

LEGISLATIVE AUDIT COMMISSION



Review of
Statewide Single Audit
Year Ended June 30, 2004

Limited Review Including
DHS, DPA, DCFS, ISAC

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REVIEW: 4228
STATEWIDE SINGLE AUDIT
YEAR ENDED JUNE 30, 2004

Limited Review Including
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TOTAL FINDINGS/RECOMMENDATIONS - 71

TOTAL REPEATED RECOMMENDATIONS - 45

TOTAL PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 64

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 FY04 Statewide Single Audit of federal funds. The compliance audit testing performed in this audit was conducted in accordance with *Government Auditing Standards*, the federal Single Audit Act, 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, 42 State agencies expended federal financial assistance in FY04. 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 \$16.21 billion for the year ended June 30, 2004. This represents a \$1.15 billion increase over FY03, or 7.6%. Overall, the State participated in 346 different federal programs; however, ten of these programs or program clusters accounted for approximately 80.3% (\$13.017 billion) of the total federal award expenditures as exhibited in the following table.

Federal Program Award	Total Expenditure	% of Total
Medicaid	\$ 5,653,000,000	34.9%
Unemployment Insurance	2,800,900,000	17.3%
Food Stamps	1,255,100,000	7.7%
Highway Planning, Construction	856,800,000	5.3%
TANF	499,900,000	3.1%
Title 1 Education Grants	480,400,000	3.0%
Jobs & Growth Tax Relief	422,300,000	2.6%
Special Education	410,100,000	2.5%

Federal Program Award	Total Expenditure	% of Total
Child Nutrition	\$ 324,900,000	2.0%
Foster Care	302,300,000	1.9%
All Others	3,204,600,000	19.7%
Total Federal Awards	\$ 16,210,300,000	

The funding for the 346 programs was provided by 22 different federal agencies. The table below shows the five federal agencies that provided Illinois with the vast majority of federal funding in FY04.

Federal Funding Agency	Total Grant	% of Total
Health & Human Services	\$7,759,000,000	47.9%
Labor	3,082,800,000	19.0%
Agriculture	1,914,900,000	11.8%
Education	1,540,200,000	9.5%
Transportation	1,005,400,000	6.2%
All Others	908,000,000	5.6%

A total of 51 federal programs (or 36 programs/clusters) were identified as major programs in FY04. A major program was defined as any that meets certain criteria when applying the risk-based approach. In FY04, all of the 36 major programs/clusters involved federal award expenditures exceeding \$30 million. The 36 major programs/clusters had combined expenditures of \$15.448 billion, and 295 non-major programs had combined expenditures of \$762.2 million. Ten State agencies accounted for approximately 97.2% of all federal dollars spent in FY04 as depicted in the table below.

State Agency	Federal Expenditures	% of Total
Public Aid	\$ 5,923,600,000	36.5%
Employment Security	2,883,300,000	17.8%
Human Services	2,647,800,000	16.3%
Board of Education	1,659,600,000	10.2%
Transportation	996,500,000	6.1%
DCFS	495,300,000	3.1%
GOMB	422,300,000	2.6%
DCEO	401,800,000	2.5%
ISAC	172,200,000	1.1%

State Agency	Federal Expenditures	% of Total
EPA	\$ 155,800,000	1.0%
All Others	451,800,000	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	17	11
Public Aid	7	5
DCFS	4	4
Aging	2	1
Public Health	6	1
State Board of Education	9	4
ISAC	5	4
Community College Board	3	3
Transportation	6	3
Commerce & Economic Opportunity	2	2
Employment Security	5	2
EPA	2	2
Corrections	1	1
Natural Resources	1	1
TOTAL	71	45

The findings for the first 12 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 financial reports prepared for the Office of the State Comptroller by eight of the ten agencies with the largest use of federal funds were either late or inaccurate.

RECOMMENDATIONS 1-12

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

04-01. The auditors recommend the Office of the Comptroller review the current process and information systems for compiling the SEFA and consider changes that will allow for the completion of the State's OMB Circular A-133 audit within the required timeframe. This review should consider the cost/benefit of implementing a statewide grant accounting system. (Repeated-2002)

Findings: The State of Illinois (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 amounts reported are complete, accurate, and properly presented.

During fiscal year 2003 and 2004, 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. The final electronic database was not completed and submitted by the IOC to the OAG until February 14, 2005 resulting in the compilation of the SEFA being completed in March 2005 (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.

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 an accurate and 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.

Response: 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 the Governor's Office of Management and Budget (GOMB) to establish and implement monitoring procedures for State agency financial reporting in relation to the State's federal awards, including the possible implementation of a statewide grant accounting system.

The IOC will also continue to automate reporting forms, as time and budget constraints allow, 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.

04-02. 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 IDHS information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, several correcting journal entries were required to accurately state amounts reported by IDHS.

Response: Disagree. The Department accepted this audit finding and recommendation in the statewide FY03 2003 audit report and indicated that it would review the Department's existing processes for reporting of financial information to the Illinois Office of the Comptroller (IOC). The Department was proactive in many ways over the past year aimed specifically at resolving this issue including participating in a workgroup with other Single Audit Agencies. IDHS also engaged outside consultants to review the processes involved in reconciling the "bucket" information provided to KPMG, the Statewide Single Auditors, to the GAAP reporting information used to prepare the Department's Schedule of Expenditures of Federal Awards (SEFA). As a result of these actions, the financial reporting by IDHS for state fiscal year 2004 showed significant improvement in that fewer audit adjustments were made and the audit adjustments made for TANF and Child Care programs were more timely this year than in previous years. A

material internal control weakness related to financial reporting was not noted during the financial audit and an audit finding was not included in the State fiscal year 2004 Financial Audit Report issued by the OAG.

IDHS submitted State Fiscal Year 2004 GAAP packages for 58 funds with 54 (93%) filed with the IOC by the due dates. The last state fiscal year 2004 GAAP package was filed by IDHS on September 22, 2004. The IOC finalized their review of the IDHS GAAP packages by October 6, 2004. IDHS reviewed all IOC adjustments on October 6, 2004. Revisions to the IDHS financial statements as prepared by the IOC (a new process for FY04) were provided to the financial/compliance auditors and the IOC on November 16th while final numbers for the TANF and Child Care programs were provided to both on November 24th. The financial/compliance auditors completed their audit and submitted their audit adjustments, which included the changes for TANF and Child Care programs to the OAG and the IOC on December 2, 2004.

The finding content refers to the State's process for preparing the statewide financial statements and SEFA. The timely completion of the statewide financial statements and SEFA requires the joint effort of the State agencies, IOC and OAG. IDHS staff submitted the departmental financial statements and SEFA in a timely manner and the financial audit was completed by December 2, 2004. The IDHS has responded promptly to all questions posed by the OAG and KPMG regarding the departmental SEFA. The final compilation of the State's financial statements and SEFA are not within the control of IDHS.

Auditors' Comment: Although the Agency has made significant efforts to complete its GAAP forms in a more timely manner than prior years, the GAAP packages originally submitted by the Agency required significant adjustments to properly state amounts. We believe the Agency's financial reporting process should be modified to ensure financial information submitted to the Illinois Office of the Comptroller is both timely and accurate.

Updated Response: All GAAP packages for FY05 were submitted timely. To date, the auditors have not indicated there are any material adjustments to the GAAP packages. We won't know the amount of any adjustments until they complete their Agreed Upon Procedures letter to the IOC and OAG.

04-03. The auditors recommend DPA review the current process for reporting financial information to the IOC and implement changes necessary to ensure the accurate and complete submission of forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IDPA should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC. (Repeated-2003)

Findings: IDPA 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 correcting journal entries were required to accurately state amounts reported by IDPA.

In discussing this with IDPA officials, they stated that due to the compressed reporting timeline set forth by the Comptroller's Office, the Department uses historical claims payment data in estimating medical accrual liability for financial reporting purposes. In fiscal year 2004, the estimate was based upon data extracts that failed to include all historical claims information. As a result, original amounts reported to the Comptroller's Office were misstated.

Response: The Department concurs with this finding. The fiscal year 2004 historic medical claims history data used to project medical claim liability was understated due to a data collection error. The Division of Finance identified the data error and has prepared written procedures that detail the methodology for projecting the incurred liability.

Updated Response: Implemented. The Department has documented its methodology for calculating the accrual and ensured accurate accrual liability estimates were obtained from the applicable funds.

04-04. 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. (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 DCFS information for the preparation of the State's financial statements and SEFA was not completed in a timely manner.

