LEGISLATIVE AUDIT COMMISSION

Review of
Statewide Single Audit
Year Ended June 30, 2003

Limited Review Including
Comptroller, DHS, DCFS, Aging, ISAC

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REVIEW: 4219
STATEWIDE SINGLE AUDIT
YEAR ENDED JUNE 30, 2003

Limited Review Including
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TOTAL FINDINGS/RECOMMENDATIONS - 64

TOTAL REPEATED RECOMMENDATIONS - 34

TOTAL PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 62

Beginning with FY2000, the Office of the Auditor General converted to a Statewide Single Audit approach to audit federal grant programs. In prior years, audits of federal grant programs were conducted on a department by department basis. This review summarizes the FY03 Statewide Single Audit of federal funds. The compliance audit testing performed in this audit was conducted in accordance with *Government Auditing Standards,* Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133. The auditors stated that the financial statements were fairly presented.

The Statewide Single Audit includes all State agencies that are a part of the primary government and expend federal awards. In total, 41 State agencies expended federal financial assistance in FY2003. The Statewide Single Audit does not include those agencies that are defined as component units such as the State universities and finance authorities.

The Schedule of Expenditures of Federal Awards (SEFA) reflected total expenditures of $15.06 billion for the year ended June 30, 2003. This represents a $2.04 billion increase over FY2002, or 15.7%. Overall, the State participated in 345 different federal programs; however, ten of these programs or program clusters accounted for approximately 82.3% ($12.375 billion) of the total federal award expenditures as exhibited in the following table.

Federal Program Award	Total Expenditure	% of Total
Medicaid	$ 5,160,500,000	34.3%
Unemployment Insurance	3,182,500,000	21.1%
Food Stamps	1,098,200,000	7.3%
Highway Planning, Construction	693,300,000	4.6%
TANF	613,500,000	4.1%

Federal Program Award	Total Expenditure	% of Total
Title 1 Education Grants	$ 424,500,000	2.8%
Special Education	355,500,000	2.4%
Foster Care	353,400,000	2.3%
Child Nutrition	308,700,000	2.0%
Child Care	184,900,000	1.2%
All Others	2,685,300,000	17.9%
Total Federal Awards	$ 15,060,300,000	

The funding for the 345 programs was provided by 21 different federal agencies. The table below shows the five federal agencies that provided Illinois with the vast majority of federal funding in FY2003.

Federal Funding Agency	Total Grant	% of Total
Health & Human Services	$7,090,600,000	47.1%
Labor	3,449,600,000	22.9%
Agriculture	1,738,300,000	11.5%
Education	1,470,600,000	9.8%
Transportation	826,400,000	5.5%
All Others	484,800,000	3.2%

A total of 45 federal programs (or 31 programs/clusters) were identified as major programs in FY2003. A major program was defined as any that meets certain criteria when applying the risk-based approach. In FY2003, all of the 31 major programs/clusters involved federal award expenditures exceeding $30 million. The 31 major programs/clusters had combined expenditures of more than $14.147 billion, and 300 non-major programs with combined expenditures of $913.1 million. Nine State agencies accounted for approximately 97.2% of all federal dollars spent in FY2003 as depicted in the table below.

State Agency	Federal Expenditures	% of Total
Public Aid	$ 5,214,300,000	34.6%
Employment Security	3,435,300,000	22.8%
Human Services	2,530,000,000	16.8%

State Agency	Federal Expenditures	% of Total
Board of Education	$ 1,556,700,000	10.3%
Transportation	816,500,000	5.4%
DCFS	536,700,000	3.6%
DCEO	202,600,000	1.4%
ISAC	184,400,000	1.2%
EPA	169,300,000	1.1%
All Others	414,500,000	2.8%

The table below summarizes the number of report findings by State agency and identifies the number of repeat findings.

State Agency	Number of Findings	Repeat Findings
State Comptroller	1	1
Human Services	14	5
Public Aid	6	4
DCFS	4	4
Aging	2	0
Board of Education	8	5
ISAC	7	4
Community College Board	3	0
Transportation	4	2
Commerce & Economic Opportunity	3	2
Employment Security	5	2
EPA	3	2
Corrections	2	1
Natural Resources	1	1
Public Health	1	1
TOTAL	64	34

The findings for the first 14 recommendations are very similar and relate to the timely compilation of a complete and accurate schedule of expenditures of federal awards (SEFA). The State's process and source used to prepare the SEFA are from manual data collection forms designed and used by the Office of the Comptroller (IOC) in its preparation of the State's Basic Financial Statements. These agency prepared forms are reviewed by the IOC and subsequently, by each agency's post auditor, whose reviews often identify needed corrections and a lack of completeness in their original preparation.

The Auditors noted that the State's process for collecting information to compile the SEFA is inadequate to permit timely and accurate reporting in accordance with the March 31 deadline. Although the IOC made some improvements in the SEFA reporting process, problems remain in the submission and finalization of the State Comptroller forms due to their complex nature and manual process. The 13 agencies with the largest use of federal funds took between 127 days and 204 days from the end of FY03 (June 30, 2003) to submit to the OAG for SEFA compilation purposes.

RECOMMENDATIONS 1-14
Office of the Comptroller (Rec #1), DHS (Rec #2), DPA (Rec #3), DCFS (Rec #4), ISBE (Rec #5), ISAC (Rec #6), ICCB (Rec #7), IDOT (Rec #8), DCEO (Rec #9), IDES (Rec #10), IEPA (Rec #11), DOC (Rec #12), DNR (Rec #13), and DPH (Rec #14)

1. **The auditors recommend the Office of the Comptroller implement an automated process for compiling the SEFA which will allow for the completion of the State's OMB Circular A-133 audit within the required timeframe. (Repeated-2002)**

Findings: The State does not have an adequate process in place to permit the timely compilation of a complete and accurate schedule of expenditures of federal awards (SEFA).

The State's process for compiling the SEFA requires each State agency to complete a series of manual financial reporting forms (SCO forms) which detail by fund the CFDA number, total program expenditures, funds passed through to subrecipients, and transfers of program funds between State agencies for each federal program. The SCO forms are collected by the Illinois Office of the Comptroller (IOC) and are reviewed for any discrepancies or errors. Once any of these identified errors and discrepancies have been resolved with the responsible State agency, the finalized SCO forms are forwarded to the Illinois Office of the Auditor General (OAG) in an electronic database for the compilation of the SEFA. As part of their compilation procedures, the OAG performs a series of analytical and verification procedures (including agreeing CFDA numbers, program expenditures, amounts passed through to subrecipients or passed to other State agencies to the reporting agency's records) to ensure amount reported are complete, accurate, and properly presented.

During fiscal year 2003, improvements were made to automate the SEFA reporting process, which allowed the IOC to provide a preliminary SEFA to the OAG in November. However, the overall reporting process for the State continues to be delayed by the complexity and manual nature of the SCO forms and delays in their submission by the State agencies. A number of the final SCO forms were not completed or available to the OAG until late January resulting in the compilation of the SEFA being completed in late March (approximately nine months after the State's fiscal year end). The current reporting process does not allow for the timely completion of an audit in accordance with OMB Circular A-133.

According to OMB Circular A-133, a recipient of federal awards is required to prepare appropriate financial statements (Comprehensive Annual Financial Report issued by the IOC), 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 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 IOC, they stated the State does not have a process in place to monitor the accuracy of State agency financial reporting in relation to the State's federal awards.

Failure to prepare the SEFA in a timely manner prevents the State from completing an audit in accordance with OMB Circular A-133 which may result in the suspension of federal funding.

