

LEGISLATIVE AUDIT COMMISSION



Review of
Statewide Single Audit
Year Ended June 30, 2008

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**REVIEW: 4319
STATEWIDE SINGLE AUDIT
YEAR ENDED JUNE 30, 2008**

TOTAL FINDINGS/RECOMMENDATIONS - 97

TOTAL REPEATED RECOMMENDATIONS - 58

TOTAL PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 87

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 FY08 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, 44 State agencies expended federal financial assistance in FY08. 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 almost \$17.325 billion for the year ended June 30, 2008. This represents a \$655 million increase over FY07, or about 3.9%. Overall, the State participated in 347 different federal programs; however, ten of these programs or program clusters accounted for approximately 82.7% (\$14.325 billion) of the total federal award expenditures as exhibited in the following table.

Federal Program Award	Total Expenditure	% of Total
Medicaid	\$ 6,608,000,000	38.1%
Unemployment Insurance	2,183,700,000	12.6%
Food Stamps	1,779,100,000	10.3%
Highway Planning, Construction	1,229,900,000	7.1%
Title 1 Education Grants	547,700,000	3.2%
TANF	537,000,000	3.1%
Special Education	488,400,000	2.8%
Child Nutrition	379,800,000	2.2%
Children's Insurance Program	348,400,000	2.0%
Child Care	222,100,000	1.3%
All Others	3,000,800,000	17.3%
Total Federal Awards	\$ 17,324,900,000	

The funding for the 347 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 FY08.

Federal Funding Agency	Total Grant	% of Total
Health & Human Services	\$8,820,400,000	50.9%
Agriculture	2,541,400,000	14.7%
Labor	2,386,800,000	13.8%
Education	1,721,600,000	9.9%
Transportation	1,368,600,000	7.9%
All Others	486,100,000	2.8%

A total of 53 federal programs (or 34 programs/clusters) were identified as major programs in FY08. The 53 major programs had combined expenditures of \$16.476 billion, and 294 non-major programs had combined expenditures of \$848.8 million. Ten State agencies accounted for approximately 97.8% of all federal dollars spent in FY08 as depicted in the table below.

State Agency	Federal Expenditures	% of Total
DHFS	\$ 7,071,900,000	40.8%
Human Services	3,290,900,000	19.0%
Employment Security	2,224,800,000	12.9%
Board of Education	1,858,800,000	10.7%
Transportation	1,366,100,000	7.9%
DCFS	375,100,000	2.2%
ISAC	227,200,000	1.3%
DCEO	226,600,000	1.3%
Public Health	196,100,000	1.1%
IEMA	98,500,000	0.6%
All Others	389,000,000	2.2%

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

State Agency	Number of Findings	Repeat Findings
State Comptroller	1	1
Human Services	14	11
Revenue	1	1
Healthcare and Family Services	18	5
DCFS	7	6
Aging	3	3

State Agency	Number of Findings	Repeat Findings
Public Health	9	7
State Board of Education	4	3
Community College Board	3	1
ISAC	4	2
Employment Security	10	4
Commerce & Economic Opportunity	3	1
Transportation	7	6
Emergency Management Agency	5	0
State Police	1	0
State Board of Elections	3	3
Central Management Services	4	4
TOTAL	97	58

RECOMMENDATION 1
Office of the Governor
Office of the Comptroller

08-01. The auditors recommend the Office of the Governor and the IOC work together with the State agencies to establish a corrective action plan to address the quality and timeliness of accounting information provided to and maintained by the IOC as it relates to year end preparation of the CAFR and the SEFA. (Repeated-2002)

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

Accurate and timely financial reporting problems continue to exist even though the auditors have: 1) continuously reported numerous findings on the internal controls (material weaknesses and significant deficiencies), 2) commented on the inadequacy of the financial reporting process of the State, and 3) regularly proposed adjustments to financial statements year after year.

The State has not been able to solve these problems or make substantive changes to the system to effectively remediate these financial reporting weaknesses. The process is overly dependent on the post audit program being a part of the internal control for financial reporting even though the Illinois Office of the Auditor General continues to inform State agency officials that the post audit function is not and should not be an internal control mechanism for any operational activity related to financial reporting.

The State of Illinois has a highly decentralized financial reporting process. The system requires State agencies to prepare a series of complicated financial reporting forms (SCO forms) designed by the IOC to prepare the CAFR. These SCO forms are completed by accounting personnel within

each State agency who have varying levels of knowledge, experience, and understanding of generally accepted accounting principles and of IOC accounting policies and procedures. Agency personnel involved with this process are not under the organizational control or jurisdiction of the IOC. Further, these agency personnel may lack the qualifications, time, support, and training necessary to timely and accurately report year end accounting information to assist the Comptroller in his preparation of statewide financial statements in accordance with generally accepted accounting principles (GAAP).

In discussing these conditions with the Office of the Governor, they stated that the weakness is due to (1) lack of a statewide accounting and grants management system and (2) lack of personnel adequately trained in governmental accounting and federal grants management. The lack of a statewide accounting system is due to the inability to obtain capital financing necessary to implement a statewide system. The lack of adequate financial and grants management personnel is due to the failure to update the qualifications in the respective job titles to ensure that applicants have the minimum required education and skill set to be properly trained. The lack of adequate financial and grants management systems requires a labor intensive, manual calculation of balance sheet and SEFA amounts in a short time frame which results in an increase of errors.

In discussing these conditions with IOC personnel, they indicated delays were caused by a separation in the responsibility for the State's internal control procedures among agencies and component units. The IOC has the statutory authority to request submission of financial information but does not currently have the ability to enforce those submissions on a timely basis from other State agencies.

Governor's Updated Response: We agree. The Office of the Governor will continue efforts to work with the Office of the State Comptroller. The Governor's Office is establishing and implementing a corrective action plan to improve the quality and timeliness of accounting information provided by State agencies to the Comptroller for year-end preparation of the CAFR and the SEFA. The plan includes conducting a risk assessment, implementing additional internal controls, providing training to staff, and creating new accounting positions with necessary education and experience requirement to properly perform duties.

The Governor's Office will work with the General Assembly and the Office of the Comptroller to establish a business case and plan for the capital cost of implementing a statewide accounting and grants management system.