In discussing this with DCFS officials, they stated the due date established for the annual reporting for FY04 including the lapse period ended August 31, 2004 was set to be September 10, 2004. The Department's financial infrastructure is not sufficient to complete an accurate annual financial reporting within 10 calendar days. Additional time was needed to prepare the information. DCFS submitted two packages two days after the due date and two other packages one week later. DCFS worked directly with the Comptroller's office to ensure they were aware of the delays and that it would not impact their timeframes. The reports submitted were accurate, as no adjustments were needed. The initial reporting, however, is only one step in timely completion of the State's financial statements and SEFA. Inconsistent communication regarding the review of resulting financial report, revisions to financial reports, and additional presentation requests from

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the various groups also delayed meeting the November 16, 2004 date established for completion of the SEFA.

Response: The Department will continue to evaluate its procedures and work schedules for timely completion of the required forms and try to 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. Additionally, the Department would support efforts by the Office of the Comptroller to modernize the financial and grant reporting infrastructure.

04-07. 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 ISAC information for the preparation of the State's financial statements and SEFA was not completed in a timely manner. Additionally, several correcting journal entries were required to accurately state amounts reported by ISAC.

In discussing this with ISAC officials, they stated that the increasing complexity of the student loan 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.

Response: ISAC is 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. To address this concern the agency is continuing to review our internal processes for reporting federal expenditures and will consult with the Illinois Office of the Comptroller on reporting process improvements.

RECOMMENDATIONS 13-28 Department of Human Services

04-13. The auditors recommend IDHS review its current process for identifying and reporting interagency expenditures and implement monitoring procedures to ensure that federal and state expenditures expended by other

State agencies meet the applicable program regulations and are not claimed or used to meet matching or maintenance of effort requirements under more than one federal program. (Repeated-2003)

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

Federal and State expenditures under the TANF, Child Care, and Title XX programs are comprised of programs operated by various State agencies. As the State agency responsible for administering these programs, IDHS has executed interagency agreements with each of the State agencies expending federal and/or State program funds. The interagency agreements require periodic reporting of a summary of the agency's "allowable" expenditures to IDHS for preparation of the financial reports required for each program. During test work 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, 2004, IDHS used expenditures from other agencies to claim reimbursement for or satisfy maintenance of effort (MOE) requirements for the TANF, Child Care, and Title XX programs as follows:

Program	Expending State Agency	Expenditures Claimed	Total Expenditures
Federal TANF	Children & Family Services	\$ 168,016,960	\$ 499,898,000
Federal TANF	Student Assistance Commission	\$ 47,031,912	\$ 499,898,000
Federal TANF	Corrections	\$ 14,482,071	\$ 499,898,000
Federal TANF	Public Aid	\$ 2,120,961	\$ 499,898,000
Federal TANF	State Board of Education	\$ 41,890,483	\$ 499,898,000
Federal TANF	Community College Board	\$ 2,488,259	\$ 499,898,000
TANF MOE	Public Aid	\$ 33,929,899	\$ 552,218,000
TANF MOE	Commerce & Economic Opportunity	\$ 33,634,189	\$ 552,218,000
TANF MOE	State Board of Education	\$ 56,680,836	\$ 552,218,000
TANF MOE	Community College Board	\$ 4,107,395	\$ 552,218,000

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Program	Expending State Agency	Expenditures Claimed	Total Expenditures
TANF MOE	Revenue	\$ 13,016,056	\$ 552,218,000
Child Care MOE	Children & Family Services	\$ 10,237,320	\$ 56,874,000
Social Services Block Grant	Children & Family Services	\$ 14,378,678	\$ 139,053,000

According to 45 CFR 92.20(b)(2), grantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities.

In discussing these conditions with IDHS officials, they stated meetings were held with the other State agencies when identifying additional expenditures/programs that could be claimed on IDHS grants to maximize receipt of federal funds. Details were discussed that identified grant requirements and to establish reporting formats. Interagency agreements were also used to formalize this arrangement but usually did not include specific details.

Failure to properly monitor interagency expenditures may result in claiming of expenditures that are inconsistent with the objectives of the federal program.

Response: Agree. A monitoring process is being developed that can be used to ensure other Agencies expenditures meet grant requirements and can be appropriately claimed on IDHS grants as federal expenditures or state match.

Updated Response: Corrective action completed as of 11/15/05:

- A control assessment survey has been disseminated to the other agencies that provide TANF, Child Care and Social Services Block Grant expenditures for their review.
- The purpose of the survey is to ensure that there are adequate internal controls; agreement to what expenditures were claimed for each grant and whether they were claimed as maintenance of effort, earmarked, or federal; and acknowledgement that expenditures were claimed only for one federal program, unless otherwise allowed by federal regulations.
- A team of DHS staff (program and financial) will review the responses to the survey and additional work performed if problems are found.

Corrective action to be completed:

- DHS financial staff have meetings scheduled with our counterparts at DHFS and DCFS (the two largest interagency expense providers) to review our monitoring survey questions.
- DHS Bureau of Federal Reporting is requesting expenditure population detail each quarter from the other agencies along with a signed certification statement that

these costs were allowable under OMB Circular A-87 and were not claimed against any other federal program.

04-14. 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. (Repeated-2003)

Findings: 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, 2004, IDHS claimed approximately \$24.6 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 officials, they stated they still believe that expenditures for Regional Safe Schools meet TANF Goal 3 and A-87 requirements. They believe that Regional Safe Schools is a specific program and not the general types of services normally provided to the general public.

Response: Disagree. IDHS still believes that Regional Safe Schools meets TANF and A-87 requirements and will continue to work with ACF (HHS) until this issue is resolved. Until then, IDHS will not include Regional Safe Schools expenditures in their federal fiscal year 2005 TANF report until further clarification can be obtained.

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.

Updated Response: DHS has not claimed any Regional Safe Schools expenditures against the TANF Block Grant since the quarter ending 9/30/2004.

Joyce A. Thomas, Regional Administrator, DHHS Region V in a letter dated 3/18/2005, wrote this response as a final determination regarding the SFY03 Single Audit; "However, due to some concerns raised by a number of states regarding the allowability of educational expenditures under the TANF program, ACF is in the process of clarifying its existing position regarding when educational costs may be claimed under the TANF program. Based on the above, ACF does not concur with the non-monetary recommendation. Additionally, ACF has also decided not to impose a penalty for misuse of Federal TANF funds at this time. However, the State must immediately cease using any Federal TANF funds for this activity (i.e., paying for the costs associated with TANF children attending Regional Safe Schools)."

On April 14, 2005 DHHS ACF issued program instruction TANF-ACF-PI-2005-01 which clarified their position on the use of TANF funds for educational expenses. In that program instruction, States which had been claiming educational expenditures such as Illinois' Regional Safe Schools, were given the opportunity to request a deferral of this policy until the end 2005-2006 school year. Illinois did not request a deferral and did not claim any Regional Safe Schools expenditures from the 2005 TANF Block Grant.

DHS received additional guidance from DHHS Region V on 5/16/2005 that we would not be subject to a penalty for misuse of Federal TANF funds if we did not claim any Regional Safe Schools expenditures from the FFY05 TANF Block Grant.

04-15. The auditors recommend IDHS review its current process for performing eligibility redeterminations and consider changes necessary to ensure all redetermination are performed within the timeframes prescribed within the State Plans for each affected program. (Repeated-2003)

Findings: IDHS is not performing "eligibility redeterminations" for individuals receiving benefits under the Temporary Assistance for Needy Families (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 the test work over eligibility, the auditors noted the State, as of August 10, 2004, was overdue in performing the eligibility redeterminations as follows:

Program	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
TANF	2,771	39,714	7.0%
SCHIP	44,381	467,871	9.5%
Medicaid	25,785	354,985	7.3%

Response: Agree. Our records show that we have completed redeterminations of TANF and Medicaid cases within the prescribed timeframe for over 90% of the cases throughout the audit period. We agree to review our current process for performing eligibility re-determinations and consider any changes that would ensure improvement of these rates. We will revise our State Plan to show our re-determination completion rate will comply with federal guidelines and will discuss this issue with Administration for Children and Families.

Updated Response: Corrective action completed as of 11/10/2005:

DHS staff have taken proactive measures to address the finding, including the following:

- Audit Workgroup: DHS staff in the Division of Human Capital Development created an audit workgroup to improve the audit process and educate program staff involved in the redetermination process.
- HCD audit workgroup members traveled to each of the 5 regions and attended Local Office Administrator's meetings. A presentation was created to increase the knowledge of the 5 test areas with emphasis on the importance and consequences of failure to perform redeterminations within policy guidelines. An enhanced awareness of the importance of timely redetermination has been gained from the presentations.
- Establishment of Performance Targets: The Division of Human Capital Development has set and distributed targets to improve the percentage for completing redeterminations timely. The establishment of targets will make redetermination currency a statewide priority.

