ISBE officials agreed with the auditors**

ISBE officials agreed with the finding and stated they have developed and implemented formal monitoring procedures for performing on-site review of CTE subrecipients.

**INADEQUATE PROCEDURES FOR MONITORING SIG SUBRECIPIENTS**

The Illinois State Board of Education (ISBE) did not have an adequate process in place for communicating and following up on monitoring findings for subrecipients of the School Improvement Grants Cluster (SIG) program.

**Inadequate process to communicate and follow up on findings of the SIG program**

During our review of eight monitoring files and checklists prepared for on-site reviews conducted for four SIG subrecipients (with expenditures of \$26,983,000 during the year ended June 30, 2015), we noted the following:

- ISBE identified several instances of noncompliance with

program requirements which were not formally communicated to any of the subrecipients tested within 30 days of the exit conference, as required in ISBE's SIG Monitoring Manual. Monitoring reports were provided to subrecipients tested ranging from 49 to 86 days after the monitoring visits concluded.

- ISBE did not conduct exit conferences within 2 weeks of the completion of the on-site review as required in the SIG monitoring manual for 2 subrecipients tested. Delays in completing exit conferences for these subrecipients were 7 and 22 days after completion of on-site reviews.

ISBE passed through approximately \$39,730,000 of federal funding to subrecipients of the SIG program during the year ended June 30, 2015.

Failure to communicate the results of on-site monitoring reviews to subrecipients in a timely manner could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement. (Finding 44, pages 143-144) **This finding was first reported in the Statewide Single Audit in 2012.**

#### **Qualification due to subrecipient monitoring**

As a result of inadequate monitoring of subrecipients, the auditors qualified their opinion on the SIG program.

We recommended ISBE review its current policies and procedures for monitoring SIG subrecipients and implement additional procedures to ensure the results of on-site reviews are communicated in a timely manner.

#### **ISBE officials agreed with the auditors**

ISBE officials agreed with the finding and stated they will modify the monitoring cycle timeline to allow for additional time to respond to grantees and will continue to work with Human Resources to hire personnel. (*For previous agency response, see Digest Footnote #5.*)

#### **FAILURE TO IMPLEMENT UNEMPLOYMENT INSURANCE (UI) PROGRAM INTEGRITY AND OVERPAYMENT REDUCTION REQUIREMENTS**

The Illinois Department of Employment Security (IDES) did not implement Federal requirements to improve program integrity and reduce overpayments.

#### **Federal requirements not implemented**

The State is required to establish written procedures for: (1) identifying overpayments, (2) classifying overpayments into categories based on the reason the overpayment occurred (i.e. employer error, non-response from employers, beneficiary fraud, etc.), and (3) establishing appropriate methods for following up on each category of overpayment. In establishing these procedures, the State is required to enter into three agreements prior to commencing recoveries. The first agreement permits the State to offset State UI from

Federal UI overpayments (Cross Program Offset and Recovery Agreement). The second agreement permits the State to recover overpayments from benefits being administered by another State (Interstate Reciprocal Overpayment Recovery Agreement). The third agreement permits the State to utilize the Treasury Offset Program to recover overpayments that remain uncollected one year after the debt was determined to be due. Additionally, the State is (1) required to impose a monetary penalty (not less than 15 percent) on claimants whose fraudulent acts resulted in overpayments, and (2) prohibited from providing relief from charges to employer's UI account when overpayments are the result of the employer's failure to respond timely or adequately to a request for information.

As of the date of our testwork (December 20, 2015), we noted that while IDES has developed the written procedures relative to overpayments and entered into the required agreements described in the previous paragraph, the written procedures did not address the requirement to impose a monetary penalty on fraud overpayments. Additionally, we noted the policies do not address the prohibition of providing employers relief resulting from an employer failing to provide timely or adequate information.

Failure to implement Federal requirements could result in noncompliance with laws, regulations and the grant agreement. (Finding 56, pages 168-169)

**Qualification due to not implementing federal requirements**

As a result of not implementing federal requirements, the auditors qualified their opinion on the Unemployment Insurance program.

We recommended IDES develop and implement procedures to improve UI program integrity and reduce overpayments that incorporate the required monetary penalty on fraud overpayments and prohibit providing relief to employers who fail to provide timely and adequate responses to information requests.