<u>Response</u>: The Office of the Comptroller (IOC) agrees the State does not have an adequate process in place to permit the timely compilation of the schedule of expenditures of federal awards (SEFA). The IOC will consult with other members of the State's Executive Branch to establish and implement monitoring procedures for State agency financial reporting in relation to the State's federal awards. Executive Branch members consulted with will include:

- *The Governor*. Pursuant to the Illinois Constitution, Article V, Section 9, the Governor has the power to appoint State officers whose election or appointment is not otherwise provided. In addition, pursuant to the Illinois Constitution, Article V, Section 8, the Governor has supreme executive power and has the responsibility for the execution of laws. With such powers, the Governor is the only member of the Executive Branch who has the appropriate level of power to appropriately discipline the State officers of agencies not having adequate reporting procedures.

- *The Director of the Department of Central Management Services (Director)*. The Department of Central Management Services Law (20 ILCS 405/405-10) states, "It shall be the duty of the Director and the policy of the State of Illinois to do the following: (1) Place financial responsibility on State agencies . . . and hold them accountable for the proper discharge of this responsibility. (2) Require professional, accurate, and current accounting with the State agencies."

- *The Governor's Office of Management and Budget (GOMB)*. The Governor's Office of Management and Budget Act (20 ILCS 3005/5.1) specifies that the

> GOMB shall be responsible for approving federal grant applications for agencies under the Governor's jurisdiction upon reviewing State agency reports of program costs and other commitments resulting from the receipt of the federal grant.

The IOC will also continue to automate reporting forms and assist agencies in completing financial reporting forms. These efforts should facilitate more timely completion of the State's schedule of federal awards in the future.

Updated Response: Implemented. On January 13, 2004, the Illinois Office of the Comptroller established an automated web-based reporting system for the federal grants and contracts. For Fiscal Year 2004, the Comptroller's personnel entered the beginning balances from the prior year records. The Fiscal Year 2004 transactions were entered online by state agencies to generate the ending balances. This database information is available in electronic or paper format to compile the SEFA.

2. The auditors recommend IDHS review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. (Repeated-2002)

Findings: IDHS does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

During the review of the financial reporting process, the auditors noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for IDHS until January 12, 2004. Additionally, several correcting journal entries were required to accurately state amounts reported by IDHS.

In discussing this with IDHS officials, they stated the decision for maximizing federal claiming for TANF was not determined on a timely basis. In addition, IDHS must rely on other State agencies for TANF claiming and this information is not received on a timely basis.

Response: Accepted. The Department will review the current process for reporting financial information to the IOC. In the current process, all GAAP packages are reviewed to verify that the information reported in the GAAP package agrees to the back up information available at the time of the preparation of the GAAP package. Due to the complexity of the TANF, Child Care, and Title XX Grants and the desire to maximize federal funding, changes to GAAP packages are often required after additional information is received from other entities outside our control. IDHS needs to ensure expenditures incurred by all entities, which are eligible for reimbursement, are claimed on the final federal grant reports.

In addition, IDHS is participating in a workgroup with other Single Audit state agencies. The goal of the workgroup is to review the current process for financial reporting and to improve the statewide compilation process.

Updated Response: Accepted. The Department will review the current process for reporting financial information to the IOC. In the current process, all GAAP packages are reviewed to verify that the information reported in the GAAP package agrees to the back up information available at the time of the preparation of the GAAP package. Due to the complexity of the TANF, Child Care and Title XX Grants and the desire to maximize federal funding, changes to GAAP packages are often required after additional information is received from other entities outside our control. IDHS needs to ensure expenditures incurred by all entities, which are eligible for reimbursement, are claimed on the final federal grant reports. The reconciliations of federal expenditures to the GAAP reporting packages were completed for FY'2004.

In addition, IDHS is participating in a workgroup with other Single Audit state agencies. The goal of the workgroup is to review the current process for financial reporting and to improve the statewide compilation process.

4. The auditors recommend DCFS review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, DCFS should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC. (Repeated-2002)

Findings: DCFS does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

During the review of the financial reporting process, the auditors noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for DCFS until January 15, 2004. Additionally, several correcting journal entries were required to accurately state amounts reported by DCFS.

In discussing this with DCFS officials, they stated that under the current financial reporting process followed in the State and with limited staff resources, it is difficult to meet the due dates established. The Department works to comply with the schedule established by the Office of the Comptroller.

Response: The Department is evaluating its procedures for timely and accurate completion of the required forms. Additionally, DCFS will be participating in the State task force for assessing the procedures followed by agencies to prepare the financial information in a timely manner.

The Department will respond timely to requests made by the Office of the Comptroller by gathering and submitting the financial information to assist the Office of the Auditor General in their review of the SEFA data.

Updated Response: Accepted. The Department participated with the Comptroller's Office and other agencies with changing process in FY04 whereby the Comptroller's Office prepared the various financial reports using data supplied by DCFS and based on requests made by the Comptroller's Office. We then reviewed the draft reports for DCFS.

6. The auditors recommend ISAC review the current process for reporting financial information to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, ISAC should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC. (Repeated-2002)

Findings: ISAC does not have an adequate process to ensure that financial information submitted to the Illinois Office of the Comptroller (IOC) is accurate and timely.

During the review of the financial reporting process, the auditors noted that the information available for the preparation of the State's financial statements and SEFA was not finalized for ISAC until January 15, 2004. Additionally, several correcting journal entries were required to accurately state amounts reported by ISAC.

In discussing this with ISAC officials, they stated that the growing complexity of the programs coupled with the number of parties involved in the financial reporting process makes it difficult to finalize the financial information within the required timeframe.

Updated Response: ISAC continues to be committed to working with the Illinois Office of the Comptroller and the Illinois Office of the Auditor General to ensure timely completion of the SCO reporting requirements. All agency GAAP packages were submitted within the requested time frames for FY04.

RECOMMENDATIONS 15-27
Department of Human Services

15. The auditors recommend IDHS review its process for accumulating TANF, Child Care, and Title XX expenditures and implement procedures to ensure that federal and state expenditures are identified and accounted for in accordance with the applicable program regulations.

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Findings: IDHS does not have an adequate process for identifying and accounting for expenditures claimed under the Temporary Assistance for Needy Families (TANF), Child Care Cluster (Child Care), and Social Services Block Grant (Title XX) programs.

On an annual basis, the State applies for and receives grant awards from USDHHS under the TANF, Child Care, and Title XX programs. As a condition of receiving the federal grant awards under the TANF and Child Care programs, the State is also required to maintain a level of State funded expenditures. The State plans submitted to USDHHS for the TANF, Child Care, and Title XX programs generically describe the types of programs and beneficiaries on which the State plans to expend its federal and State funding.

During testwork the auditors noted the State agencies expending program funds do not determine under which program IDHS reported their expenditures. Additionally, IDHS does not perform monitoring procedures to ascertain that the expenditures claimed meet the specific criteria applicable to the program for which it was claimed. During the year ended June 30, 2003, IDHS claimed more than $876 million in expenditures from other agencies under the TANF, Child Care, and Title XX programs.

In addition, in an effort to maximize its federal funds, IDHS modified the expenditures originally reported in the claim reports for the TANF, Child Care, and Title XX programs that were submitted during the State's fiscal year ended June 30, 2003 in preparing its final federal fiscal year claims for the year ended September 30, 2003. The final federal fiscal claims for the year ended September 30, 2003 were not submitted until December 2003. Consequently, IDHS could not identify all of the federal expenditures claimed or all of the State expenditures used to meet its maintenance of effort requirements under these programs for the State's fiscal year ended June 30, 2003 until December 2003 which inhibits the ability to audit these programs in accordance with the requirements of OMB Circular A-133. This is indicative that the State does not have an adequate process or information system to identify and account for federal expenditures reported during the State's fiscal year ended June 30, 2003.

Grantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. Additionally, entities receiving Federal awards must establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

In discussing these conditions with IDHS personnel, they state the accounting system utilized is adequate for federal reporting needs, but budgetary planning and procedures need to be enhanced to allow for more timely reporting from the State perspective. The ability to claim only those services that were earned, rather than all services that were paid, inhibits the Department's ability to both budget and fully utilize grant funds.