Corrective action to be completed:

- State Plan Revision: Human Capital Development staff are actively exploring a revision of the State Plan in order to establish a reasonable range in setting redetermination guidelines. Upon revision of the plan, it will be submitted to ACF for final approval.

04-16. The auditors recommend IDHS review its current process for sanctioning beneficiaries not cooperating with the State's child support enforcement efforts and consider changes necessary to ensure benefits are reduced or denied in accordance with the State Plan. (Repeated-2003)

Findings: IDHS did not enforce sanctions required by the State Plan for individuals receiving benefits under the Temporary Assistance for Needy Families (TANF) program who did not cooperate with child support enforcement efforts.

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. In the event a TANF beneficiary fails to assist IDPA without good cause, IDHS is required to reduce or deny his/her TANF benefits.

During the test work over the Child Support Non-Cooperation Special Test of the TANF program, the auditors selected 30 child support cases referred by IDPA for non-cooperation without good cause and noted the following exceptions during test work:

- In four 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, 2004 were \$8,861.

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- In two cases, IDHS did not sanction beneficiaries for non-cooperation or document good cause existed for the non-cooperation with IDPA. Upon further discussions with IDHS and IDPA management, the auditors noted the process for identifying individuals who did not cooperate with IDPA was suspended during the period May 13, 2004 through September 30, 2004, and as a result, approximately 3,712 cases were not evaluated to determine whether sanctions were required during this period. Benefits paid to all these individuals during the period from May 13 to June 30, 2004 were \$504,466. Benefits paid to all these individuals during the period from July 1 to September 30, 2004 were \$1,784,184.

Response: Disagree. The first dot point finding indicates there were four cases that were not properly sanctioned for child support non cooperation. The auditors requested a dollar amount for TANF benefits paid in the fiscal year ending June 30, 2004. The dollar amount provided represents the amount of TANF benefits paid out on behalf of the four cases from the month after non-cooperation through June 30, 2004. We do not agree that the amount of TANF benefits for all four cases should be included, as IDHS has stated that three of the four were handled appropriately. The TANF benefits paid out on behalf of the case appropriately cited were \$1,460.

Regarding the second dot point, the Department of Public Aid Division of Child Support Enforcement (DCSE) re-engineered their procedures for obtaining information from clients. In the re-engineered process, a client questionnaire was mailed to the client who was given 30 days to return it. If it was not returned, the client was to be reported as non-cooperative. Early evaluation of the re-engineered process found that it was not meeting its intended goal of greater customer cooperation and quicker child support enforcement engagement and follow-up. In fact, the re-engineered process was producing three times as many non cooperation referrals as the previous process. Subsequent to this evaluation IDHS and IDPA staff worked together to identify alternative ways to quickly make adjustments to the re-engineered process to serve our mutual clients more effectively. Although DCSE coded a client as non-cooperative, clients were rescheduled on a phased-in basis for an office interview without treating the case as non-cooperative. Therefore, notices of non-cooperation were not sent to DHS field offices for follow-up. With DCSE's determination that the re-engineered process did not produce the anticipated results, the clients' questionnaire process was stopped and DCSE reverted to face-to-face interviews as soon as reprogramming of its KIDS system could be completed. We do not agree to a finding that includes cases that were not sent notices of non-cooperation during the re-engineered process. Although clients who failed to return the questionnaire were coded as non-cooperative, DCSE rescheduled them for an office interview. The process of determining cooperation and sanctioning for non-cooperation was then enforced.

The second dot point finding indicates there were approximately 3,712 cases which were not evaluated to determine whether a sanction was required during this period. Of the 3,712 cases, there were 2,215 cases affected during the time frame from May 13, 2004 through June 30, 2004, by the re-engineered process that were within the audit period. The benefits paid for these cases to the end of the audit period totaled \$504,466.

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The auditors requested an additional dollar amount of TANF benefits paid for the period of July 1, 2004 through September 30, 2004 for the 3,712 cases affected by the re-engineered process. Twenty-two hundred and fifteen (2,215) of the 3,712 case were from the audit period that ended June 30. Benefits paid on behalf of those cases (2,215) totaled \$1,195,054. The remainder of the cases (1,497) received TANF benefits of \$589,130. The total TANF benefits paid for the 3,712 cases for the period of July 1, 2004 through September 30, 2004 were \$1,784,184. Although we have cooperated with providing the information requested, we do not agree that any dollar amount outside the audit period should be included. The total amount of TANF benefits paid does not equate or relate to an incorrect payment amount as it does not take into consideration the reconciliation process that is outlined below.

Per our State Plan, when an individual maintains, without good cause, an inability or refusal to cooperate with child support enforcement, an explanation of the consequences must be provided. "If, after receiving the explanation, the client continues non-participation, the TANF application is denied or existing benefits terminated." And federal regulations at 45 CFR 264.30 state that if an individual is not cooperating, and the individual does not qualify for a good cause, the agency must take appropriate action to deduct or deny assistance. We must operate on a "first do no harm" concept. There is no way to reconstruct the outcome if the client had been notified and been given an opportunity to reconcile. When DHS contacted the client to attempt reconciliation, DHS may have determined:

- the client was exempt from cooperation and sanction was inappropriate, or
- the TANF case was reported by DCSE as non-cooperative in error and no action was necessary or appropriate, or
- the client had a valid reason for failing to cooperate initially and was willing to cooperate (so sanction was not appropriate), or
- a sanction was appropriate, but the client cooperated before benefits were reduced thereby allowing the benefits to be restored to the full level, or
- a sanction was appropriate and the benefit amount would be reduced until they cooperated.

Although IDHS does not agree with all of the specific case exceptions, we will review our process for sanctioning beneficiaries not cooperating with the State's child support enforcement efforts. Department staff continues to monitor and address the issue of sanctioning for non cooperation with child support enforcement efforts. IDHS will reiterate to its casework staff the importance of taking proper action upon notification of non cooperation with child support enforcement requirements.

Auditors' Comment: Although IDHS provided documentation supporting that three of the four cases included in the first bullet of the finding above were sanctioned in a period subsequent to our test period, the documentation did not clearly demonstrate that IDHS had determined good cause existed in our test period and that a sanction was not required during the tested period. As such, we do not believe IDHS complied with the applicable regulations in these four cases.

In addition, the TANF State Plan clearly states IDHS is required to sanction TANF recipients who fail to cooperate with the Child Support Enforcement program where there is not valid good cause for failing to cooperate with the Child Support Enforcement program. As discussed in the finding above, for the period from May 13, 2004 through September 30, 2004, IDHS did not evaluate 3,712 TANF cases in which a notice of noncooperation was generated by the KIDS system to determine whether good cause existed. Instead, IDHS and IDPA agreed to grant these cases amnesty due to the change in the Child Support Enforcement intake process without further investigation or evaluation. We do not believe it is within the State's authority to determine good cause existed without first evaluating the specific facts and circumstances pertaining to each case in accordance with its established policies and procedures.

04-17. The auditors recommend IDHS implement procedures to ensure (1) only direct expenditures made for programs or services for families or children who meet the specified income requirements of the program are claimed or (2) only an approved cost allocation methodology is used to allocate indirect costs. (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, 2004, IDHS transferred \$34 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. As the eligibility criteria for these programs are less stringent than the TANF requirements, IDHS specifically identified expenditures for individuals or families meeting the TANF requirements.

During test work over 60 expenditures, the auditors noted IDHS claimed Early Intervention expenditures related to grants to providers of the Early Intervention program for service coordination which had been linked to specific beneficiaries meeting the poverty level criteria using an unapproved cost allocation methodology. The amount of these grants claimed relative to the TANF transfer during the year ended June 30, 2004 was approximately \$6.6 million.

In discussing these conditions with IDHS officials, they continue to believe their methodology is appropriate and can be identified to specific individuals who are below the 200% of poverty threshold.

Response: Disagree. IDHS still believes that appropriate expenditures can be directly traced to services for children who are below the 200% of poverty threshold. In addition, this same rate methodology has been approved for Medicaid and is in the Medicaid State

Plan. It is also used for the Idea-Part C grant. IDHS believes that this is an appropriate application of the federal government's cost consistency criteria contained in OMB Circular A-87. We expect a federal review of our process.

Auditors' Comment: We believe that IDHS is improperly treating these expenditures as direct costs similar to "fee for service". 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.

04-18. 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, the auditors 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 could not locate case file documentation supporting client eligibility determinations for beneficiaries of the TANF program, State Children's Insurance Program (SCHIP), and Medicaid Cluster.