Comptroller's Updated Response: The IOC will continue to provide consultation and technical advice to State agencies in relation to financial reporting in order to increase the likelihood that State agencies will report financial information in a timely manner. The IOC will continue to support legislation that provides it with enforcement tools to compel State agencies to comply with necessary reporting deadlines.

RECOMMENDATIONS 2-15

Department of Human Services

08-02. 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 Development Fund Cluster (Child Care), and Social Services Block Grant (Title XX) programs.

During the year ended June 30, 2008, 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	Department of Children and Family Services (DCFS)	\$227,011,147	\$537,011,000
Federal TANF	Illinois Student Assistance Commission (ISAC)	\$50,608,987	\$537,011,000
Federal TANF	Illinois Department of Revenue (IDOR)	\$17,274,904	\$537,011,000
Federal TANF	Department of Healthcare and Family Services (DHFS)	\$2,455,850	\$537,011,000
TANF MOE	Department of Healthcare and Family Services (DHFS)	\$59,492,956	\$493,958,000
TANF MOE	Illinois State Board of Education (ISBE)	\$67,975,884	\$493,958,000
TANF MOE	Illinois Community College Board (ICCB)	\$4,778,762	\$493,958,000
Child Care MOE	Department of Children and Family Services (DCFS)	\$25,523,741	\$130,773,000
Title XX	Department of Children and Family Services (DCFS)	\$2,882,267	\$127,372,000

In each of the past six years, auditors have identified several instances of noncompliance and unallowable costs claimed from expenditures reported by other State agencies. During the current fiscal year ended June 30, 2008, auditors identified the following instances of non-compliance in testing of interagency expenditures which are reported as separate findings in this report for each of the respective agencies:

- Federal TANF expenditures provided by IDOR included amounts that did not qualify as allowable expenditures under the TANF regulations;
- TANF MOE expenditures provided by DHFS included State funded medical and energy assistance expenditures to beneficiaries who were not eligible under TANF MOE regulations;
- Expenditures provided by DCFS under all programs identified above included expenditures to subrecipients for which DCFS has not established adequate monitoring procedures. In addition, significant increases in the administrative costs for these programs could not be adequately explained by DHS or DCFS personnel during test work.

In discussing these conditions with IDHS officials, they stated a continual process of reviewing controls over interagency expenditures was started in FY06 and improvements are being made when needs are identified.

Response: The Department accepts the recommendation. The Agency believes that our current cost controls meets the reasonableness standard in the A-102 Common Rule but IDHS will continue to try to improve our control system over interagency expenditures.

Auditors' Comment: As discussed above, we do not believe IDHS' current controls over interagency expenditures are adequate.

Updated Response: Corrective Action Implemented as of 10/13/09:

- All interagency agreements have been submitted to legal for review.
- Beginning with quarter ended 9/08, all certifications have been signed.

Corrective Action To Be Completed:

- TANF Workgroup to review all interagency agreements
- A summit meeting of all agencies is going to be held to discuss issues and attempt to resolve each agencies concerns.
- DHS has requested the Illinois Office of Internal Audit (IOIA) to audit the internal controls and expenditures (of other Agencies) that are on the TANF and Child Care Block Grants administered by DHS.

08-03. The auditors recommend IDHS review its current process for performing eligibility redeterminations and consider changes necessary to ensure all redeterminations are performed within the timeframes prescribed within the State Plans for each affected program. (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.

Program/Month	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
TANF			
July	1,261	31,139	4.05%
August	1,128	30,449	3.70%
September	1,064	29,439	3.61%
October	1,055	29,037	3.63%
November	1,206	28,426	4.24%
December	1,216	28,436	4.28%
January	1,115	28,220	3.95%
February	1,113	27,656	4.02%
March	826	27,292	3.03%
April	953	27,043	3.52%
May	929	27,109	3.43%
June	972	26,926	3.61%

Program/Month	Number of Overdue Redeterminations	Total Number of Cases	Percentage of Overdue Cases
SCHIP			
July	13,393	595,273	2.25%
August	13,991	600,145	2.33%
September	14,561	605,320	2.41%
October	15,058	611,108	2.46%
November	14,956	615,421	2.43%
December	15,652	620,705	2.52%
January	16,161	623,363	2.59%
February	14,740	626,358	2.35%
March	15,631	629,627	2.48%
April	13,455	631,943	2.13%
May	13,020	637,442	2.04%
June	12,012	642,603	1.87%
Medicaid			
July	15,489	416,810	3.72%
August	15,814	417,875	3.78%
September	16,361	418,788	3.91%
October	16,498	420,049	3.93%
November	16,275	420,615	3.87%
December	17,832	422,205	4.22%
January	18,657	422,645	4.41%
February	17,854	422,369	4.23%
March	18,844	422,503	4.46%
April	17,328	422,547	4.10%
May	17,495	423,555	4.13%
June	16,301	424,934	3.84%

Beneficiary payments selected in the sample totaled \$14,655, \$14,153, and \$149,498 for the TANF, SCHIP, and Medicaid Cluster programs, respectively. Payments made on behalf of beneficiaries of the TANF, SCHIP, and Medicaid Cluster programs totaled \$66,909,000, \$337,976,000, and \$6,313,321,000, respectively, during the year ended June 30, 2008.

In discussing these conditions with IDHS officials, they stated that this is a repeat finding from past audit periods. IDHS has reviewed and facilitated change in the State Plan to reflect the federal expectations regarding redeterminations.

Response: Disagree. The Department disagrees with the recommendation. The Department is in compliance with federal regulations which require states to make every effort to complete redeterminations timely and accurately. Federal guidelines remain silent as to a percentage of timely redeterminations required. We continue to make redetermination currency a priority. In fiscal year 2008, the Illinois Department of Human Services (IDHS) was over 96% current on case redeterminations. Currently, in fiscal year 2009, IDHS exhibits a currency rate of 97%. The finding language states that our redetermination statistics “appear to have improved as a result of implementing an inadequate passive redetermination process.” The Department maintains that

the passive redetermination policy has been approved by both agencies that have responsibility in administering the Medicaid program.