Updated Response: Accepted. IDHS has reviewed its processes and procedures for accumulating expenditures for TANF, Child Care and Title XX. An independent consultant was hired to assist with the review process. Their recommendations were implemented and the year-end reporting process was performed in a more timely manner in SFY 2004. Federal and State expenditures are identified and accounted for in accordance with applicable program regulations. The real issue is related to timeliness as relates to State financial reporting needs rather than federal reporting needs. The issues surrounding timely and accurate accumulation of federal expenditures for the state year-end can be resolved by standardizing procedures to enable adequate reconciliation between the federal expenditures reports, which are reported on a cash basis, and departmental financial statements that are reported on a modified accrual basis.

Additionally, the auditor notes that final federal fiscal year reports for the fourth quarter were not filed until December 2003. The Title XX Social Services Block Grant report is an annual expenditure report which is due 90 days after the end of the award period (December 30, 2003). The Title XX report was completed and submitted by the required due date. For TANF, the original report for the quarter ended September 30, 2003 was filed December 5, 2003, but the report was due November 14, 2003. This report was late because expenditure information from another State agency was not available. The Department requested a 30-day extension of the due date, but this was denied by the Administration for Children and Families (ACF). However, the other State agency's request for an extension was approved, which resulted in delaying the receipt of required expenditure information due to IDHS in time to meet IDHS' due date. A revised TANF report for the quarter ended September 30, 2003 was submitted December 30, 2003. The Child Care Quarterly report was due October 30, 2003, and was filed by the due date. Subsequently, an expenditure adjustment was received from another State agency that required a revised Child Care report to be completed and submitted December 5, 2003.

16. The auditors recommend IDHS implement procedures to ensure only expenditures made for programs that are included in the State plan and that meet one of the four purposes of TANF are claimed.

<u>Findings</u>: IDHS claimed expenditures under the TANF program for a State operated program that did not meet one of the four purposes of the TANF program.

During the State fiscal year ended June 30, 2003, IDHS claimed approximately $17.3 million in expenditures under its TANF program from the Regional Safe Schools program operated by the Illinois State Board of Education. The purpose of the Regional Safe Schools program is to provide an alternative education to Illinois residents who have been expelled from local school districts for behavioral problems.

In discussing these conditions with IDHS personnel, they state that in order to maximize and retain federal financial participation for Illinois programs, the department must continue to look for innovative approaches to reach families so that they get the essential supports necessary to get a job, succeed at work, and move out of poverty. Further, it is DHS' understanding that there is no requirement that a state amend its State Plan at a certain time.

Response: Do not agree. The Regional Safe Schools expenditures do meet at least one of the four purposes of TANF. Specifically, they meet the purpose of Goal 3, which is to prevent and reduce out-of-wedlock pregnancies. These expenditures are described in the State Plan, and they are not generally available to other residents of the state.

This program is an alternative education program that is designed to help break the cycle of disruptive behavior, reduce the incidence of teen pregnancy, and provide positive career opportunities for these children, who are also at high risk for dropping out of school. Illinois recognizes that these children are at risk of becoming teen parents and entering public welfare caseloads. The program fits within TANF as it promotes work and encourages students to acquire the necessary skills to get a job and it also reduces out of wedlock births. This program is not generally available to residents of the state. It is only available to a very specific and high-risk population. This target group represents a very small proportion of students who pose serious safety concerns, who are subject to multiple out-of-school suspensions/expulsion, and who are at high risk of dropping out of school. The goal is to keep these children in an educational environment where they will receive the skills to secure good jobs rather than keep them at home or on the street where they are likely to continue behavioral patterns that will lead them toward becoming teen parents and entering public welfare caseloads.

There is no requirement that a state amend its State Plan at a certain time. The Department amended the State Plan in accordance with the Federal rules. The statute does not directly address when States must amend their plans, and ACF has not regulated in this area. The State Plan that identifies this program was approved by the United Stated Department of Health and Human Services (USDHHS) on March 26, 2004.

Auditors' Comment: As previously stated, the Regional Safe Schools program is an education program available for all individuals who have been expelled from local school districts for behavior problems. We do not believe the purpose of TANF was to provide funding for broad based educational programs. Additionally, we fail to see a direct correlation between this program and its ability to prevent or reduce out-of-wedlock pregnancies and thus, these expenditures are clearly questionable.

IDHS stated in its response above that it amended the State Plan subsequent to our audit to include this program. However, the amendment does not clearly describe the program. To say that it has been approved by the USDHHS, in our view, is misleading. The State Plan is highly summarized and does not provide the details behind each State program that is included. Specifically, the descriptions included for the Regional Safe School program in the amended State Plan is as follows: "Alternative Education - Programs to help break the cycle of disruptive behavior, reduce the incidence of teen pregnancy and provide positive career opportunities."

17. The auditors recommend IDHS review its current process for performing eligibility re-determinations and consider changes necessary to ensure all

redetermination are performed within the timeframes prescribed within the State Plans for each affected program.

Findings: IDHS is not performing “eligibility redeterminations” for individuals receiving benefits under the TANF, State Children’s Insurance Program (SCHIP), and Medicaid programs in accordance with timeframes required by the respective State Plans.

Each of the State Plans for the TANF, SCHIP, and Medicaid programs require the State to perform eligibility re-determinations 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 test work over eligibility, we noted the State, as of August 7, 2003, was delinquent (overdue) in performing the eligibility re-determinations as follows:

Program	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
TANF	2,556	38,234	6.7%
SCHIP	51,747	433,144	11.9%
Medicaid	31,492	388,170	8.1%

In discussing these conditions with IDHS officials, they stated that the Department believes there is an adequate process in place for ensuring cases are re-determined timely. There are many offices with a 100% redetermination currency rate. Although some offices have recently fallen behind in redeterminations, it is not a function of suspect local office procedures, but rather the result of recent staffing shortages.

Response: Agree. IDHS reviewed the process for performing eligibility re-determinations and believe that it is adequate.

18. We recommend IDHS implement procedures to ensure only expenditures made for programs or services for families or children who meet the specified income requirements of the program are claimed. (Repeated-2002)

Findings: Adequate supporting documentation did not exist to substantiate that expenditures claimed by IDHS met the earmarking requirement for the Social Services Block Grant (Title XX) program.

During the State fiscal year ended June 30, 2003, IDHS transferred $20 million from the TANF program to the Title XX program. Funds transferred from TANF are required to be used only for programs and services to children or their families whose income is less than 200% of the official poverty guidelines. The expenditures used by IDHS to meet the earmarking requirement are for services provided to children and families served by IDHS under its Early Intervention and Home Services programs.

During testwork of 60 expenditures, the auditors noted 15 expenditures tested (totaling $1,747) related to grants to providers of the Early Intervention Program for case management which could not be directly linked to specific beneficiaries meeting the poverty level criteria. As such, IDHS was not able to provide documentation that the individuals served met the earmarking requirement. Grants for case management claimed during the year ended June 30, 2003 were approximately $1.5 million.

In discussing these conditions with IDHS personnel, they state that adequate documentation does exist and was provided to the auditor.