During the test work 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, and noted the following exceptions during test work:

- In one SCHIP case, IDHS could not locate the client eligibility case file, as such documentation does not exist to support that redetermination or income verification procedures were performed within required timeframes. Additionally, a signed application was not available for this individual.
- In two Medicaid cases, IDHS could not locate the client eligibility case files; however, IDHS was able to provide documentation supporting redetermination and income verification procedures were performed within required timeframes. A signed application was not available for one of these beneficiaries.
- In six Medicaid and four TANF cases, documentation did not exist supporting whether redetermination and/or income verification procedures were performed within required timeframes. Subsequently, IDHS provided copies of redetermination forms documenting that the redeterminations had been performed; however, the information in these forms could not be verified to the source documentation contained in the case files prior to the completion of our audit.
- In two TANF cases, IDHS could not locate the Responsibility and Services Plan signed by the client in the case file records.

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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.

In discussing these conditions with IDHS officials, they stated due to recent and heavy staffing shortages, proper filing of materials is an area that IDHS agrees is in need of improvement. Case record materials are kept in separate working files in addition to the original case record created at the time of application. The information needed to satisfy the audit requirements, although sometimes difficult to locate, usually does exist.

Response: Agree. IDHS agrees with the recommendation to review our process for maintaining documentation supporting eligibility determinations. IDHS agrees to reiterate to all staff the importance of documentation maintenance in case files and to ensure all documentation is combined into the case record. Staffing shortages have contributed to the documentation situation, and the upcoming hiring of new casework staff will assist in documentation maintenance improvement. IDHS-HCD has recently placed an order for additional file cabinets, which will also assist in the alleviation of some of the filing problems as well.

Updated Response: HCD implementation actions:

DHS staff have taken proactive measures to address the aforementioned finding in order to eliminate any repeat finding. Changes included the following implementation:

Audit Workgroup -- DHS staff in the Division of Human Capital Development created an audit workgroup to reinforce expectations of filing documentation to ensure prompt retrieval of case files. The HCD audit workgroup members traveled to each of the five regions and attended Local Office Administrator's meetings.

A presentation was created to increase the knowledge of the five audit test areas with emphasis on the importance of filing materials to ensure all documentation is present in the case files.

New Casework Staff -- Since the initial response to the finding, 74 caseworkers have been hired and placed, effectively reducing the caseworker workload.

Potential Exception Conferences -- Potential exception cases are discussed and controlled with local and regional management in an attempt to ensure all sources of documentation are explored. This 2-way communication ensures all involved parties are made aware of the potential exception and given the opportunity to present any information that could support proper case maintenance.

Filing Cabinets -- Since the initial response to the finding, additional filing cabinets have been purchased and distributed to FCRCs according to need. These new cabinets assist in proper documentation filing and retrieval.

04-19. The auditors recommend IDHS review the process and procedures in place to prepare cost pool reports and implement changes necessary to ensure the accurate accumulation of costs for allocation.

Findings: IDHS did not allocate the correct amount of fringe benefit expenditures to its federal programs through the Public Assistance Cost Allocation Plan (PACAP).

During the review of the payroll and fringe benefit expenditures for 200 employees, the auditors noted the following errors were made in accumulating costs to be allocated through the PACAP:

- The life insurance expenditures allocated for employees paid out of a fund other than the General Revenue Fund (GRF) included both the amount paid on the behalf of the employee and the amount of the premium paid for a GRF employee. This error resulted in IDHS over-claiming group insurance.
- The dental insurance expenditures allocated for employees paid out of GRF were the employee paid portion only. As the employee paid portion is less than the State paid portion of the premium, IDHS has under-claimed its dental insurance expenditures.

Failure to accurately accumulate costs for allocation through the PACAP may unallowable expenditures being charged to federal programs.

Response: Agree. The incorrect dental amounts resulted in an under claim and the error in the group insurance amount for non-GRF staff resulted in an over claim. The net impact was an under claim of approximately \$700,000 for state fiscal year 2004. The problems have been corrected and the group insurance amounts of non-GRF staff are being compared to actual expenditures to detect any future problems.

04-20. The auditors recommend IDHS ensure an adequate segregation of duties has been established relative to those individuals responsible for authorizing, testing, approving, implementing, and documenting changes to the information systems used in its Electronic Benefits Transfer (EBT) program.

Findings: The third party servicer for the Electronic Benefits Transfer (EBT) program administered by IDHS does not have adequate controls over access to its information systems.

IDHS issues benefits under its Food Stamps Cluster and Temporary Assistance for Needy Families program to eligible beneficiaries on debit cards through the use of an EBT system. The EBT program requires IDHS to utilize a third party to assist in tracking the amounts disbursed by IDHS via the debit card, provided by the USDA and USDHHS, and used by beneficiaries. IDHS has contracted with a vendor to provide these services for its EBT program.

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The auditors' report noted the vendor normally grants access to the production system based on an individual's job responsibilities; however, the vendor did not restrict the access of a developer responsible for settlement operations, application software, and database support to the application production environment. The access granted allowed the developer to install software, implement changes in the production environment, and resolve production problems which does not provide an adequate segregation of duties for authorizing, testing, approving, implementing, and documenting changes to information systems. Beneficiary payments made through the EBT program were approximately \$1.2 billion and \$110 million for the Food Stamps Cluster and TANF program, respectively, during the year ended June 30, 2004.

In discussing these conditions with IDHS officials, they stated that the third party servicer has controls in place for segregation of duties. An exception was made and one person from the third party servicer's subcontractor was granted access to the production environment ONLY during conversion to the new EPPIC application until all production problems were resolved without affecting the State's customers.

Updated Response: HCD implementation actions:

Subcontractor's access was removed on 05/15/04 and subsequent audit report Northrop Grumman Information Technology (NGIT) Report on controls placed in operation and test of operating effectiveness for IDHS - Electronic Benefits Transfer (EBT) for the period of 07/01/04 to 06/30/05 had no similar finding.

04-21. The auditors recommend IDHS review its monitoring procedures and implement the changes necessary to ensure adequate monitoring procedures are performed for all subrecipients.

Findings: IDHS does not have an adequate process for monitoring expenditures made by a subrecipient under the Temporary Assistance for Needy Families (TANF) program.

During the State fiscal year ended June 30, 2004, IDHS passed through approximately \$45 million (or 25% of subrecipient expenditures) for various educational programs operated by a single subrecipient of the TANF program. IDHS' current monitoring procedures for this subrecipient primarily consist of an annual review of expenditure and data reports prepared by an outside consultant. As of the date of test work, IDHS has not planned or performed any on-site monitoring procedures relative to this subrecipient.

Subsequently, the subrecipient adjusted the expenditures originally reported to IDHS, which reduced the expenditures originally reported by approximately \$3 million.

In discussing these conditions with IDHS officials, they stated they worked with the subrecipient and their consultant to ensure allowable services were provided to eligible families in accordance with TANF regulations and contract requirements. IDHS officials

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also stated they conducted a fiscal review of the subrecipient's single audit. A program monitoring review was not conducted in fiscal year 2004.

Response: Agree. IDHS conducted a program monitoring review in fiscal year 2005 during the dates of February 9 – 26. The monitoring report has already been completed and submitted to the subrecipient. The subrecipient will be added to the monitoring schedule for future reviews.

Updated Response: Beginning with FY05, HCD implemented a schedule in order to review all direct contract providers once every 3 years. A written report will be sent to the provider within 60 calendar days following the date of the monitoring review. These guidelines apply to all program area contracts within the Division of Human Capital Development. Selection criteria for contract review has been developed.

Five of the seven (72%) HCD bureaus have implemented the established review schedule.

NOTE: The subrecipient referred to in the SFY04 finding was not a subrecipient in SFY05.

04-22. The auditors recommend IDHS review its process for reporting and following up on findings relative to subrecipient on-site reviews to ensure timely corrective action is taken. In addition, the auditors recommend IDHS ensure programmatic on-site reviews are performed for subrecipients in accordance with established policies and procedures. (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 test work of 135 subrecipients of the WIC, Vocational Rehabilitation, TANF, Child Care Cluster, Title XX, and SAPT programs, the auditors noted the following:

- 41 subrecipients were not notified of findings relative to the program reviews within 60 days. Findings were not reported for timeframes ranging from 65 to 245 days after the end of the on-site review.
- Nine 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 test work of expenditures to subrecipients of the Vocational Rehabilitation, TANF, Title XX, Child Care Cluster, and SAPT programs, the auditors

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noted 150 subrecipients for whom on-site program reviews have not been performed within the last three years.

In discussing these conditions with IDHS officials, they stated the finding resulted from the lack of appropriate uniform protocols that conformed to the federal fund source requirements for the expenditures made to the subrecipients.

Response: Agree. IDHS will develop appropriate uniform monitoring protocols.

Updated Response: Extensive meetings were held during the last 3 months of FY05. Monitoring procedures were revised or clarified to address the items cited in the audit finding. In addition, DHS is developing a "bulletin board" that will contain the reviews, important dates, and a summary of the monitoring.