Auditors' Comment: As stated above, federal regulations require eligibility redeterminations to be completed in accordance with the State Plan for each of the federal programs identified in the finding. The State Plans in effect for the year under audit require eligibility redeterminations to be completed for **all** beneficiaries on an annual basis. As of the date of our report, the State Plans for these programs have not been amended to permit annual eligibility redeterminations to be completed for less than all (100%) of program beneficiaries.

As stated in finding 08-17, the current State Plans require redeterminations of eligibility for all recipients on an annual basis and 42 CFR 435.916(b) requires the State to have procedures designed to ensure that recipients make timely and accurate reports of any change in circumstances that may affect their eligibility. During our audit, DHFS officials stated that the passive redetermination process is not used for expenditures under the "All Kids" program, a State funded health insurance program similar to Medicaid and SCHIP, due to concerns that beneficiaries may not report changes in key eligibility factors in a timely manner. We believe those same concerns would be applicable to the federally funded programs. As a result, we do not believe the passive redetermination process meets the eligibility redetermination requirements of the Medicaid and SCHIP programs.

08-04. The auditors recommend IDHS review its current process for maintaining and controlling beneficiary case records and consider the changes necessary to ensure case file documentation is maintained in accordance with federal regulations and the State Plans for each affected program. (Repeated-2007)

Findings: IDHS does not have appropriate controls over case file records maintained at its local offices for beneficiaries of the Food Stamp Cluster (Food Stamps), Temporary Assistance for Needy Families (TANF), State Children's Insurance Program (SCHIP), and Medicaid Cluster (Medicaid) programs.

During test work, auditors noted the procedures in place to maintain and control beneficiary case file records do not provide adequate safeguards against the potential for the loss of such records. Specifically, in a review of case files at five separate local offices, auditors noted the areas in which case files are maintained were generally disorganized and case files were stacked on or around file cabinets. Case files were generally available to all DHS personnel and that formal procedures have not been developed for checking case files in and out of the file rooms or for tracking their locations.

Additionally, during test work over 235 case files selected relative to the TANF, SCHIP, and Medicaid programs, auditors noted several delays in receiving case files due to the fact that case files had been transferred between local offices as the result of clients moving between service areas.

Payments made on the behalf of beneficiaries of the Food Stamps, TANF, SCHIP, and Medicaid programs were approximately \$1,674,038,000, \$66,909,000, and \$337,976,000, and \$6,313,321,000, respectively, during the year ended June 30, 2008.

In discussing these conditions with IDHS officials, they stated current fiscal constraints and staffing allocations prevent DHS Division of Human Capital Development from having dedicated file clerks

in each Family Community Resource Center (FCRC), which would allow us to implement a more stringent internal control procedure. IDHS continues to reiterate to all staff the importance of documentation maintenance in case files and to ensure all documentation is combined into the case record.

Response: The Department accepts the recommendation. It should be noted that of the 295 cases selected by the auditors, all were located and reviewed. Given our current caseload sizes, fiscal constraints, and staffing limitations, IDHS continues to place high priority on proper case file maintenance and filing, as evidenced by the 100% case record retrieval rate. IDHS continues to reiterate to all staff the importance of documentation maintenance in case files and to ensure all documentation is combined into the case record.

Auditors' Comment: As stated above, IDHS does not have appropriate controls over case files. The fact that case files selected for testing were ultimately found does not change the emphasis of the finding that procedures in place to maintain and control beneficiary case file records do not provide adequate safeguards against the potential for the loss of such records. Our audit noted that areas in which case files are maintained were disorganized and that formal procedures have not been developed for checking case files in and out of the file rooms or for tracking their locations.

Updated Response: Corrective Action Implemented as of 10/13/09:

- DHS staff have been encouraged to perform timely purges of canceled case files, which in turn allows for more efficient storage of active files. Purge protocol was updated and distributed in July 2008.
- Targeted reviews are handled by supervisory and administrative staff on a regular basis to ensure proper documentation and storage of case files.
- Regional managers continue to communicate the importance of case file documentation and organization in monthly regional meetings with the Family Community Resource Center (FCRC) management.

08-05. The auditors recommend IDHS review its current process for performing eligibility determinations and consider changes necessary to ensure procedures to verify whether beneficiaries have been convicted of a Class 1 or Class X felony are implemented. (Repeated-2006)

Findings: IDHS does not have adequate procedures in place to ensure individuals convicted of Class 1 or Class X drug felonies do not receive benefits under the Temporary Assistance for Needy Families (TANF) program. IDHS does not have procedures in place to corroborate the applicant's statements through cross matches with the Illinois Department of Corrections, Illinois State Police, or other mechanisms.

Payments made on behalf of beneficiaries of the TANF program totaled \$66,909,000 during the year ended June 30, 2008.

In discussing these conditions with IDHS officials, they stated this is a repeat finding due to inconsistencies in IDHS' policy and procedures.

Response: The Department accepts the recommendation. This is a repeat finding from fiscal year 2007. In the last two Single Audits, there were no TANF recipients identified by the auditors to have been convicted of a Class 1 or Class X felony. The Department has reviewed our process

of verifying the presence of a class 1 or X felony, and we are in the final stages of making our policy more consistent with our eligibility determination process.

Auditors' Comment: The Department's planned corrective action is to change their current policy to eliminate the crossmatch which does not adequately address the condition found. A crossmatch or another verification mechanism should be implemented to ensure beneficiaries that have been convicted of a Class 1 or Class X felony do not receive TANF benefits.

Updated Response: **Corrective Action Implemented as of 10/13/09:**

- New policy has been implemented that introduced a new denial reason that is used in denying applicants who have been convicted of a drug related felony that makes them ineligible for cash.
- A request with MIS to add questions to the AIS system that will assist in the identification of the ineligible drug felon has been completed.

08-06. The auditors recommend IDHS properly monitor its service organizations and obtain a SAS 70 report covering the entire year.

Findings: IDHS could not provide adequate documentation that food instruments issued under the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program were properly validated and reconciled by its third party service organization in accordance with program regulations for the entire state fiscal year.

An auditors' report on controls placed in operation and tests of operating effectiveness for the service organization obtained by IDHS did not include the State's entire fiscal year. Specifically, the period from September 1, 2007 through December 31, 2007 was not covered by the auditors' reports. Accordingly, the auditors were unable to obtain sufficient and appropriate audit evidence that food instruments were properly validated and reconciled in accordance with federal regulations during the year ended June 30, 2008.