Response: Do not agree. IDHS has procedures to ensure only expenditures made for programs or services for families or children who meet the specified income requirements of the program are claimed. In discussions with the auditors, they state that they were unable to trace the sampled expenditures to supporting documentation that was directly linked to specific beneficiaries meeting the poverty level criteria, that IDHS is using an improper allocation methodology to determine the cost, and further that the department requires federal approval of the methodology. IDHS has traced the expenditures in the sample to supporting documentation that was directly linked to specific beneficiaries meeting the poverty level criteria. Targeted Case Management (TCM) is a case coordination service, which is an allowable service under Medicaid, Early Intervention and Social Services Block Grants. IDHS calculates a client cost per service month in order to provide for consistent treatment in distributing costs among multiple federal grants. Specifically, the questioned costs are Early Intervention Program Targeted Case Management (TCM) expenditures made pursuant to contracts with Child and Family Connections (CFCs) agents. Some of these costs are claimable under Medicaid, and some under Title XX (Regular and TANF transfer). Payments are made to CFCs based on a rate that is tied to a specific child. This process takes the exact monthly amount the CFC received and divides it into the exact number of children served each month to determine cost per service month that is applied to the income eligible children and claimed.

Auditors' Comment: We believe that IDHS is improperly treating these expenditures as direct costs similar to "fee for service". The grant award for case management is a fixed amount each quarter. The amount claimed is based on individuals that "could have been served" (including non-eligible person) instead of those who were. The allocation methodology results in significant changes in the amount claimed per individual each month which inhibits their ability to directly link an eligible individual with the amount claimed for reimbursement.

19. The auditors recommend IDHS review its current process for coordinating and reporting MOE expenditures and consider changes necessary to ensure all MOE expenditures are adequately supported.

REVIEW: 4219

Findings: IDHS does not have an adequate process to determine whether maintenance of effort expenditures for its TANF program are adequately supported.
The TANF program requires states to maintain a level of "qualified" state funded expenditures for programs or services benefiting eligible families. In Illinois, maintenance of effort (MOE) expenditures for the TANF program are required to approximate total federal expenditures. As the State agency responsible for administering the TANF program, IDHS is responsible for coordinating and reporting the expenditures used to meet the MOE requirement. The TANF MOE requirement is met through the use of a series of State programs administered by IDHS and various other State agencies including the Illinois Department of Public Aid (IDPA). During our testwork over MOE expenditures, we noted the following:

- IDHS did not maintain supporting documentation for MOE expenditures made by the Illinois Department of Public Aid (IDPA) under a State sponsored medical assistance program. As a result, the detail of expenditures used to support the MOE were required to be "recreated" during our audit and reconciled to amounts reported on the quarterly claim. Additionally, IDHS could not provide supporting documentation for $2 million in MOE expenditures reported in the quarterly claims.
- One expenditure selected for testwork from January 2003 for $90,000 does not appear to have been paid to the provider as it was not a valid expenditure.

In discussing these conditions with IDHS officials, they stated that this was the first time this level of detail was requested, so reports that were routinely deleted after a specified period of time needed to be recreated for the review.

Response: Agree. Procedures now require that all MOE expenditures are adequately supported and documented. A hard copy of all supporting documentation is now provided by IDPA to IDHS and will be available for review by auditors. We are looking into the possibility of also receiving these reports on CD to address storage issues.

20. The auditors 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. In addition, we recommend IDHS review its process for determining TANF benefits and consider changes necessary to ensure all benefit calculations are adequately supported and documented. (Repeated 2001)

Findings: IDHS did not properly calculate benefits for the Temporary Assistance for Needy Families (TANF) program and could not locate case file documentation supporting client eligibility determinations for beneficiaries of TANF, State Children's Insurance Program (SCHIP), and Medicaid Cluster.

During testwork of TANF, SCHIP, and Medicaid beneficiary payments, the auditors selected 90 eligibility files (30 for each program) to review for compliance with eligibility

requirements and for the allowability of the related benefits. The auditors noted exceptions in 11 files.
In each of the case files missing documentation, 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.

Updated Response: Implemented. IDHS reviewed the methods and processes for determining and documenting Medicaid and TANF benefits and believe they are adequate. Policy, procedure, and policy smart computer support are methods used by IDHS to ensure benefit calculations are correctly calculated and documented. This should be resolved when sufficient staff can be hired.

The federal expenditure report was revised on December 1, 2004 to back out the $10 in questioned costs. Questioned costs were replaced with previously unclaimed allowable expenditures.

21. The auditors recommend IDHS review its current process for sanctioning beneficiaries not cooperating with the State's child support enforcement efforts and refusing to comply with work requirements and consider changes necessary to ensure benefits are reduced or denied in accordance with the State Plan.

Findings: IDHS did not enforce sanctions required by the State Plan for individuals receiving benefits under the TANF program who did not cooperate with child support enforcement efforts and who refused to work.

As a condition of receiving cash assistance under the TANF program, beneficiaries are required to assist the State in establishing paternity or establishing, modifying, or enforcing child support orders by providing information to the Illinois Department of Public Aid (IDPA) to help identify and locate non-custodial parents. Additionally, TANF beneficiaries are required to work, seek employment, or follow the educational steps outlined in his/her Responsibility Services Plan (RSP) as a condition of receiving benefits. In the event a TANF beneficiary fails to assist IDPA or fails to meet his/her work requirements without good cause, IDHS is required to reduce or deny his/her TANF benefits.

During testwork over the Child Support Non-Cooperation and Penalty for Refusal to Work Special Tests of the TANF program, the auditors selected 30 Child Support cases referred by IDPA for non-cooperation without good cause and 30 cases in which the beneficiary was not working. We noted the following exceptions during our testwork:

- In three Child Support cases, IDHS did not sanction beneficiaries for non-cooperation. There was no evidence in these case files documenting that good cause existed for non-cooperation. Benefits paid to these individuals during the year ended June 30, 2003 were $11,187.

- In two Child Support cases, IDHS did not reduce benefits in a timely manner after non-cooperation without good cause was reported by IDPA. In these cases, beneficiaries were not sanctioned for periods of five to six months after the non-cooperation was identified. Benefits paid to these individuals after the identification of non-cooperation during the year ended June 30, 2003 totaled $1,685.

- In four Child Support cases, IDHS did not reduce benefits in a timely manner after non-cooperation without good cause was reported by IDPA. In these cases, beneficiaries were not sanctioned as they eventually cooperated with IDPA; however, the beneficiaries did not cooperate for time periods ranging from three and nine months after IDPA reported non-cooperation. Benefits paid to these individuals after the identification of non-cooperation during the year ended June 30, 2003 totaled $5,818.

- In three Refusal to Work cases, IDHS did not sanction beneficiaries for failing to meet work requirements. There was no evidence in these case files documenting that the beneficiaries were (1) exempt from the work requirement; (2) were actively seeking employment; or (3) were complying with the educational steps in the RSP. Benefits paid to these individuals during the year ended June 30, 2003 were $12,523.

- In one eligibility case, IDHS did not sanction a beneficiary for failing to meet work activity requirements. The beneficiary's case file indicated she was required to participate in a substance abuse treatment program; however, this work activity was not documented in her RSP and she did not comply with this work activity requirement. Benefits paid to this individual during the year ended June 30, 2003 were $3,960.

If the State determines a beneficiary is not cooperating with Child Support Enforcement efforts without good cause, the State must take appropriate action by deducting an amount equal to at least 25% of the family's assistance payment or denying the family any assistance under the program. Additionally, if an individual refuses to engage in required work without good cause, the State must reduce or terminate the amount of assistance payable to the family.

In discussing these conditions with IDHS officials, they stated that the problem was due to inadequate communication with IDPA in reporting Child Support noncompliance incidents.

Updated Response: Accepted. Implementation is in process. Department staff continue to monitor and address the issue of sanctioning for non-cooperation with child support enforcement efforts. The number of cases eligible for sanction due to child support non-cooperation increased dramatically when IDPA reengineered its intake process last April by not routinely scheduling TANF approvals for interviews and using mail-in questionnaires instead of interviews for Medicaid cases.

Department staff have met regularly with DCSE to monitor this issue. From these meeting, DCSE changed its Intake practices by: 1) scheduling all TANF approvals for interviews, 2) relaxing requirements for interviewing Medicaid cases (more get interviews, fewer get the questionnaire), and 3) mailing second chance letters to Medicaid cases failing to return questionnaires to give them another 15 days to cooperate. All of these changes work toward improving the collection of child support enforcement information and reducing the number of cases eligible for sanction.