Corrective action completed:

Division of Community Health and Prevention: There is a monitoring calendar developed for the region in which the provider of the monitored program is located. There is a current calendar for monitoring in each region indicating the date that it is to be performed and which staff member has the lead responsibility. The current calendars cover the July, 2005-June, 2006 calendar year.

Once a monitoring review is complete, the document is filed in the CHP Electronic Filing System. In addition to the actual completed tool, copies of findings, corrective action plans, and follow-up assurances that the provider has completed the necessary corrective action within the timeframe established

This is not a "new" system, but it is a system that we frequently monitor to assure that the documents are correctly filed and accessible. Each week, the Regional Administrator receives a printout of the information that was filed in the filing system so that it can be tracked. DCHP program bureau and monitoring staff also hold regular meetings to assure that the protocol is being followed.

Division Rehabilitation Services: DRS has developed a new set of forms for onsite reviews which includes a checklist of all required activities to ensure that all communication, follow up, signatures, etc. are completed correctly and include a core set of data for all contracts with modules for different types of contracts for those items of review which would be different. Although it was agreed in late FY03 that reviews should be conducted every three years, DRS endeavored by the end of FY05 to complete all onsite reviews so that no future samples would be subject to repeat findings. In addition, to the present in FY06, DRS is on target to complete onsite reviews of one-third of the contractual providers. DRS is also participating with the DHS initiative regarding coordination of contract monitoring.

Bureau of Child Care and Development: Has created a three year cycle monitoring schedule. This means that the Bureau will be doing approximately one third of all

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contracted providers, site administered program centers as well as the Child Care Resource and Referral Agencies so that at the end of three years all contracted providers will have been monitored. Also, the time guidelines have again been reinforced with staff for when they are required to complete monitoring reports after their field work (staff are to hand in the draft report within 30 days and it is to be finished typing and mailed within 30 days for a total of 60 days) and for when monitoring reports with findings which require a provider response must be received (30 days after the mailing of the draft report) and finalized (30 days after the receipt of the provider response for a total of 60 days).

Division of Alcohol and Substance Abuse (DASA): The DASA compliance unit amended its policies to reflect the 60 day requirement for initial response to subrecipient on-site reviews to ensure timely corrective action is taken. Also, a process for managerial review has been established which regularly reviews onsite review time frames to ensure compliance. Staff have been trained on the new procedures and no violation of the 60 day time frame has occurred since notification of audit finding.

Corrective Action to be completed:

Bureau of Child Care and Development is in the process of completing an extensive revision of the monitoring report instrument which, in its new format, should allow for faster turnaround in creating and sending the draft and final reports.

Division of Community Health and Prevention has three Youth Services programs that have not had a monitoring tool. Standards were developed for these programs last fiscal year. Currently there is a committee actively working on developing a consistent monitoring tool for these programs. That protocol should be in place by July, 2006.

04-23. 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. (Repeated-2003)

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 the 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 stated in response to the fiscal year 2003 finding that the sample selection process could not be implemented until fiscal year 2005.

Response: Agree. The policy for record selection was changed effective as of July 2005 to require independent selection of the sample selection process.

Updated Response: The response is accurate as previously stated. This is determined to be "Implemented".

04-24. The auditors recommend IDHS implement procedures to ensure risk assessments are documented for each subrecipient. (Repeated-2003)

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.

The auditors noted IDHS was in the process of amending its risk assessment process during State fiscal year 2004. As a result of planning these changes, the questionnaire results in the subrecipient database were not updated from the prior year for any of the subrecipients monitored by OCA. Accordingly, the risk assessments performed in 2004 were the same as those performed in 2003 and did not document which criterion was met or the rationale for these risk assessments.

In discussing these conditions with IDHS officials, they stated in response to the fiscal year 2003 finding that the risk assessment procedures to include analysis of all providers would be revised and would be implemented beginning in fiscal 2005.

Response: Agree. A comprehensive risk assessment tool, including analysis of all providers, was developed and used beginning in fiscal year 2005.

Updated Response: No change is needed to the original response. This is determined to be implemented.

04-25. The auditors recommend IDHS review its current process for performing eligibility determinations and consider changes necessary to ensure all eligibility determinations are made in accordance with program regulations. In addition, the auditors recommend IDHS review its process for determining the allowability of payments to or on the behalf of beneficiaries and consider the changes necessary to ensure only allowable costs for beneficiaries determined eligible are charged to the federal program.

Findings: IDHS did not determine the eligibility of beneficiaries under the Vocational Rehabilitation program (VR) in accordance with federal regulations. Additionally, IDHS made expenditures on behalf of eligible beneficiaries for unallowable items.

During test work of VR beneficiary payments, the auditors selected 40 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits. We noted the following exceptions during our test work:

- In two cases, IDHS did not determine eligibility within the required 60-day timeframe. In addition, an Individualized Plan for Employment (IPE) was not completed for the beneficiary of one of these cases. Payments totaling \$5,820 were made during year ended June 30, 2004 for services related to these beneficiaries prior to the completion of the eligibility determinations and/or IPE.
- In one case, payments of \$28,215 were made to a beneficiary for normal living expenses which are not allowable according the VR Administrative Code.

In discussing these conditions with IDHS officials, they stated that staffing shortages affected the completion of paperwork required for the eligibility determination process prior to authorizing the services to these two clients. While this is definitely not permitted, the services were not authorized prior to staff being certain the customer was eligible. Regarding the other case, IDHS staff believed they had the authority per the Illinois Administrative Code to provide an exception, which was documented in the case folder. This cite states that "exceptions to this Subpart shall be granted by the appropriate Bureau Chief of DHS-ORS. Requests for exceptions must be in writing and explain and justify increased costs above those established by this Part."

Response: Agree. IDHS administration meets routinely to look at staffing patterns and caseload size in order to prioritize the filling of critical vacancies to ensure manageable caseload to staffing ratios. Training for new and existing staff continues to be enhanced to ensure that staff recognize unacceptable expenditures under the Vocational Rehabilitation program as well as to provide them with the necessary skills to carry out the scope of their duties as outlined in the federal funding guidelines.

Updated Response: Corrective Action completed as of 11/15/05:

- DRS administration continues to meet regularly to ensure that vacancies are prioritized and filled as expediently as possible to ensure that caseload sizes are manageable and are being handled by staff who are appropriately trained and supervised.
- DRS has strengthened procedures and rules, and has implemented a series of statewide training programs to address various aspects of casework which are necessary to ensure that expenditures made are both appropriate and allowable as outlined in the federal funding guidelines.
- Enhancements to quality assurance have occurred with one additional staff hiring.

04-26. The auditors recommend IDHS implement procedures to ensure only expenditures meeting allowable cost criteria are used to meet federal program matching requirements.

Findings: IDHS used unallowable costs to meet the matching requirement of its Vocational Rehabilitation program.

During test work over the matching requirement for the Vocational Rehabilitation program, the auditors noted IDHS included approximately \$47,000 in transfers made to the Illinois Department of Central Management Services for efficiencies gained under a State savings initiative. As these transfers are an estimate of amounts saved by IDHS and the Vocational Rehabilitation program and do not represent true expenditures made by IDHS, they do not meet the allowable cost criteria and cannot be used to meet matching requirements.

In discussing these conditions with IDHS officials, they stated the staff person who completed the report was not aware these expenditures were not allowable.

Response: Agree. These expenditures will be removed from a future report and replaced with other allowable matching expenditures.

Updated Response: Corrective action implemented as of 11/15/05:

- These expenditures were replaced with other allowable expenditures on the FFY05 report for the quarter ending 6/30/05.
- The staff has been instructed that such expenditures should not be used as match in the future.

04-27. The auditors recommend IDHS implement procedures to ensure that all procurements are performed in accordance with the applicable rules and regulations.

Findings: IDHS did not follow the Illinois Procurement Code for certain procurements made under the Rehabilitation Services – Vocational Rehabilitation Grants to States (VR) program.

During test work over 30 procurements made from the VR program, the auditors noted IDHS purchased approximately \$62,800 in packaging materials from a vendor with whom a contract had not been executed. The procurement was subdivided into 25 separate purchases ranging from \$117 to \$8,463 to avoid the State's bidding and contract requirements for purchases in excess of \$25,000. Procurement expenditures totaling \$11,165,585 were charged to the VR program during the year ended June 30, 2004.

In discussing these conditions with IDHS officials, they stated they interpreted the Code and the Comptroller's directives to mean that a series of small purchases that were made

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randomly throughout the year did not need to be bid since no one purchase exceeded the small purchase threshold.