Response: The Department partially agrees with the recommendation. While the SAS 70 report only covered eight month of the year, the internal reviews of transaction by IDHS were in place for the full year. The Department has notified the WIC food payment processing contractor that the SAS 70 report has to be for twelve months. The Department's Contractor for WIC food payment processing changed banks mid year. As a result, the SAS 70 report received from the WIC food payment contractor only covered eight months of the year. The WIC food payment contractor was unable to provide the SAS 70 report for the full year.

Auditors' Comment: As stated above, the SAS 70 report did not cover the entire audit period. As a result, we were unable to obtain sufficient and appropriate audit evidence that food instruments were properly validated and reconciled in accordance with federal regulations during the year ended June 30, 2008.

Updated Response: **Corrective Action Implemented as of 10/13/09:**

- The Department has notified the WIC food payment contractor that the SAS70 report is required to cover the full year
- Ernst & Young is conducting the CSC SAS70 Type II audit for Illinois WIC Banking with the audit period this year from July 1, 2008 through June 30, 2009.
- As Covansys was acquired by CSC the previous audit concluded the period of June 30, 2008.

- We are back on our annual full year period for the program.

08-07. The auditors recommend IDHS obtain written documentation of the assignment of medical support rights from all Medicaid beneficiaries. (Repeated-2005)

Findings: IDHS did not obtain written documentation from beneficiaries of the Medicaid Cluster program documenting they had assigned their rights to medical support payments to the State. Auditors noted the case file for one Medicaid beneficiary selected for test work did not contain a signed acknowledgement of assigning child or medical support payments to the State.

In discussing these conditions with IDHS officials, they stated the cause of this finding is due to human filing error, and the Department was unable to obtain proper documentation due to the client's death.

Response: The Department accepts the recommendation. IDHS has communicated to staff the importance of obtaining proper assignment of rights signature documentation.

Updated Response: Corrective Action Implemented as of 10/13/09:

- The combined application form has been streamlined so as to secure one signature, ensuring the assignment of rights properly issued.
- FCRC and Regional staff regularly review case records to ensure proper assignment of rights signatures are present in case files.

Corrective Action To Be Completed:

- The obtaining of both child support assignment of rights is being discussed and stressed in all FCRC staff meetings.

08-08. 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. (Repeated-2001)

Findings: IDHS could not locate case file documentation supporting eligibility determinations for beneficiaries of the Temporary Assistance for Needy Families (TANF), State Children's Insurance Program (SCHIP) and the Medicaid Cluster programs. Auditors noted the following exceptions during test work:

- In two SCHIP case files and one Medicaid case file, the initial application for benefits signed by the individual indicated the beneficiary had verifiable income; however, subsequent eligibility redeterminations did not include procedures to verify changes in income. The medical payments made on behalf of these two beneficiaries which were selected for test work were \$477 and \$64 for the SCHIP and Medicaid Cluster programs, respectively. Medical payments made on behalf of these two beneficiaries during the year ended June 30, 2008 were \$14,214 and \$2,152 for the SCHIP and Medicaid programs, respectively.
- In two Medicaid case files, IDHS could not locate the application signed by the beneficiary in the case file. Medical assistance payments made on behalf of these beneficiaries which were selected for test work were \$160. Medical assistance payments made on behalf of these two beneficiaries during the year ended June 30, 2008 were \$1,965.
- In one SCHIP case file, IDHS could not locate adequate documentation supporting that the required State Online Query (SOLQ) and Division of Child Support Enforcement (DCSE)

cross match procedures were performed. Medical assistance payments made on behalf of this beneficiary which was selected for test work was \$63. Medical assistance payments made on behalf of this beneficiary during the year ended June 30, 2008 was \$12,380.

In each of the case files missing documentation, each of the eligibility criteria was verified through additional supporting documentation in the client's paper and electronic case files.

Beneficiary payments selected in the samples totaled \$14,655, \$14,153, and \$149,498 for the TANF, SCHIP, and Medicaid Cluster programs, respectively. Payments made on behalf beneficiaries of the TANF, SCHIP, and Medicaid Cluster programs totaled \$66,909,000, \$337,976,000, \$6,313,321,000, respectively, during the year ended June 30, 2008.

In discussing these conditions with IDHS officials, they stated this is a repeat finding caused by human filing errors.

Failure to maintain client applications for benefits and/or source documentation for redetermination/income verification procedures performed may result in inadequate documentation of a recipient's eligibility and in federal funds being awarded to ineligible beneficiaries, which are unallowable costs.

Response: The Department accepts the recommendation. The Department will continue to ensure that staff understands the importance of proper and accurate filing process. Proper documentation of eligibility will continue to be integral piece of training curricula. Cases are reviewed regularly at various staffing levels for proper documentation.

Updated Response: Corrective Action Implemented as of 10/13/09:

- Central HCD staff spoke at all regional meetings reiterating the importance of proper and necessary documentation.
- Cases are reviewed regularly at various staffing levels for proper documentation of eligibility factors.
- Proper documentation of eligibility factors will continue to be integral piece of training curricula.

Corrective Action To Be Completed:

- The importance of proper documentation is being discussed and stressed in FCRC all staff meeting.

08-09. The auditors recommend IDHS review its current process for performing eligibility determinations and consider the changes necessary to ensure all eligibility. (Repeated-2007)

Findings: IDHS did not determine the eligibility of beneficiaries under the Medicaid Cluster in accordance with federal regulations.

For one of the Medicaid beneficiaries selected for test work, auditors noted IDHS did not complete the eligibility determination within required timeframes and improperly made medical assistance payments on behalf of an ineligible beneficiary. Specifically, the case identified was granted temporary medical benefits on November 26, 2007 until a disability assessment could be performed by IDHS' Client Assessment Unit. A final determination of eligibility was not made until October 29, 2008 at which time the beneficiary was determined ineligible for medical benefits. The medical assistance payment made on behalf of this beneficiary selected in test work was \$311.

Medical assistance payments made on the behalf this beneficiary during the period of ineligibility were \$2,257.