The federal expenditure report was revised on December 1, 2004 to back out the $35,173 in questioned costs. Questioned costs were replaced with previously unclaimed allowable expenditures.

22. The auditors recommend IDHS review the process and procedures in place to prepare cost allocation calculations and supporting schedules and implement changes necessary to ensure accurate application of the allocation methodologies. (Repeated-2002)

<u>Findings</u>: IDHS did not accurately allocate costs to its federal programs in accordance with the Public Assistance Cost Allocation Plan (PACAP).

IDHS administers several federal and State programs to assist Illinois families in achieving self-sufficiency, independence, and health. In administering each of these programs, IDHS incurs significant expenditures, which are directly and indirectly attributable to the administration of its programs. In order to allocate costs to the programs to which they are attributable, IDHS has submitted a PACAP to the USDHHS describing its overall organizational structure, the federal programs it administers, and the methodologies it has developed to allocate administrative expenditures to its federal programs. The PACAP is submitted to USDHHS periodically for review and approval of the allocation methodologies used by IDHS. IDHS has developed the methodologies for allocating costs to its programs, which IDHS believes best represent the actual costs associated with the program.

During a review of costs allocated to federal programs during the quarter ended March 31, 2003, the auditors noted the following errors in the application of allocation methodologies:

- The allocation method used for the Office of the Associate Secretary was not consistent with the methodology defined in the PACAP. Costs were allocated to Medicaid and SCHIP, but not to Family Care which resulted in the federal programs being allocated more than their proportionate share of costs.
- Costs allocated for the Division of Mental Health and Developmental Disabilities Services (DMHDDS) were allocated directly to the Bureau of Pharmacy Clinical Support Services instead of to the three offices of DMHDDS resulting in an inaccurate allocation of costs to the State and federal programs.

In discussing these conditions with IDHS officials, they stated the allocation statistics were not available during the quarter reviewed to properly allocate costs associated with the Office of the Associate Secretary. This was a new statistic, so additional time was required to calculate it. Staff did not realize that the Division of Mental Health and Division of Developmental Disabilities cost allocation methodology was inaccurate.

Updated Response: Implemented. Allocation statistics have been provided by the IDPA and are now used on an ongoing quarterly basis. A prior period adjustment was submitted during quarter ended 3-31-04 to correct the quarter ended 3-31-03 allocation. This adjustment shifted total costs of $243.49 ($121.74 FFP) from Medicaid Title XIX to Family Care, and shifted total costs of $1,947.97 ($1,266.18 FFP) from State non-match to Medicaid Title XXI. Prior period adjustments for DMHDDS were calculated and submitted during quarter ended 9-30-04.

23. The auditors recommend IDHS implement procedures to ensure risk assessments are documented for each subrecipient.

Findings: IDHS is not adequately documenting risk assessments of subrecipients.

The Office of Contract Administration (OCA) of IDHS performs on-site monitoring reviews of subrecipients to ensure that they are fiscally capable of administering federal programs. IDHS has implemented a risk-based approach for selecting subrecipients for on-site monitoring reviews. A risk assessment is performed for each subrecipient who received $300,000 or more of funding from IDHS and is primarily based upon information in the Fiscal/Administrative Review checklist submitted by each subrecipient. Of the 120 questions, management of IDHS has identified 30 which they believe may indicate higher risk.

During a review of 140 subrecipients of the WIC, Vocational Rehabilitation, TANF, Child Care Cluster, Title XX and SAPT programs, the auditors noted risk assessments were not adequately documented for all subrecipients. Although the subrecipients in our sample appear to have met one or more of the high-risk criterion, IDHS did not document which criterion was met or the rationale for these risk assessments.

In discussing these conditions with IDHS officials, they stated a risk assessment approach was used when selecting providers for site reviews but not all providers were included in that assessment. Providers receiving less than $300,000 from DHS and those that did not have a year-end financial requirement were excluded.

Response: Agree. IDHS revised their risk assessment procedures to include analysis of all providers and will implement beginning in FY'05. The procedures use a comprehensive set of factors (20+) that measure the relative risk of all providers. Providers that are +1 standard deviation or greater from the mean will be targeted for review. This process will be documented in the provider review protocol manual.

24. The auditors recommend IDHS review its process for reporting and following up on findings relative subrecipient on-site reviews to ensure timely corrective action is taken. (Repeated-2002)

Findings: IDHS did not communicate or follow up on findings from its on-site fiscal monitoring reviews for subrecipients of the Special Supplemental Nutritional Program for Women, Infants, and Children (WIC), Rehabilitation Services – Vocational Rehabilitation Grants to States (Vocational Rehabilitation), Temporary Assistance for Needy Families (TANF), Child Care Cluster, Social Services Block Grant (Title XX) or Block Grants for Prevention and Treatment of Substance Abuse (SAPT) programs in a timely manner. During testwork of 140 subrecipients of the WIC, Vocational Rehabilitation, TANF, Child Care Cluster, Title XX, and SAPT programs, the auditors noted the following:

- 37 subrecipients were not notified of findings relative to the program reviews within 60 days. Findings were not reported for timeframes ranging from 65 to 879 days after the end of the on-site review.
- Five subrecipients have not submitted corrective action plans within 60 days for program reviews. Corrective action plans were not submitted for timeframes ranging from 80 to 197 days from the date of notification.
- Two subrecipients did not submit corrective action plans for program reviews as of the end date of our fieldwork. Additionally, we noted no evidence of follow up by IDHS relative to the missing plans.

In addition, during our testwork of expenditures to subrecipients of the Vocational Rehabilitation, TANF, Title XX and SAPT programs, we noted 231 subrecipients for whom on-site program reviews have not been performed within the last three years.

In discussing these conditions with IDHS officials, they state staffing shortages or retirements, complex and lengthy monitoring instruments and an increase in the number and type of providers requiring review affected the completion of on-site review or documentation of reviews and resulted in untimely communications and follow up.

Updated Response: Accepted. The Department will review its processes to improve assignment, report issuance and initiation of timely corrective action. In addition some monitoring instruments have been streamlined to permit additional monitoring reviews and timely reports with less staff. The Division of Community Health Prevention reviewed all regions processes and implemented changes to ensure timeliness; is developing a database for the purpose of tracking review dates, and to track due dates on the follow-up; and regional staff assignments have been reorganized to coordinate the entire review process, making it easier to coordinate the review schedule and ensure timely completion and follow-up of required review components.

25. The auditors recommend IDHS revise its peer review sampling procedures to require the independent reviewer to select a representative sample of client/beneficiary case files for review.

Findings: IDHS does not have an adequate process for selecting cases for its peer reviews of service providers under the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) program.

During a review of the sampling procedures used to select client case files for the peer review of SAPT service providers, the auditors noted IDHS requested the service providers being reviewed to select the sample of case files. As a result, the cases evaluated during the peer reviews were not independently selected by IDHS and may not be representative of the population of clients served by the providers.

In discussing these conditions with IDHS officials, they state that they believed that the selection process was adequate because it was more important to have a representative sample that tested specific characteristics and that it was more efficient to have the service providers select the sample.

Updated Response: Implemented. IDHS has changed the sample selection process that requires a representative sample is independently selected. This will be implemented with the peer reviews conducted during FY'05.

26. The auditors recommend IDHS implement procedures to require an independent review of the report and supporting schedules from a person knowledgeable of the reporting requirements prior to submission of the report.

Findings: IDHS does not have an adequate segregation of duties in place relative to the compilation and review of the annual RSA-2 Program Cost Report.