**IDES agreed with the auditors recommendation**

IDES officials agreed and stated they are currently planning to integrate their current overpayment system into their benefit payment system and they will also begin planning the implementation of the prohibition on non-charging due to employer fault per UIPL 02-12.

**INADEQUATE SUPPORTING DOCUMENTATION FOR PAYROLL COSTS**

**Payroll costs not substantiated**

Adequate supporting documentation does not exist to substantiate payroll costs claimed for federal reimbursement under the Employment Services Cluster (ES Cluster) and Unemployment Insurance (UI) programs.

During our testing of 50 (25 for each program) direct payroll expenditures charged to the ES Cluster and UI programs, we



**Problems noted with effort reports**

noted effort reports (time sheets) were not consistent with the hours reported in the timekeeping system and used to allocate payroll expenditures to these programs, could not be located for testing, and did not contain evidence of supervisory review.

Inadequate documentation of payroll costs may result in the federal funds being expended for unallowable purposes. (Finding 61, pages 178-180)

**Qualification due to lack of supporting documentation**

As a result of inadequate supporting documentation, the auditors qualified their opinions on the Employment Services Cluster and Unemployment Insurance programs.

We recommended IDES review its current procedures and consider any changes necessary to properly document payroll costs in accordance with the applicable program guidance.

**IDES officials agreed with the auditors recommendation**

IDES officials accepted our finding and stated cost center managers are held responsible for payroll accuracy and file retention.

**FAILURE TO RETAIN DOCUMENTATION IN ACCORDANCE WITH FEDERAL REGULATIONS**

**Inadequate retention of documentation**

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

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.

**IDOT’s retention policy not sufficient**

During our testwork of 48 contractor payments for regular construction projects totaling approximately \$29,659,000 and 17 contractor payments for advanced construction projects totaling \$7,271,000 we noted the affidavit of availability could not be located for one contractor with sampled payment of \$137,182. We noted this project was originally bid prior to fiscal year 2009 and the affidavit was purged in accordance with IDOT’s record retention policy. As federal regulations require records to be retained for a period of three years after final payment and all other pending matters are closed, this affidavit of availability should have been retained by IDOT.

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 68, pages 194-195)

**Auditor qualification due to failure to retain documentation**

As a result of IDOT not retaining documentation in accordance with federal regulations, the auditors qualified their opinion for the Highway Planning program.

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

**IDOT agreed with the auditors recommendation**

IDOT officials agreed with the recommendation and stated their record retention schedule for retaining these records was revised and approved in February 2016.

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

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

The Department of Human Services (DHS) did not communicate American Recovery and Reinvestment Act (ARRA) information and requirements to subrecipients of the Temporary Assistance for Needy Families (TANF) program.

**ARRA not communicated to subrecipients**

During our testwork over one ARRA disbursement of \$1,168,792 to a subrecipient of the TANF Cluster program, we noted the subrecipient agreement did not identify the Federal award number, CFDA number, the amount of ARRA funds, or the requirement to separately report ARRA program expenditures on the Schedule of Expenditures of Federal Awards (SEFA) and the data collection form. DHS could not provide evidence that communication of these requirements was made subsequent to the grant award. DHS passed through ARRA funds of approximately \$5,374,000 to one subrecipient of the TANF Cluster program.

Failure to communicate required ARRA information could result in subrecipients not properly administering the federal programs in accordance with federal regulations. (Finding 13, pages 76-77)

We recommended DHS implement procedures to ensure ARRA information and requirements are properly communicated in writing to its subrecipients.

**DHS agreed with the auditors recommendation**

DHS officials agreed with the recommendation and stated they will ensure that all IDHS providers who receive ARRA funds in the future will be adequately notified of the funding during the award notification process or during any amendments that are processed.

## **OTHER FINDINGS**

The remaining findings pertain to other compliance and internal control matters. We will follow up on the status of corrective action on all findings in our next Statewide Single Audit for the year ended June 30, 2016.

## **AUDITORS' OPINION**

The auditors state the Schedule of Expenditures of Federal Awards for the State of Illinois as of and for the year ended June 30, 2015 is presented fairly in all material respects.

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

FJM:JSC

## **SPECIAL ASSISTANT AUDITORS**

KPMG LLP was our special assistant auditor for this audit.