Response: Agree. IDHS relied on an interpretation of the Small Purchase provisions of the Administrative Rules that implement the Illinois Procurement Code which seemed to indicate that these purchases did not need to be treated as group purchases, but rather a series of small repetitive purchases. In addition, since the Illinois Office of the Comptroller classifies these types of purchases as individual orders for contract purposes and therefore does not require a contract, this interpretation appeared to be correct. None of the purchases were made with the intent to avoid bidding. IDHS believed the method used was allowable. IDHS now understands that our interpretation was not correct and there may have been a master contract through CMS that could have served our needs. In the future IDHS will analyze spending patterns earlier in the year to determine when bids or master contracts should be used to make these types of purchases.

Updated Response: Corrective action completed as of 11/15/2005:

- Policy has been developed to address the audit recommendation.
- Procedures have been written to implement the policy.
- Monitoring tools have been developed to track compliance with the new policy.
- Policy has received final administrative approval.

04-28. IDHS should implement procedures to require an independent review of the Program Cost Report (RSA-2) and supporting schedules from a person knowledgeable of the reporting requirements prior to submission of the report. (Repeated-2003)

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. The RSA-2 Program Cost Report details program expenditures by type and by number of individuals served. This report is used by the USDE to identify the number of individuals served and the types of services provided or purchased by the State.

During the 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 these conditions with IDHS officials, they stated in the fiscal year 2003 audit that staffing shortages made it difficult to provide for an independent review of the RSA cost report. The fiscal year 2004 cost report was already completed and the review could not be implemented until fiscal year 2005.

Response: Agree. IDHS staff developed a spreadsheet to identify changes between the years to facilitate the independent review. They are in the process of refining the analytical methodology.

Updated Response: Update 11/15/2005:

The Manager of the Bureau of Revenue Management and Federal reporting and Supervisor of Revenue Management reviewed the FY05 RSA cost report. Numbers on the RSA report were traced back to RSA workpapers and workpaper numbers were compared to federal reports.

IDHS staff developed a spreadsheet to identify changes between the years of this report to facilitate an independent review by the IDHS Office of Fiscal Services. The analytical methodology to be used was refined during the process of reviewing the FY05 RSA-2 report and this final methodology will be used for the review of future reports.

RECOMMENDATIONS 29-34
Department of Public Aid

04-29. The auditors recommend IDPA implement control procedures to ensure that all TANF recipients who are non-cooperative in establishing paternity are referred to IDHS for proper sanctions.

Findings: IDPA did not refer TANF recipients who have been non-cooperative in establishing paternity under the Child Support Enforcement Program to the Illinois Department of Health and Human Services (IDHS) to enforce sanctions.

In the 30 cases reviewed, the auditors noted the following:

- IDPA did not refer one case to IDHS which resulted in IDHS not being able to take the proper action to either reduce or deny TANF benefits.
- In two cases, IDHS did not sanction beneficiaries for non-cooperation or document good cause existed for the non-cooperation with IDPA. Upon further discussions with IDHS and IDPA management, we noted the process for identifying individuals who did not cooperate with IDPA was suspended during the period May 13, 2004 through September 30, 2004, and as a result, approximately 3,712 cases were not evaluated to determine whether sanctions were required during this period. Benefits paid to these individuals during the period from May 13 to June 30, 2004 were \$504,466. Benefits paid to these individuals during the period from July 1 to September 30, 2004 were \$1,784,184.

In discussing these conditions with IDPA officials, they stated the Division of Child Support Enforcement introduced a new intake process in April 2004, which involved mailing clients a questionnaire. During transition to the new system some clients missed scheduled interviews, due to timing problems in the scheduling process rather than non-cooperation on their part. To address this, the Department rescheduled appointments and did not report clients, who had failed to show for interviews, as non-cooperative until the new intake system was fully implemented.

Response: The Department does not agree with this finding. The Department delayed referral of cases impacted by transition to a new intake process until a proper evaluation

determined the cases to be non-cooperative. Upon such determination, the Department promptly referred all cases to IDHS to enable initiation of the sanction enforcement process. The transition period has ended and the new intake process continues to ensure that all TANF recipients who are non-cooperative are referred to IDHS for proper sanctions.

Auditors' Comment: The TANF State Plan clearly states IDHS is required to sanction TANF recipients who fail to cooperate with the Child Support Enforcement program where there is not valid good cause for failing to cooperating with the Child Support Enforcement program. As discussed in the finding above, for the period from May 13, 2004 through September 30, 2004, IDHS did not evaluate 3,712 TANF cases in which a notice of noncooperation was generated by the KIDS system to determine whether good cause existed. Instead, IDHS and IDPA agreed to grant these cases amnesty due to the change in the Child Support Enforcement intake process without further investigation or evaluation. We do not believe it is within the State's authority to determine good cause existed without first evaluating the specific facts and circumstances pertaining to each case in accordance with its established policies and procedures.

Updated Response: Non-cooperation notices are being generated by KIDS and sent to DHS in a timely fashion.

04-30. The auditors recommend IDPA:

- **Implement procedures to ensure that (1) the rationale for selecting claims data for further review is documented; (2) formal claims data review procedures are documented; and (3) any claiming errors identified are resolved in a timely manner.**
- **Develop comprehensive written procedures for on-site reviews which include the methodology for determining which subrecipients should be reviewed, required documentation, and procedures to be performed. If a risk based approach is utilized for selecting subrecipients for review, we recommend IDPA establish formal risk criteria and ensure that all risk assessments are adequately documented. (Repeated-2003)**

Findings: IDPA is not adequately monitoring subrecipients of the Medicaid Cluster. IDPA passed through approximately \$95,540,000 in Medicaid funding to the Local Education Agencies (LEAs) during the year ended June 30, 2004 to assist IDPA in identifying students whose families may need Medicaid assistance and to monitor the coordination of the student's medical care. During the review of the monitoring procedures performed by IDPA for 30 subrecipients, the auditors noted the following:

- On a quarterly basis, LEA's are required to submit electronic claim data to support amounts claimed for reimbursement. The quarterly claims are subject to data analysis performed by the claims system. In order to identify erroneous claims data, an exception report is generated from the data analysis which details all claims which are outside parameters set by IDPA. However, during a review of

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the claims selection process used by IDPA, the auditors noted the rationale for claims selection was not documented, nor were all claims identified on the exception report selected for further review procedures. Additionally for the reviews that had been performed, the specific procedures performed were not documented, nor were adjustments identified during the review made in a timely manner.

- There are no comprehensive procedures for performing on-site reviews during the year ended June 30, 2004.

In discussing these conditions with IDPA officials, they stated that staffing and resource limitations have resulted in the low number of on-site visits and inadequate documentation of all monitoring activities.

Response: The Department accepts the finding. This finding is primarily due to inadequate documentation of instances in which no corrective action was warranted. The Department has taken steps to develop comprehensive written procedures for on-site reviews and agrees to increase on-site monitoring within existing budget constraints.

Updated Response: The Department has developed a more formal process for selecting, reviewing, and resolving claiming errors by subrecipients. Documentation of these procedures and reviews is maintained by the Department.

04-31. The auditors recommend IDPA implement procedures for tracking, investigating, and reviewing employer information request responses to ensure all potential third party insurers from whom potential reimbursement should be available are identified. (Repeated-2001)

Findings: IDPA does not adequately follow up with employers to identify third parties who may be liable for medical services provided to a beneficiary.

When a potential employer for a beneficiary is identified by a quarterly match, IDPA sends a letter to the employer requesting information related to the existence of employer provided health insurance. When a response is received from an employer indicating the existence of a potential third party insurer, the information is input to the Medicaid Management Information System (MMIS).

During our test work, we noted IDPA does not have a process in place to track information requests sent to employers. As no formal record of information requests is maintained, IDPA does not have the capability to identify or investigate non-responses. Further, IDPA does not have a review process in place to ensure all responses received are entered into MMIS or information entered is accurate and complete.

In discussing these conditions with IDPA, they stated that the limited staff resources were better utilized by concentrating their efforts on other areas of identifying third party insurers and maintaining the accuracy of the MMIS TPL database. Illinois employers

have no legal obligation (state or federal) to respond to TPL's inquiries regarding possible employer-provided health insurance coverage.

Response: Partially Accepted. The Department notes that the employed recipient match is only one of several mechanisms employed by IDPA to identify third party liability. Taken as a whole, our system has proven very effective in identifying and collecting from third party insurers. However, the Department has developed a process to track non-responsive employers. This process will be utilized beginning with the quarterly Employed Recipient Match mailing scheduled the first week of May 2005.

Auditors' Comment: The federal regulations clearly require IDPA to have a system to identify medical services that are the legal obligation of third parties and that third party resources should be exhausted prior to paying claims with program funds. These regulations, however, do not specifically articulate what constitutes an "adequate system." As with most federal regulations, judgment must be applied in considering what is the substantive intent of the legislation and what a "prudent person" would consider is reasonable in similar circumstances. Prudent business practice suggests that simply sending a letter to an employer once every eighteen months with no follow up is not adequate. Additionally, prudent business practice suggests that IDPA should explore the potential for greater recoveries by undertaking certain simple follow up procedures with non-responsive employers.