During a review of the process for preparing and submitting the annual RSA-2 Program Cost Report, the auditors noted the same individual is responsible for the compilation, review, approval, and submission of the report. An independent supervisory review of the report is not performed by anyone other than the preparer.

In discussing this condition with IDHS officials, they stated that staffing shortages caused by the Early Retirement Initiative have made it difficult to provide for an independent review of the RSA-2 Program Cost Report.

Response: Agree. The Bureau of Federal Reporting, Office of Fiscal Services, will provide the required supervisory review of the RSA-2.

27. The auditors recommend IDHS re-certify the accuracy of the clearance patterns for its programs in accordance with federal regulations.

Findings: IDHS did not properly re-certify its clearance patterns specified in the Treasury-State Agreement related to cash draws for the Food Stamps, Vocational Rehabilitation (VR), and Social Security Disability Insurance (SSDI) programs.

During the year ended June 30, 2003, IDHS improperly recertified its clearance patterns for the Food Stamps, VR, and SSDI programs. Specifically, IDHS included both federal and non-federal disbursements in its calculation instead of using just federal disbursements as required by the Money and Finance Treasury Code Regulations.

In discussing these conditions with IDHS personnel, they state payroll clearance patterns were not previously certified because of staffing shortages and the unavailability of payroll clearance information.

Updated Response: Implemented. IDHS reviewed the specific appropriations/pay codes that relate to the CMIA programs. The calculations were adjusted to incorporate only pay codes that pertain to the federal CMIA programs in order to better limit the calculation of the clearance pattern to payroll cost that is actually allocated to the federal program.

RECOMMENDATIONS 28-32
Department of Public Aid

RECOMMENDATIONS 33-35
Department of Children and Family Services

33. The auditors recommend DCFS implement procedures to monitor whether or not permanency hearings have been performed for all beneficiaries within federally prescribed timeframes. Such procedures should include identifying children who are not eligible for assistance under the Foster Care program as a result of permanency hearings not being performed within required timeframes. (Repeated-2002)

Findings: DCFS did not ensure that foster care permanency hearings were performed within the federally required timeframes.

DCFS is required to prepare a "permanency plan" for each child in the Foster Care program which includes goals for placement of the child in a permanent living arrangement. This plan must also include the services that DCFS expects to perform to achieve these goals. Currently, each child's permanency plan is reviewed on a periodic basis at a permanency hearing which serves as the judicial determination that reasonable efforts to finalize the permanency plan have been made.

During the auditors' testwork of 50 case files of the Foster Care program, permanency hearings were not performed within the required timeframe for three of the beneficiaries tested. The delay in performing the permanency hearings ranged from 35 days to more than 365 days after the required timeframe rendering these beneficiaries ineligible until the permanency hearing was held. DCFS claimed reimbursement for foster care maintenance payments made on the behalf of the three beneficiaries during the "period of ineligibility" totaling $4,940. Additionally, DCFS does not have an adequate process in place to ensure permanency hearings were completed within required timeframes for all beneficiaries or to identify beneficiaries for whom permanency hearings had not been conducted.

According to federal regulations, for a child to remain eligible, the State agency must obtain a judicial determination that it has made reasonable efforts to finalize the permanency plan that is in effect within twelve months of the date the child is considered to have entered foster care and at least once every twelve months thereafter.

Response: The Department agrees and has developed and implemented a procedure for identifying and notifying foster and adoptive caretakers of hearings and reviews for permanency hearings. The Department will continue to work with Illinois Court system to ensure permanency hearings meet the federal requirements. The Department has made the appropriate claiming adjustment for the questioned cost noted.

Updated Response: During August 16-19, 2004, staff from the Central and Regional Offices of the Administration for Children and Families (ACF) and the Illinois Department of Children and Family Services (DCFS) conducted an eligibility review of the Illinois title IV-E foster care program. The review identified only four error cases and two ineligible payment cases. Therefore, because fewer than five cases were in error, ACF determined that the Illinois title IV-E foster care maintenance program is in substantial compliance with the federal child and provider eligibility requirements for the period under review. Because Illinois was found to be in substantial compliance a secondary review will not be required. The next primary review must be held in three years.

34. The auditors recommend DCFS implement procedures to ensure:

- **OMB Circular A-133 Reports are received within 180 days subsequent to subrecipient's year-end.**
- **Desk reviews are performed on a timely basis for OMB Circular A-133 reports including review of reports, follow up on subrecipient findings and implementation of corrective action plans, receipt and review of applicable management letters, and documentation of such review.**

Additionally, the auditors recommend that DCFS evaluate the current staffing of the fiscal monitoring department to ensure resources are adequate. DCFS should also consider revising its on-site monitoring policy for federal programs to use a risk based approach for selecting subrecipients for on-site visits. (Repeated-1999)

REVIEW: 4219

Findings: DCFS is not adequately performing fiscal monitoring procedures for subrecipients who receive awards under the Temporary Assistance for Needy Families, Foster Care, Adoption Assistance, and Social Services Block Grant programs.

In a sample of 50 subrecipient monitoring files out of a total of 108 subrecipients (totaling $61,759,797 of $455,674,000 in total subrecipient expenditures), the auditors noted the following items of noncompliance:

- 23 subrecipients had submitted their required audit reports (OMB Circular A-133, financial statement, program-specific) after the 180-day deadline. These files contained no documentation of an extension of the timeframe requirement by DCFS.
- 25 subrecipient audit reports were reviewed in excess of 60 or more days after their receipt. The time elapsed between the receipt and review of these reports ranged from 82 to 292 days.
- Seven subrecipient files did not evidence any review of the A-133 audit reports received.

Additionally, DCFS is not performing on-site monitoring visits to review internal controls or the fiscal and administrative capabilities of its subrecipients. We noted none of the 50 subrecipients selected for testwork had been subject to a fiscal on-site review within the last three years.

Per OMB Circular A-133 Compliance Supplement, dated March 2003, 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 state procedures are in place to notify subrecipients of audit requirements, track the receipt of all required audits, to ensure all required components are received, and to follow-up on all audits that are not received within the required time frame. The portion of the plan to increase staffing to complete quick reviews of all audits that are received has yet to be completed.

Response: The Department has developed and implemented a procedure to track the receipt of all required audits, and follow up on all audits that are not received within the required time frame. An initial screening process takes place to let the subrecipients know if any documents are missing. The size of the audit staff is to be increased by the start of the next fiscal year. The audit staff is to grow from three auditors to ten auditors, with a manager, and clerical support person. Subrecipients selected for audit are generated from the desk reviews completed the prior year that have notable negative issues.

The Department also has programmatic units that perform on-site compliance reviews of subrecipients. As part of their on-site review/field audit process, the auditors meet with the programmatic monitors and the licensing representatives to learn about any potential problems at the subrecipients prior to beginning the audit to aid in determining overall risk and aid in the assignment of resources.

<u>Updated Response</u>: Improvements implemented. The size of the audit staff was increased by five during the fiscal year. The field audit unit completed audits of 18 agencies between April 4, and October 21, 2004, as well as 247 desk reviews of fiscal year 2003 audit reports. Procedures to receive and review fiscal audit reports from subrecipients were changed as the Department developed and implemented a new procedure to track the receipt of all required audits, and follow up on all audits that are not received within 180 days of year-end. An initial screening process takes place to let the subrecipients know if any documents are missing. Subrecipients selected for audit are generated from the desk reviews completed the prior year that have notable negative issues. Administrative rules that govern much of the work of the unit and subrecipients' reporting requirements have undergone revision for implementation with FY04 reporting.

As part of the on-site review/field audit process, the auditors meet with the programmatic monitors and the licensing representatives to learn about any potential problems at the subrecipients prior to beginning the audit to aid in determining overall risk and aid in the assignment of resources.