In discussing these conditions with IDHS officials, they stated the cause of this finding is due to agency error.

Response: The Department accepts the recommendation. We acknowledge that one case had a disability determination that fell outside of required timeframes. The client in question made an application for cash under the disability program through a mail in application on November 26, 2007, and an interview was scheduled for December 3, 2007, which the client did attend. He was then receiving medical assistance under his mother's All Kids case. His application was accepted as mandated, and the application process was initiated to determine disability status, which can be a lengthy process. The Department of Human Services, Client Assessment Unit (CAU) received the case on March 18, 2008, for review and returned to the local office June 5, 2008, for additional medical information. On October 30, 2008, the CAU received the case back with additional medical information and made a decision and returned the case to the local office the same day. Due to processing delays one client's disability determination did fall outside of required timeframes. The Department's CAU disposition procedures are adequate, but we will review workflow processes to identify any areas that could be made more efficient.

Auditors' Comment: The case specific information discussed in IDHS' response does not change the fact that the eligibility determination was not properly performed and unallowable costs were reimbursed by the Medicaid Cluster program.

Updated Response: **Corrective Action Completed as of 10/11/09:**

- Central office staff discussed with FCRC management policy citations related to the case cited in the audit on September 25, 2009 and October 7, 2009.
- FCRC management had a staff meeting to discuss related policy on October 30, 2009

08-10. The auditors recommend IDHS review its process for determining the allowability of payments 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. (Repeated-2005)

Findings: IDHS made unallowable expenditures on behalf of eligible beneficiaries of the Vocational Rehabilitation program.

During test work of Vocational Rehabilitation beneficiary payments, auditors selected 50 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits and noted the following exceptions:

- In one case, payments were made for services not included in the beneficiary's Individualized Plan for Employment (IPE). Upon further review, auditors noted the services were included on an IPE which was approved subsequent to the date these services had been provided. Payments made on the behalf of this beneficiary for services not included in his IPE were \$18. The payment selected in the sample for this beneficiary was \$18.
- In one case file, IDHS was unable to provide documentation supporting that the beneficiary's IPE had been approved. Payments made on the behalf of this beneficiary

during the year ended June 30, 2008 were \$6,614. The payment selected in the sample for this beneficiary was \$301.

Payments made to beneficiaries of the Vocational Rehabilitation program totaled \$14,269,000 during the year ended June 30, 2008.

In discussing these conditions with IDHS officials, they stated of 50 cases reviewed, the auditors noted that in one case, an oversight occurred resulting in an expenditure outside of the Individualized Plan for Employment (IPE) date, while in another the IPE was not printed, signed and filed. Electronic documentation of the plan exists.

Response: The Department accepts the recommendation. Of 50 cases reviewed by the auditors, only two cases (4%) were identified under this category. The Department of Human Services, Division of Rehabilitation Services (DRS) will continue to work to make sure every case has all of the documentation required signed and included in the case file and that IPE's are current at the time of an expenditure.

Updated Response: Corrective Action To Be Completed:

- DRS is drafting a first page to emphasize the importance of timely and proper documentation.
- Next New Employee Orientation is beginning on 6/19/09 and will include reminders about making sure documents are timely and signed.
- Next Zone meetings have not been scheduled. Once scheduled, reminders will be included in the programming.
- Quality Assurance continues to review cases for all aspects of appropriate case-work.

08-11. The auditors recommend IDHS review its current process for performing eligibility determinations and consider changes necessary to ensure all eligibility determinations are made and documented in accordance with program regulations. (Repeated-2004)

Findings: IDHS did not determine the eligibility of beneficiaries of the Vocational Rehabilitation program in accordance with federal regulations. During test work of Vocational Rehabilitation beneficiary payments, auditors selected 50 eligibility files and noted the following exceptions:

- In eight eligibility files tested, IDHS did not determine eligibility within the required 60-day timeframe. No payments were made during year ended June 30, 2008 for services related to these beneficiaries prior to the completion of the eligibility determinations, except those necessary to confirm the beneficiary's disability.
- In two case files, IDHS could not provide the certificate of eligibility signed by the case worker and beneficiary; however, unsigned electronic certificates were provided from the case management systems. Payments made on the behalf of these beneficiaries during the year ended June 30, 2008 were \$13,939. The payments selected in the sample for these beneficiaries were \$2,059.

Payments made to beneficiaries of the Vocational Rehabilitation program totaled \$14,269,000 during the year ended June 30, 2008.

In discussing these conditions with IDHS officials, they stated determining eligibility took longer than the 60 days in rule and the need and customer agreement for an extension was not included in a case file.

Response: The Department accepts the recommendation. The Department of Human Services, Division of Rehabilitation Services (DRS) continues to work to make eligibility determinations as quickly and accurately as possible, and will strive to document customer's agreement to an extension when the determination cannot be made within the prescribed timeframes.

Updated Response: Corrective Action To Be Completed:

- DRS is Drafting a first page to emphasis the importance of timely and proper documentation.
- Next New Employee Orientation is beginning on 6/19/09 and will include reminders about making sure documents are timely and signed.
- Next Zone meetings have not been scheduled. Once scheduled, reminders will be included in the programming.
- QA continues to review cases for all aspects of appropriate case work.
- DRS will also work to add a reminder within the Case Management system to remind counselors when a case is nearing the 60 day deadline and suggest processing the paperwork to request an extension.

08-12. The auditors recommend IDHS review the process and procedures in place to prepare Public Assistance Cost Allocation Plan (PACAP) amendments and implement changes necessary to ensure cost allocation methodologies accurately reflect programmatic activities.

Findings: IDHS has not amended the allocation methodology included in the most recently submitted Public Assistance Cost Allocation Plan (PACAP) to accurately include all cost centers assigned to its administrative offices.

During a review of costs allocated to federal programs during the quarter ended September 30, 2007, auditors noted three cost centers were not included in the PACAP. Accordingly, the methods used to allocate these cost centers were not approved by USDHHS. These cost centers and the costs allocated during the year ended June 30, 2008 were as follows:

Cost Center	Cost Center Expenditures
Office of Legal Services (AE070)	\$ 3,973,386
Chief Operation Office (MT701)	14,885,776
Chief Financial Office (MS440)	6,073,143

As these cost centers are administrative in nature, they were allocated using the Departmental Indirect Cost Allocation Plan methodology which are allocated to all federal and State programs administered by IDHS.