Updated Response: The Department has continued its application of a process to track non-responsive employers.

04-32. The auditors recommend IDPA follow procedures established to ensure interviews with custodial parents are performed on a timely basis. We also recommend IDPA ensure the results of interviews with custodial parents are documented along with attempts to obtain additional information or locate the non-custodial parent. (Repeated-2001)

Findings: IDPA did not conduct interviews with custodial parents in a timely manner and did not adequately document its attempts to locate non-custodial parents within the Key Information Delivery System (KIDS).

During our test work of 60 child support cases, we noted the following:

- 37 cases (62%) in which interviews with custodial parents were not scheduled for timeframes ranging from 21 days to 314 days after the referral or application had been received.
- Four cases (7%) in which interviews were never scheduled or performed and for which further location procedures do not appear to have been performed.
- Five cases (8%) in which interviews with custodial parents were performed at the time of the application or walk-in; however, the results of the interviews were not documented.

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- Four cases (7%) in which interviews with custodial parents were performed; however, location procedures for the noncustodial parent were not performed or adequately documented.

In discussing these conditions with IDPA officials, they stated all cases automatically go into a scheduling queue by priority. The scheduling queue is used to avoid notifying clients too far in advance. Experience shows that scheduling too far in advance leads to clients forgetting their appointments. Appointments are scheduled three weeks out to give the client time to make arrangements to attend.

Response: The Department accepts the finding. In conjunction with a Business Process Re-engineering effort, the Department implemented new procedures in April 2004 (involving automated system changes and procedural changes) to ensure parents are contacted sooner. Each night the system reviews case data to determine whether sufficient data is present to move a case to the next step. The new procedures ensure clients are contacted earlier to obtain needed information. The new procedures also expedite the sending of initiating cases to another state for action to be initiated. The BPR workgroup is also revising the process for ensuring all responding cases are addressed timely. Management continues to remind staff to document all actions on KIDS' notes for tracking purposes.

Updated Response: The KIDS system is accomplishing what the Business Process Re-engineering workgroup had envisioned. The reduction of error cases found during FY05 audit is a direct result of these efforts. It is expected that this issue will be fully resolved by the FY06 audit.

04-33. The auditors recommend IDPA follow procedures established to ensure initiating interstate cases are properly referred to the responding state and to provide accurate and adequate documentation of its actions, determinations, and communications related to responding cases. (Repeated-2001)

Findings: IDPA did not adequately perform case management procedures for initiating interstate cases and failed to accurately and adequately document interstate cases within the Key Information Delivery System (KIDS).

The Child Support Enforcement program requires the State to provide additional support services related to cases in which the child and custodial parent live in one state and the non-custodial parent lives in another state.

During test work of 30 initiating and 30 responding cases (total of 60 cases), the auditors noted the following:

- Two initiating cases (7%) were not referred to the responding state within the 20-day federal timeframe after IDPA had determined the non-custodial parent was located in

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another state. The delays in referring these cases were 88 and 70 days after the required federal timeframe.

- Four initiating cases (13%) did not contain sufficient documentation within the KIDS system to determine if proper actions had been taken within the required timeframe.
- One responding case (3%) did not contain sufficient documentation within the KIDS system to determine if proper actions had been taken within the required timeframe.

In discussing these conditions with IDPA officials, they stated new procedures have been implemented to help eliminate these oversights.

Response: The Department accepts the finding. A Business Process Re-engineering workgroup has been developed to address the re-engineering of initiating and responding case procedures and processes. Staff have been instructed on the importance of meeting federal time frames. In addition, at the May 2005 Statewide Managers Meeting, managers will be reminded of the need to monitor interstate cases to ensure that appropriate and timely action is taken.

Updated Response: HFS staff have been reminded of the time frames to ensure initiating interstate cases are properly referred to the responding state and to provide accurate and adequate documentation of its actions, determinations, and communications related to responding cases. We expect the FY05 audit to show this as a resolved issue.

04-34. The auditors recommend IDPA follow procedures established to ensure support orders are established within the required timeframes and ensure failed attempts to establish support orders are adequately documented.

Findings: IDPA did not adequately perform procedures to ensure support orders were established within required time frames or did not document failed attempts to serve process.

During test work of 30 child support cases, the auditors noted six cases (20%) in which IDPA did not initiate support order procedures within the federally prescribed 90-calendar day timeframe. Delays in establishing support orders ranged from 17 to 239 days in excess of the 90-calendar day requirement. Additionally, support orders have never been established in two cases (7%). The auditors further noted unsuccessful attempts to serve process in accordance with the State's diligent efforts requirement were not documented for these cases.

In discussing these conditions with IDPA officials, they stated that although the Department strives to comply with the 90-day timeframe in every instance, cases are dependent upon the judicial scheduling of court dates. Some judicial cases have mitigating circumstances that prolong the court process and result in a support order not being entered within the 90-day timeframe.

Response: The Department accepts the finding. The Department has established two workgroups during the past year that have examined work flow issues. As a result of these workgroups, changes either have been implemented or will be implemented in the near future. As a result of these workgroups' recommendations, a new report has been created by the BPR Intake workgroup that will identify cases where the client appeared for his/her appointment and appropriate action was not taken within 30 days. This report will be mailed to the regional staff during the week of April 18, 2005, for review and follow up and will be a weekly ongoing report. In addition, Contract Monitoring staff are working with our State's Attorney contract to ensure compliance with proper service and the recording of information into the KIDS system.

Updated Response: The Business Process Re-engineering workgroup continues to review data to support opportunities for improvement. The Establishment BPF workgroup has used the Work Simplification Unit to assist in identifying bottleneck areas for timely movement of cases. Contract monitoring staff is also working with our legal partners to develop corrective action plans when non-compliance is noted. The reduction in error rates shown in preliminary audit results for FY05 reflects the improvement in this area.

RECOMMENDATIONS 35-37

Department of Children and Family Services

04-35. 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.

During test work over 50 case files of the Foster Care program, the auditors noted permanency hearings were not performed within the required timeframe for two of the beneficiaries tested. The delays in performing the permanency hearings for these cases were 154 days and 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 two beneficiaries during the "period of ineligibility" totaling \$4,254. 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.

In discussing these conditions with DCFS officials, they state the delays being experienced, as indicated in the sample, may be attributed in part to one or more court-

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related issues with which the Department has taken steps to work with the Illinois Courts to ensure required language is used. The origin of these delays was a result of a federal requirement for specific language for permanency hearings, which required further clarification by ACF, and resulted in confusion as to the timeframe specifics of those requirements.

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 will make the appropriate claiming adjustments for actual amounts included in claims relating to the above estimated beneficiary payments questioned by the auditor.

In August 2004, staff from the Central and Regional Offices of the Administration for Children and Families (ACF) and 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 less 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.

04-36. 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)

Findings: DCFS is not adequately performing fiscal monitoring procedures for subrecipients who receive awards under the TANF, 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 \$32,112,000 of \$121,307,000 in total subrecipient expenditures), the auditors noted the following:

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- Ten 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.
- Eight subrecipient files did not evidence the receipt of an A-133 report or follow up with the subrecipient by DCFS personnel.
- Sixteen 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 63 to 80 days.

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 test work had been subject to a fiscal on-site review within the last three years.

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. Additional audit reports are received from those agencies receiving Department funding at a level under the DCFS audit requirement threshold and the federal A-133 audit threshold.

However, through federal funding from other sources, these entities determined they were required to have the mandatory federal A-133 audit. A-133 audits of universities conducted by the Office of the Auditor General submitted reports are also included in the above identified late filed category. The Department has no control over these audit activities and does not consider these reports as late.

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. Revisions of Administrative rules that formalize the procedures followed by the Department are in process and posted. During the year, DCFS began implementing the portion of the plan to increase staffing to complete quick reviews of all audits that are received. The size of the audit staff was increased by five beginning in April 2004. 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.

04-37. The auditors recommend DCFS stress the importance of preparing and completing the initial service plans timely to all caseworkers to comply with Federal requirements. (Repeated-1999)

Findings: 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 test work, the auditors noted seven of the initial case plans being completed within a range of seven to 44 days over the 60-day federal requirement. Additionally, in three cases an initial case service plan was not included in the child's case file nor could it be located by DCFS personnel.