A Residential Performance Monitoring (RPM) Unit was established, a training curriculum was developed, and a weeklong initial training scheduled was held. Further training will be held on a regular basis until the entire training curriculum has been covered. A draft monitoring protocol has been presented to the Child Welfare Advisory Committee, and input from the group was incorporated into the document.

35. The auditors recommend DCFS stress the importance of preparing and completing the initial service plans timely to all caseworkers to comply with Federal requirements. DCFS should consider disciplinary action for those caseworkers that do not comply with this requirement. (Repeated-1999)

<u>Findings</u>: DCFS did not prepare initial case plans in a timely manner for Child Welfare Services beneficiaries.

During a review of 50 case files selected for testwork, the auditors noted five of the initial case plans being completed within a range of seven to 44 days over the 60-day federal requirement. Additionally, in one case an initial case service plan was not included in the child's case file nor could it be located by DCFS personnel.

Federal Child Welfare Services requires that an initial case plan must be developed for each child within 60 days of placement.

In discussing these conditions with DCFS officials, they state timely preparation of case plans is an ongoing concern. Unfortunately, due to staff reductions and placement changes, there are times when case plans are not prepared within the established timeframes.

Response: The Department continues to stress the importance of adequate and timely documentation for child case files. The Department has been developing Best Practices for Child Welfare, which is being used in the design of the federally funded SACWIS project. SACWIS will be an integrated system that will automate the preparation of case plans and other required documentation. In the interim, we continue to stress the importance of adequate and timely case planning as a key component of providing quality service to children.

RECOMMENDATIONS 36-37
Department on Aging

36. The auditors recommend IDOA perform periodic on-site reviews 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.

Findings: IDOA is not adequately monitoring subrecipients receiving federal awards under the Aging Cluster.

IDOA passes through federal funding to thirteen area agencies 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 evaluations (on-site reviews), reviewing periodic financial, programmatic, and single audit reports, and providing training and guidance to subrecipients as necessary.

During testwork of seven subrecipients of the Aging Cluster with total expenditures of $29,866,000, the auditors noted no on-site monitoring procedures had been performed since 1998. Total awards passed through to subrecipients of the Aging Cluster were $38,854,000 during the year ended June 30, 2003.

In discussing these conditions with IDOA officials, they state they believe the current monitoring procedures are adequate and that on-site monitoring procedures are not necessary.

Response: There is a difference between monitoring and reviews (or evaluations). IDOA staff members have been on-site many times over the past years with all the AAAs.

During the time staff members are at an AAA, they provide technical assistance to help the AAA meet its requirements both programmatically and fiscally.

IDOA staff members are puzzled as to why the auditors are requesting that on-site financial reviews be conducted. The AAAs already have independent auditors on-site each year conducting this sort of a review as a part of the A-133 Audit. This would appear to be a costly duplication of effort.

IDOA would like to propose that Chapter 1000 of the Department's "Policies, Procedures and Standards for Area Agencies on Aging" Manual be revised to clearly state that Monitoring and Evaluations may be conducted on-site, if desired by IDOA, but do not have to be done on-site.

Auditors' Comment: IDOA has indicated that the performance of on-site procedures would be a duplication of the effort performed by the area agency external auditors; however, due to the nature of the major program selection criteria required by the single audit, the Aging Cluster may or may not be audited as part of the area agency's single audit. Additionally, on-site monitoring procedures typically cover program requirements in more detail than single audit procedures and are included in IDOA's policies and procedures for monitoring its subrecipients.

37. The auditors recommend IDOA review its procedures for performing desk reviews of OMB Circular A-133 reports to ensure desk reviews are performed and documented in a timely manner for all subrecipients.

Findings: IDOA did not review the OMB Circular A-133 audit report received from one of its subrecipients.

During testwork of seven subrecipients of the Aging Cluster with total expenditures of $29,866,000, the auditors noted IDOA did not perform a desk review of the OMB Circular A-133 for its largest subrecipient. Total awards passed through to subrecipients of the Aging Cluster were $38,854,000 during the year ended June 30, 2003.

In discussing the desk review process with IDOA officials, they state the A-133 is just one part of the overall monitoring that the Department does for fiscal compliance and IDOA relied on the audit review presumed to have been performed by the area agency's federal cognizant agency.

Response: The IDOA will review its procedures.

Updated Response: The IDOA has changed its procedures and is now reviewing the OMB Circular A-133 for all sub-recipients.

RECOMMENDATIONS 38-44
Illinois State Board of Education

RECOMMENDATIONS 45-50
Illinois Student Assistance Commission

45. The auditors recommend ISAC consult with the USDE to interpret the federal laws and regulations relating to the processing and submission of reinsurance claims to the USDE and make any necessary changes, if any, to conform with those requirements.

Findings: ISAC has significant unresolved issues regarding compliance with federal laws and regulations related to the processing and submission of reinsurance claims to the USDE under the Federal Family Education Loan Program which were identified during an audit by the U.S. Department of Education Office of the Inspector General (ED-OIG).

During 2003, the ED-OIG conducted an audit of the Federal Family Education Loan program. Based on communications received from ISAC, the draft report stated ED-OIG reviewed 50 reinsurance claims, totaling $123,521, selected from a universe of 21,732 reinsurance claims submitted during the audit period. Of the 50 claims tested, the report indicated 32 claims, totaling $75,077, should have been returned to the lenders because the claim packet was missing accurate collection and/or payment histories or contained evidence of a due diligence violation(s). In addition, the draft report stated ISAC's claims review process is not adequate as it is limited to a brief review of summary information reported on the claim form submitted by the lender.

The ED-OIG draft audit reports states that ISAC's process is not sufficient to fulfill their administrative responsibility. The ED-OIG draft audit report recommends that ISAC require its claims analysts to verify lender due diligence activities. ISAC officials contend that the regulations do not specifically require such a review or "audit" during the claims review process. Further, they contend that the period of time which should be evaluated during the claims review process is that period occurring after the initial date of delinquency through the period ending in a lender filing a claim. ISAC indicates that their current procedures conform with industry practice and federal regulations as interpreted in the Common Manual.

Due to the differences in the interpretation of the regulations and our inability to evaluate ISAC's compliance with the provisions of laws and regulations related to the processing and submission of reinsurance claims to the USDE, the auditors were not able to perform sufficient audit procedures to satisfy ourselves whether ISAC complied with the requirements that are applicable to the Federal Family Education Loan Program.

Updated Response: Accepted. Discussions on this issue, which impact all Federal Family Education Loan Program guarantors in the nation, have been on-going. This effort has been coordinated by the National Council of Higher Education Loan Programs (NCHELP), of which ISAC is a member, due to the impact on all guarantors. In addition, Executive Director Larry Matejka continues to have conversations with key U.S. Department of Education personnel on this issue. As indicated in our response, based on the outcome of these discussions, ISAC will modify our claims process if necessary when final guidance on this issue is provided by the U.S. Department of Education.

46. The auditors recommend ISAC establish written policies and procedures requiring the completeness and accuracy of imaging be verified before claims packets are destroyed and establish controls to ensure polices and procedures are followed.

<u>Findings</u>: ISAC does not have an adequate process to ensure that original documentation submitted by lenders for reinsurance claims are accurately and completely imaged for document retention requirements of the Federal Family Education Loan Program.

ISAC officials stated they have an unwritten rule requiring imaging personnel to verify the first ten pages of each claim packet were imaged correctly.

During the auditors' review of the supporting documentation for 30 claims submitted for re-insurance, several files were missing information.

In discussing these conditions with ISAC officials, they state a combination of factors contributed to the situation including malfunction of aging imaging equipment and clerical errors.

<u>Response</u>: ISAC management has documented operating policies and procedures for imaging claim packets and has communicated the policies and procedures to staff. A specific effort is being made to ensure that adequate controls are in place to address imaging exceptions. Staff has also received additional training in this area.