In discussing these conditions with IDHS officials, they stated PACAP amendments and necessary changes to cost allocation methodologies were not timely prepared to accurately reflect programmatic activities.

Response: The Department accepts the recommendation. The Department of Human Services, Office of Fiscal Services has implemented necessary PACAP amendments to include cost centers AE070, MS440 and MT70 and to ensure cost allocation methodologies accurately reflect programmatic activities.

Updated Response: Corrective Action Implemented as of 10/13/09:

- Amended PACAP to include cost centers AE070 & MS440.
- Met with HR to determine if cost center MT701 is valid.
- Amended PACAP to include cost center MT701 if necessary or remove cost center from cost allocation.

08-13. The auditors recommend IDHS recalculate the interest liability for the year ended June 30, 2007 using the methodology stated in the TSA. A review of the interest liability calculation should be performed by an independent person that is knowledgeable of the TSA requirements. (Repeated-2006)

Findings: IDHS did not properly calculate its interest liabilities for the Vocational Rehabilitation program, Block Grants for Prevention and Treatment of Substance Abuse (SAPT), and Social Security Disability Insurance (SSDI) programs.

During test work over the June 30, 2007 interest calculation (submitted in FY08), auditors noted IDHS improperly used one day as the clearance time used to calculate the administrative interest liabilities for the Vocational Rehabilitation, SAPT, and SSDI programs as opposed to the six, nine, and six days, respectively, prescribed in the TSA. As a result, the interest liabilities calculated by IDHS were understated by \$31,202, \$2,397, and \$25,025 for the Vocational Rehabilitation, SAPT, and SSDI programs, respectively.

In discussing these conditions with IDHS personnel, they stated the Department disagrees with the finding. The Agency is calculating the interest liability using the proper methodology. A calculation of the clearance time is done annually and is used in the interest calculation.

Response: The Department disagrees with this finding. The Agency is calculating the interest liability using the proper methodology. A calculation of the clearance time is done annually and is used in the interest calculation. The fiscal year 2007 TSA did not contain the correct information related to the number of days in the clearance time. The agency has calculated new clearance times and the final version of the amended fiscal year 2008 TSA has these new clearance times. Also, the interest calculation and the supporting detail are sent to an individual in the Governor's Office of Management and Budget, who is familiar with the TSA for review.

Auditors' Comment: The TSA requires interest to be calculated based upon the clearance times specified in Exhibit II of the TSA. IDHS officials stated that the clearance patterns included in the TSA are inaccurate and that clearance patterns used in the interest calculations more accurately reflect clearance time. To the extent the TSA contains inaccurate clearance patterns, IDHS should work with the Governor's Office of Management and Budget to amend the TSA to include the corrected clearance patterns, rather than disregard the agreement's requirements.

08-14. The auditors recommend IDHS establish a review period of not more than 60 days from the receipt of the OMB Circular A-133 audit reports. (Repeated-2005)

Findings: IDHS did not review OMB Circular A-133 audit reports received from its subrecipients for the WIC program, Vocational Rehabilitation program, Temporary Assistance for Needy Families (TANF), Child Care, Social Services Block Grant (Title XX), and Block Grants for Prevention and Treatment of Substance Abuse (SAPT) programs on a timely basis.

Auditors selected a total sample of 117 subrecipient monitoring files to review from the above programs and noted that for 42 subrecipient files IDHS had not completed the desk review of the subrecipient OMB Circular A-133 reports within 60 days of their receipt by IDHS.

IDHS' subrecipient expenditures under the federal programs for the year ended June 30, 2008 were as follows:

Program	Total Fiscal Year 2008 Subrecipient Expenditures	Total Fiscal Year 2008 Program Expenditures	%
WIC	\$194,651,000	\$206,089,000	94.4%
Vocational Rehabilitation	\$20,359,000	\$87,562,000	23.3%
TANF	\$238,429,000	\$537,011,000	44.4%
Child Care	\$200,652,000	\$206,438,000	97.2%
Title XX	\$35,035,000	\$127,372,000	27.5%
SAPT	\$66,326,000	\$78,421,000	84.6%

In discussing the desk review process with IDHS officials, they stated insufficient staffing resources due to concentration of agencies with June 30 fiscal year ends filing reports during certain months of the year.

Response: The Department accepts the recommendation. The Office of Contract Administration has achieved a 70 day review period for 2008 reports submitted as of January 31. A new position was assigned to the unit and the Office of Contract Administration implemented priority reviews for reports with findings. Reviews are now significantly timelier, and average time has significantly decreased. If staffing resources are maintained at the level provided during calendar 2008, the Department of Human Services, Office of Contract Administration (OCA) will achieve and maintain the 60 days goal for this period. It should be noted that the OMB Circular A133.400(d) (5) clearly states under pass-through entity responsibilities that decision on audit findings be issued to a management within six months after receipt of the sub recipient's audit report and ensure that the sub recipient takes appropriate and timely corrective action. There is no timeframe required for review prescribed in the regulations; however the auditors have interpreted a reasonable timeframe to be 60 days.

Updated Response: Corrective Action Implemented as of 10/13/09:

- Implemented improved review priority scheduling and complete initial reviews within 60 days of report receipt.

08-15. The auditors recommend IDHS review its procedures for monitoring its service organizations and implement any changes necessary to ensure service organization examinations are performed in accordance with the applicable regulations.

Findings: IDHS did not adequately monitor a service organization of the Food Stamp Cluster. In order to ensure the service organization is properly performing its contracted duties relative to the food stamp EBT card settlement process, IDHS requires the service organization to have an annual independent examination of the design and operating effectiveness of the internal controls in place (SAS 70 report). Auditors noted the auditors' report on controls placed in operation and tests of operating effectiveness for the EBT service organization did not cover the State's entire fiscal year as required by federal regulations. Specifically, the SAS 70 report did not cover the period from July 1, 2007 to August 31, 2007.