## **DIGEST FOOTNOTES**

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

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

2014: (Office of the Governor) The Office of the Governor agrees with the recommendation. The Office of the Governor will continue to work with the Office of the State Comptroller to address the core issues regarding the quality of the accounting information provided to and maintained by the IOC as it relates to year-end preparation of the SEFA.

2014: (Office of the State Comptroller) The Office accepts the recommendation. The 2014 and 2013 SEFA audits were completed approximately 2 months earlier than the audit of the 2012 SEFA. The old and antiquated patchwork of existing payment processing and financial reporting systems need to be replaced with a new statewide accounting and grants management system that is designed to provide the information needed to complete the SEFA report and to improve the quality of the accounting information provided to the IOC. The Office will work with the Governor's Office and the Financial Reporting Standards Board to meet this objective.

Previous responses by the Department of Human Services

#2 Failure to Properly Maintain and Control Case File Records

2014: The Department accepts the recommendation. Despite our current fiscal, staffing, and space constraints, the Department continues to place a high priority on proper case file maintenance. Many of our FCRCs were storing an abundance of case files that exceeded storage capabilities within given file cabinets. Case files then had to be stored in hallways and passage ways, calling into question the safety of some of the buildings. In order to relieve some of the space limitations, offsite storage facilities were obtained and are being used. The Department is now utilizing a document management system than is capturing a portion of the information that was previously printed and stored in the paper case file, and now stored electronically. This is assisting in the reductions of the overwhelming size and amount of paper files in the offices.

#3 Missing Documentation in Beneficiary Eligibility Files

2014: The Department agrees with the recommendation. We will continue to ensure staff understands the importance of proper and accurate filing processes. The Department is increasing the use of electronic document management systems that capture some of the information that has been traditionally printed and maintained in paper case files.

#4 Failure to Perform Eligibility Redeterminations within Prescribed Timeframes

2014: The Department agrees with the recommendation. IDHS will continue to work with the Department of Healthcare and Family Services (HFS) to review current processes for performing eligibility redeterminations and consider changes necessary to ensure all redeterminations are performed within the prescribed timeframes.

Although HFS and DHS continued its contract with an outside vendor, Maximus, in order to perform electronic eligibility factor verifications, the function of Maximus was modified during the audit period. Beginning 2/1/14, a new Illinois Medicaid Redetermination Program process has begun. Maximus has developed a new redetermination system called Max-IL to record and store redetermination information for medical-only cases.

DHFS and IDHS have set up 4 specialized central redetermination units across the state to handle most medical only redeterminations. Staff in these units specialize in working in the new Max-IL system, developed by Maximus that records and stores redetermination information, forms, and verifications. The latter half of the audit period was met with a learning curve and staff becoming acclimated to the newly developed system and its functionality.

Additionally, although IDHS was able to hire some additional staff during the audit period, those hires were new staff having no previous IDHS program knowledge or experience. As a result, production was not initially at an optimum level given the needed staff development in addition to the barriers associated with new staff, processes, procedures, and software.

Also, this audit period represents the first full year after the Administrative Renewal process ended. As a result, the thousands of cases that qualified for renewal using the Administrative Renewal process had to be absorbed by casework staff, which added to the current backlog of overdue cases.

For Family Health Plans with no Supplemental Nutrition Assistance Program (SNAP) or cash, Maximus now handles the mailing of the pre-populated redetermination form. Maximus also facilitates the uploading of redetermination forms sent and returned, data-match results, and verifications provided by the client to Content Manager, ensuring easy retrieval for historical and audit purposes.

Using electronic data-matching, the MAX-IL system will make recommendations on the case's on-going eligibility. State casework staff will be responsible for making the final eligibility decision, and for performing the necessary re-determination reporting actions in the new Integrated Eligibility System and/or the legacy Automated Management system.

#### Previous responses by the Illinois State Board of Education

##### #5 Inadequate Procedures for Monitoring of SIG Subrecipients

2014: The Agency agrees with this finding. The new System of Support and District Intervention Division administration has established a School Improvement Grant 1003(g) monitoring manual which outlines policies and procedures for monitoring, reporting, and staff follow-up on corrective actions that are currently being implemented in fiscal year 2015.