An internal reconciliation process has been established to ensure that a complete claim file resides on ISAC's imaging system. Staff from the Imaging and Claims Services departments is working collaboratively with this quality assurance process for claim file documentation. Follow-up is occurring on irregularities and exceptions to determine cause and implement corrective action.

<u>Updated Response</u>: Implemented. As indicated in our original audit response, ISAC has documented operating policies and procedures for imaging, provided additional staff training and has established an internal reconciliation process. We do not anticipate that this finding will be repeated.

47. The auditors recommend ISAC follow the newly developed reconciliation procedures and perform the monthly reconciliations within 15 days after month end.

Findings: ISAC did not reconcile cash receipts to cash posting in the loan subsidiary ledger system (Odyssey) on a timely basis.

During the year ended June 30, 2003, ISAC implemented a new loan subsidiary ledger (Odyssey). With this implementation, ISAC was not able to perform the monthly reconciliations on a timely basis. As of the time of our audit, monthly reconciliations had not been prepared for the months of October 2002 through February 2003.

In discussing these conditions with ISAC officials, they state monthly reconciliations were not performed on a timely basis due to the implementation of the new loan subsidiary ledger system (Odyssey). Odyssey reports used to prepare the monthly cash reconciliations could not be generated. Also, staff performing the reconciliations were unfamiliar with the new reporting formats generated by the new system. ISAC officials also state that a Reconciliation Activity Definition Report was developed subsequent to the fiscal year end (June 30, 2003) which describes its new procedures to reconcile cash receipts to the Odyssey Accounting System. These procedures were implemented in October 2003.

Response: Although ISAC agrees that the reconciliation activities were not completed at the time of the audit, it should be noted that considerable effort and resources have been and continue to be devoted to reconciling information produced through Odyssey, ISAC's new information system. ISAC staff have underway a set of activities which will result in a comprehensive reconciliation of financial information for all of the months beginning from October 2002 and continuing through June 2004 (the present month). All reconciliations are now current.

Updated Response: Partially Accepted/Implemented. Procedures are now in place to reconcile data on a monthly basis and all reconciliations are current. However, the audit recommendation is that the reconciliations be completed within 15 days of month end. Due to the complexity of the reconciliation process and current insufficient staffing levels, the reconciliations cannot be completed within the recommended 15 days. Thirty days are needed to complete the reconciliations. We do not anticipate that this finding will be repeated.

48. The auditors recommend ISAC work with the USDE to reconcile and eliminate the carry forward differences in its quarterly Guaranty Agency Financial Report (Form 2000) and the USDE's NSLDS report. (Repeated-2000)

Findings: During the review of the quarterly report and supporting documentation, the auditors noted amounts reported in the Form 2000 consistently do not agree to the

USDE's National Student Loan Data System (NSLDS). Specifically, the reported loan information as of September 30, 2002 was as follows:

Line #	Description	Amount per Form 2000	Amount per NSLDS	Difference
A-1	Loans Guaranteed	$14,027501,952	$13,621,896,057	$405,605,895
A-4	Other Loans Cancelled	1,205,085,084	1,099,306,587	105,778,497
A-8	Total Loan Guarantees	1,066,011,905	1,066,011,905	-
A-15	Default Claims Paid	1,709,749,948	1,419,507,425	290,242,523
A-17	Bankruptcy Claims Paid	77,366,262	53,833,975	23,532,287
A-28	Paid in full	6,380,307,873	6,340,433,101	39,874,772

The Form 2000 report, which reflects internal agency data, did not reconcile to the NSLDS because the agency's internal data was cumulative; whereas, the NSLDS was current. It was recommended (and implemented) that ISAC use the NSLDS when preparing its Form 2000. Thus, the discrepancies that were prevalent in the early 1990's still exist, as ISAC continues to add the actual data per quarter to prior reported amounts when preparing its Form 2000 report. ISAC is working to identify the various reconciling items between the reports.

In discussing the above condition with ISAC officials, they state the discrepancies between the Form 2000 report and NSLDS report are attributable to the change in the collection and reporting of data, which occurred in the early 1990s. ISAC management has indicated that the implementation of the new Odyssey system has ensured that the agency is now using the same base data for reporting to both systems.

Response: ISAC is currently working to resolve this historical data discrepancy through a series of reconciliation activities.

The implementation of the new Odyssey information system has resolved this issue going forward. Data reported to the federal NSLDS system and the federal financial management system via Form 2000 has been reconciled for the most recent two years.

ISAC will work with the US Department of Education to resolve any remaining discrepancies once our reconciliation activities are complete.

Updated Response: Accepted. As indicated in our original audit response, ISAC has undertaken a series of reconciliations activities to resolve this audit finding and is working with the U.S. Department of Education in this effort. We do not anticipate that this finding will be repeated.

49. The auditors recommend ISAC substantiate all credit bureau reports by establishing a separated database that has the capability to retain all appropriate supporting documentation. (Repeated-1997)

Findings: ISAC does not maintain any documentation support to verify the accuracy of the information located on the Credit Bureau Reports. The information on the Credit Bureau Reports issued by ISAC was not supported by internal documentation.

In discussing these conditions with ISAC officials, they state that although the current system does now identify that information was sent to credit bureaus, the re-creation of the data submitted to the credit bureaus is not yet in production.

Response: ISAC has developed a separate database for credit reporting. The credit bureau report detail history database is currently in the testing phase. Once testing is complete, this database will be moved to production which should occur by the end of July 2004.

Updated Response: Implemented. The database for credit reporting was moved into production as reported. We do not anticipate that this finding will be repeated.

50. The auditors recommend the Agency adopt formal guidelines and standards for timely reconciliation of the students' loan accounts assigned to the collection agencies and resolution of differences. (Repeated-1999)

Findings: ISAC student loan account records do not agree/reconcile to the collection agencies' reports.

ISAC uses six collection agencies to assist collection efforts of past due loans under the Federal Family Education Loans program. Once ISAC has completed its due diligence activities, which includes (1) calling the borrower and (2) sending collection letters to the borrower, the past due loan is forwarded to one of the collection agencies. The collection agency then performs its collection efforts in an attempt to collect on the past due amount. During compliance testwork, ISAC loan records do not agree to the monthly reports prepared by the collection agencies. Discrepancies between the ISAC reports and the collection agencies exist in terms of the total number of borrowers and accounts assigned for collection. ISAC has deemed a 4% variance between their records and those of the collection agencies acceptable. As of June 30, 2003, the loan amounts per ISAC were $73.5 million and the loan amounts per the collection agencies was $75.3 million.

In discussing the variances with ISAC officials, they state reconciliations are being prepared on a monthly basis. Additionally, they have enlisted the assistance of ISAC information systems personnel to assist in identifying reconciling items between ISAC loan records and the monthly collection agency reports.

<u>Updated Response</u>: Accepted/Partially Implemented. ISAC has established policies and procedures that require that monthly reconciliations between Collection Agency and ISAC data occur and has set 4% as the balance tolerance level. Additional reconciliation activities occur if the 4% tolerance is not met for any one agency.

Reconciliations were conducted on a monthly basis in 2004 for each of the four collection agencies with whom ISAC contracts. At this time, there are reconciliations outstanding for two agencies that did not meet the 4% balance tolerance for five months of 2004. Due to staff shortages and the current hiring freeze, ISAC is still working to resolve the balance variances outstanding to within the 4% tolerance. It is anticipated that this work will be completed by the end of January 2005.

RECOMMENDATIONS 51-52
Illinois Community College Board

RECOMMENDATIONS 53-55
Department of Transportation

RECOMMENDATIONS 56-57
Department of Commerce and Economic Opportunity

RECOMMENDATIONS 58-61
Department of Employment Security

RECOMMENDATIONS 62-63
Environmental Protection Agency

RECOMMENDATION 64
Department of Corrections