In discussing these conditions with IDHS officials, they stated federal regulations require the SAS70 audit of the EBT Contractor's system annually. The time period for the audit in fiscal year 2008 would have been July 1, 2007 – June 30, 2008, but Northrop Grumman Information Technology (NGIT) moved their Data Center in August 2007, so their facility was not available to audit for the two-month period of July and August 2007. The SAS70 audit time frame was defined as September 1, 2007 – June 30, 2008.

Response: The Department disagrees with the recommendation. Procedures are in place to monitor service organizations and examinations are performed in accordance with regulations. Prior to conducting the fiscal year 2008 SAS70 audit, the timeframe exception was agreed upon by the Illinois Department of Human Services (IDHS), Northrop Grumman Information Technology (NGIT), and USDA Food and Nutrition Services (FNS). FNS accepted SAS70 audit reports for Illinois, Maine, Arkansas and Iowa, all affected by NGIT's Data Center move, for the 10-month timeframe, and this was not an issue at the time. FNS did not instruct the states that they needed waivers. This was not the first time Illinois had a shorter than one year timeframe for the annual SAS70 audit. In fiscal year 2004, the year that Illinois converted to Link II (new contract), the SAS70 audit timeframe was October 1, 2003 – June 30, 2004 because the "old" environment and processing for the period July 1, 2003 – Sept. 30, 2003 no longer existed. The NGIT Data Center move was a unique event that will not occur again for the remainder of the contract. The timeframe for next year's SAS70 will be for 12 months.

Auditors' Comment: As stated above, 7 CFR 274.12(j)(5) requires States to have an annual independent examination of procedures related to the issuance, redemption, and settlement of Food Stamps benefits performed by its third party servicers which covers the entire period since the previous examination period. The SAS 70 provided in our audit did not cover the period from July 1, 2007 to August 31, 2007. IDHS stated that the time frame exception was agreed to by several parties; however, a formal waiver was not requested from or granted by FNS.

RECOMMENDATION 16

Department of Revenue

08-16. The auditors recommend IDOR review the process and procedures in place to identify earned income tax credit expenditures claimed under the TANF program and implement changes necessary to ensure only amounts eligible for claiming are reported to IDHS. (Repeated-2005)

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

During testwork, auditors noted IDOR's procedures for verifying the validity of taxpayer's earned income tax credit claims with federal tax returns are not completed prior to paying refunds to taxpayers or preparing the earned income tax credit claiming report for IDHS.

Additionally, during testwork of 60 earned income tax credits (totaling \$6,635) claimed under the TANF program, one earned income tax credit claimed (\$236) was refunded to a taxpayer whose mailing address was outside of the state of Illinois.

In discussing these conditions with IDOR officials, they stated that it is operating an effective program within the constraints of information on the tax return and within verification requirements of the federal TANF program. Rather than utilizing alternative procedures, all of which would materially delay refunds to taxpayers, the Department has adopted a post-drawdown verification as the most prudent course.

Response: The Department of Revenue agrees with the recommendation. The issue here is the appropriate verification before the drawdown of federal TANF funds. It is important to note that the department believes that it has implemented a verification process that meets federal requirements and has been told by Washington D.C. staff at the U.S. Department of Health and Human Services that: "The State has a reasonable verification procedure in place. . . ."

However, the department will work with IDHS to get a more formal response than the current guidance.

It should be noted the one earned income tax credit claimed (\$236) whose mailing address was outside the state was properly refunded.

Auditors' Comment: As stated in the finding above, the verification procedures are not performed by IDOR until several months after IDHS has claimed the tax credits reported by IDOR. The emphasis of this finding is the timeliness of the IDOR verification process, not the verification procedures themselves.

Additionally, IDOR's established practice is not to claim tax credits for taxpayers with addresses outside the State as current procedures are not designed to determine whether these taxpayers meet the eligibility requirements. Based upon IDOR's practice, the tax credits in our sample should not have been claimed.

RECOMMENDATIONS 17-34

Department of Healthcare and Family Services

08-17. The auditors recommend DHFS review its current process for performing eligibility redeterminations and consider changes necessary to ensure redeterminations are performed in accordance with federal regulations and the State Plans for each affected program. (Repeated-2007)

Findings: Eligibility redetermination procedures implemented by DHFS for Medicaid and State Children's Insurance Program (SCHIP) are not adequate.

Effective in February 2006, DHFS revised its procedures for performing eligibility redeterminations for children receiving services under the Medicaid and SCHIP programs. As part of the passive redetermination procedures, a renewal form which contains key eligibility criteria is sent through

the mail to the beneficiary. The beneficiary (or the beneficiary's guardian) is required to review the renewal form and report any changes to eligibility information; however, in the event there are no changes to the information and there are only children on the case, a response is not required.

The Illinois Department of Human Services (IDHS) which performs most eligibility determinations for these programs, maintains a formal record of the cases subject to passive redetermination procedures. As a result, auditors were unable to quantify the number of cases subject to the passive redetermination policy.

Payments made on the behalf of beneficiaries of the Medicaid and SCHIP programs were \$6,313,321,000 and \$337,976,000 during the year ended June 30, 2008.

In discussing these conditions with DHFS officials, they stated that they felt they were in compliance with all State and federal regulations regarding the renewal process.

Response: The Department respectfully disagrees with the finding. The Department's administrative renewal process is performed in accordance the federal regulations and State Plans. Per the Department of Health and Human Services letter to State Medicaid Directors dated February 6, 1997, "The redetermination can be based on information contained in the individual's Medicaid file if the State believes that information is accurate." The State Plans require that eligibility be reviewed annually, but does not specify what procedures are to be used. The Department does review eligibility annually, either administratively or manually depending on the family situation.

Federal policy supporting this process was affirmed by Congress and the President in the recent reauthorization of the Children's Health Insurance Program Reauthorization Act of 2009. It is included in Section 104 as one of eight enrollment and retention measures for which states may qualify for bonus payments.

The Department does have an internal tracking system for SCHIP cases maintained by the central unit. The system identifies cases eligible for administrative renewal and tracks if the form is returned with reported changes and indicates the outcome of each case due for renewal.

Currently there is not a statewide tracking mechanism for administrative renewals across both agencies. The Department will work with the Illinois Department of Human Services to review the feasibility of reprogramming the data system to track administrative renewals across both agencies.