In discussing these conditions with DCFS officials, they state timely preparation of case plans is always a 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. Based on the fundamentals of good social work practice, requirements of the Council of Accreditation, and Federal Review Outcomes, Illinois is implementing an Integrated Assessment program that includes preparation of a comprehensive service plan. The service plan will be part of an integrated system that will automate preparation of the plan 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 38-39
Department on Aging**

**RECOMMENDATIONS 40-44
Department of Public Health**

**RECOMMENDATIONS 45-52
Illinois State Board of Education**

**RECOMMENDATIONS 53-56
Illinois Student Assistance Commission**

04-53. 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 necessary changes to conform with those requirements. (Repeated-2003)

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Findings: ISAC did not comply with the regulations regarding the submission and processing of reinsurance claims.

During fiscal year 2003, the U.S. Department of Education Office of the Inspector General (ED-OIG) conducted an audit of the Federal Family Education Loan program to determine if, for the period October 1, 2002 through June 30, 2003, ISAC (1) adequately processed post-default collections related to administrative wage garnishments, and (2) properly submitted eligible reinsurance claims to USDE for defaulted student loans (default claims). The final audit report received from ED-OIG indicated ISAC did not comply with the regulations regarding the submission of eligible reinsurance claims.

The 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 because the lender does not provide adequate assurance that only claims submitted by lenders exercising required due diligence in servicing the loan were paid.

According to federal regulations, lenders and ISAC, as the guaranty agency, must perform several duties related either to the loan or the lending agency before a claim may be made for payment from the Federal Fund and a reinsurance payment on a loan is received.

The ED-OIG audit report states that ISAC's process is not sufficient to fulfill their administrative responsibility, so the ED-OIG audit report recommends that ISAC require its claims analysts to verify lender due diligence activities shown on the claim form's summary of lender due diligence against all detailed collection history information, support for periods of deferments/forbearances, and dates and amount of borrow payments.

During the year ended June 30, 2004, ISAC has not changed its process for submission and payment of claims.

In discussing these conditions with ISAC officials, they state that the conditions identified surround a well-documented disagreement between ISAC and other guarantors across the country, and the Department of Education concerning interpretations of federal guidance and, in particular, the legitimacy of the Common Claim Initiative, which has been in place for numerous years. ISAC believes their current procedures conform with industry practice and federal regulations as interpreted in the Common Manual.

Response: ISAC has appealed the finding identified by the Department of Education, Office of the Inspector General. In addition, the agency is also actively engaged in meetings and discussions within the guaranty agency community concerning the interpretation of regulations related to the processing and submission of reinsurance claims. ISAC strongly believes that current industry practice for the processing and

submission of reinsurance claims as outlined in the Common Manual clearly fulfill the regulations in question. ISAC will, however, modify our claims process, if necessary, based on any agreed upon interpretations of regulations and final guidance concerning this issue which result from discussions with the Department of Education.

Updated Response: ISAC appealed the finding identified by the Department of Education, Office of the Inspector General. On November 23, 2005, the agency received notification from the Department of Education that the appeal had been denied. ISAC has the right to appeal this decision to the Department of Education's Federal Student Aid Chief Operating Officer and fully intends to do so. In addition, on October 4, 2005, the National Council of Higher Education Loan Programs (NCHELP) received a letter from the Department of Education indicating that the Department reviewed the Common Claim Initiative (CCI) and found modifications were necessary. The letter further stated that in the Department's view, the current CCI process was not in compliance with federal regulations. The Department of Education indicated that the modifications needed to be implemented within six months of receipt of the letter. On November 3, 2005, NCHELP responded to the Department of Education on behalf of the guaranty agency industry (36 guarantors, of which ISAC is one). NCHELP outlined concerns with the guidance issued from the Department on October 4, 2005, reiterated that the CCI process was shared with the Department as early as 1988 and that at no time since then, until recently, has the process been questioned by the Department. NCHELP further requested a meeting with the Department to discuss issues related to the guidance. ISAC has not received any additional information to date concerning a scheduled meeting on this issue.

ISAC and the rest of the industry strongly continues to believe that current industry practice for the processing and submission of reinsurance claims as outlined in the Common Manual clearly fulfill the regulations in question. ISAC, is however, in the process of modifying our claims process to be effective April, 2006, should negotiations with the Department of Education fail to result in the Department overturning the guidance issued on October 4, 2005.

04-54. The auditors recommend ISAC assign all defaulted loans to the USDE that meet the criteria contained in federal regulations, or obtain a written waiver which specified the number and criteria for assignment of loans to the USDE.

Findings: ISAC is required to assign all defaulted loans that meet certain criteria as of April 15th of each year to the USDE. During the audit of the Federal Family Education Loan Program, the auditors noted there were approximately 8,014 defaulted loans that meet this criteria as of November 11, 2004 that should have been assigned to the USDE but were not. Management indicated it was their practice to only assign approximately 10,000 loans per year.

In discussing these conditions with ISAC officials, they state that while offering no dispute relative to the interpretation of the regulation in question, the Department of Education

has consistently indicated their satisfaction with ISAC's process of subrogating loans. Further, understandable time, effort and personnel limitations have prevented the immediate subrogation of all loans which might be eligible for such treatment.

Response: ISAC will continue to monitor loans eligible for assignment, and, consistent with the Department of Education's direction and expressed guidance, assign the same over the course of the next year.

04-55. The auditors recommend that ISAC follow the written policies and procedures requiring the completeness and accuracy of imaging be verified before claims packets are destroyed and establish controls to ensure policies and procedures are followed. (Repeated-2003)

Findings: During the audit of the Federal Family Education Loan Program, the auditors noted ISAC's policies and procedures do not include written procedures that require verification of imaged documents for lender claims packet to determine whether they were completely and accurately imaged. ISAC officials stated they have a written rule requiring imaging personnel to verify the claim packets are imaged correctly.

During the review of the supporting documentation for 50 claims submitted for re-insurance, the auditors found the following:

- Twenty-two of the files included collection histories (supporting documentation) for which date information was cut off. However, by reviewing other information (e.g., page two of the claim form and other supporting documents) the "cut off" dates in question could be reconstructed.
- Four of the files included date stamps on the claims forms that were not clearly legible.

In discussing these conditions with ISAC officials, they state a combination of factors contributed to the condition including issues with the print range of a specific servicer's documents being incompatible with the scanning equipment and the ability of the imaging software to register the date stamp on a document. They also stated that additional quality assurance steps were implemented in April 2004.

Response: ISAC is addressing the issue of missing imaged information due to the incompatible print range of the documents submitted by collecting a second set of supporting documents before scanning. In addition, when the Imaging Department receives other reports that are incompatible with the imaging equipment, the files are imaged, but the source documents are retained in the Records Center. To address the issue of illegible date stamps, ISAC is currently reviewing imaging procedures and options to ensure legibility of the claim receipt date and will institute a quality assurance program to monitor the legibility of the date stamps.

04-56. 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 is allowed to use collection tools and activities such as engaging a collection agency, once the loan is between 31 and 180 days past due and ISAC has performed its due diligence.

ISAC uses four 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 test work, the auditors noted ISAC loan records do not agree to the monthly reports prepared by the collection agencies. The auditors noted discrepancies between the ISAC reports and the collection agencies in terms of the total number of borrowers and accounts assigned for collection. Below are the loan amounts per ISAC and the loan amounts per the collection agencies as of June 30, 2004.

Collection Agency	Loan amounts per ISAC	Loan amounts per Agency	Variance Percentage
Windham Prof.	\$72,677,136	\$63,961,009	12.0%
GRC	\$40,595,047	\$47,123,024	-16.0%
OSI	\$42,932,330	\$37,256,575	-13.0%
Diversified Collection Services	\$39,288,554	\$37,416,153	5.0%

A comprehensive reconciliation of the students' accounts assigned to collection agencies should be performed on a monthly basis. Also, this duty should be performed by a person independent from a duty of assigning accounts to the collection agencies. Any differences in reconciling should be investigated and resolved in a timely manner.

In discussing the variances with ISAC officials, they state that while improvements in the methods by which inventory records are compared and reconciled have occurred over time, it is believed that failures to implement the stated procedures and a lack of clarity surrounding internal responsibilities for such procedures contributed to the variances noted.

Response: ISAC has embarked upon a comprehensive effort to ensure the accuracy of inventory records as such information is maintained by both collection agencies and the agency. The agency is undertaking improvements in procedures, a clearer delineation of responsibilities, and specific expectations for performance as part of this effort to redress the problems noted. It is expected that with the reengineered reconciliation process to be implemented in April 2005, that this finding will be satisfactorily addressed during the 2005 calendar year.

**RECOMMENDATIONS 57-58
Illinois Community College Board**

**RECOMMENDATIONS 59-63
Department of Transportation**

**RECOMMENDATION 64
Department of Commerce and Economic Opportunity**

**RECOMMENDATIONS 65-68
Department of Employment Security**

**RECOMMENDATIONS 69-70
Environmental Protection Agency**

**RECOMMENDATION 71
Department of Corrections**