Auditors' Comment: As stated above, the current State Plans require redeterminations of eligibility for all recipients on an annual basis and 42 CFR 435.916(b) requires the State to have procedures designed to ensure that recipients make timely and accurate reports of any change in circumstances that may affect their eligibility. During our audit, DHFS officials stated that the passive redetermination process is not used for expenditures under the "All Kids" program, a State funded health insurance program similar to Medicaid and SCHIP, due to concerns that beneficiaries may not report changes in key eligibility factors in a timely manner. We believe those same concerns would be applicable to the federally funded programs. As a result, we do not believe the passive redetermination process meets the eligibility redetermination requirements of the Medicaid and SCHIP programs. The Children's Health Insurance Program Reauthorization Act of 2009 referenced in the Agency's response was not effective in 2008.

Updated Response: Accepted. The Department has drafted a data programming request to track administrative renewals across both agencies.

08-18 The auditors recommend DHFS review its current process for performing eligibility determinations and consider the changes necessary to ensure all eligibility determinations are performed in accordance with federal regulations and the State Plans.

Findings: DHFS did not determine the eligibility of beneficiaries under the State Children's Insurance Program (SCHIP) and the Medicaid programs in accordance with federal regulations.

During test work of SCHIP and Medicaid Cluster beneficiary payments, auditors selected a sample of 60 SCHIP and 125 Medicaid eligibility files to review and noted the following exceptions:

- In one SCHIP case, the eligibility file did not contain supporting documentation evidencing an eligibility determination had been performed in accordance with the State Plan. Specifically, auditors noted the beneficiary on this case was a pregnant mother whose initial eligibility determination was performed in July 2007 using a Medicaid Presumptive Eligibility application which does not require documentation of income or assets. Accordingly, a complete eligibility determination was required to be performed by September 1, 2007 for this individual to continue receiving benefits. Although case worker notes and the electronic case record indicated an eligibility determination may have been performed in July 2007, the case record does not contain any documentation supporting a full eligibility determination was performed until February 2008. Medical assistance payments made on the behalf of this beneficiary during the period of ineligibility (September 1, 2007 through February 1, 2008) were \$1,707. The payment selected in the sample for this case was \$122.
- In three SCHIP case files and one Medicaid case file, DHFS could not provide documentation supporting eligibility redetermination procedures were performed in accordance with the State Plan. Medical assistance payments made on the behalf of these beneficiaries during the period of ineligibility were \$11,193 and \$13,485, respectively. The payments selected in the sample were \$244 for the SCHIP cases and \$147 for the Medicaid case.

Payments made on the behalf of beneficiaries of the SCHIP and Medicaid Cluster programs were \$337,976,000 and \$6,313,321,000, respectively, during the year ended June 30, 2008. Payments made on behalf of beneficiaries selected for test work were \$14,153 and \$149,498 for the SCHIP and Medicaid Cluster programs, respectively.

In discussing these conditions with DHFS officials, they stated that in the case of the eligibility determination exception, the case file was transferred, along with the application, to the Illinois Department of Human Services (DHS). This transfer would have made DHS accountable for this case file and not DHFS. The Department further stated that they were in compliance with all State and federal regulations regarding the renewal process.

Response: The Department respectfully disagrees with the finding. The Department was able to provide documentation that the file in question had been sent to the Illinois Department of

Human Services (IDHS) and had been signed for by a staff member at their office. IDHS was unable to locate that file, which would have contained the information in question.

The Department and IDHS have both started pilot projects that would allow for shared imaged files. Such a project would prevent the loss of files in the future.

The administrative renewal process is in accordance with the federal regulations and State Plans. Per the Department of Health and Human Services letter sent to State Medicaid Directors dated February 6, 1997, "The redetermination can be based on information contained in the individual's Medicaid file if the State believes that information is accurate." The State Plans require that eligibility be reviewed annually, but does not specify what procedures are to be used. When the administrative renewal process is used, and there are no changes to the family's situation, the coverage is systematically renewed and there would be no documentation to put in the file.

Auditors' Comment: Neither DHFS, nor IDHS was able to provide documentation supporting an eligibility determination had been performed for the case identified in the first bullet point above. DHFS provided case notes stating that the file had been transferred to IDHS; however, IDHS had no record of receiving the file.

As stated in finding 08-17, the current State Plans require redeterminations of eligibility for all recipients on an annual basis and 42 CFR 435.916(b) requires the State to have procedures designed to ensure that recipients make timely and accurate reports of any change in circumstances that may affect their eligibility. During our audit, DHFS officials stated that the passive redetermination process is not used for expenditures under the "All Kids" program, a State funded health insurance program similar to Medicaid and SCHIP, due to concerns that beneficiaries may not report changes in key eligibility factors in a timely manner. We believe those same concerns would be applicable to the federally funded programs. As a result, we do not believe the passive redetermination process meets the eligibility redetermination requirements of the Medicaid and SCHIP programs. The Children's Health Insurance Program Reauthorization Act of 2009 referenced in the Agency's response was not effective in 2008.

Additionally, neither DHFS, nor IDHS could provide documentation supporting the passive redetermination process was used for the three cases in the second bullet point.

Updated Response: Implemented.

08-19. The auditors recommend DHFS review its current process for processing and paying medical payments and consider changes necessary to ensure medical payments are made within the timeframes prescribed within the federal regulations.

Findings: DHFS is not processing practitioner medical claims for individuals receiving benefits under the State Children's Insurance Program (SCHIP) and Medicaid programs in accordance with timeframes required by federal regulations.

Upon review of the analysis covering practitioner medical payments during State FY08, auditors noted medical payments were not made within the 30-day payment timeframes required by federal regulations. Management's analysis identified that of the 22,170,000 claims paid in State FY08, only 51% (12,372,000 claims) were paid within 30 days of receipt. In addition, during test work of 10 SCHIP and 17 Medicaid practitioner medical payments selected for test work, three SCHIP and seven Medicaid payments were paid (based on warrant issuance date) more than 30 days after

they were received from providers. Delays in paying these medical claims ranged from two to 33 days after the required timeframe.

In discussing these conditions with DHFS officials, they stated that payments are processed promptly and the delays in payment were due to a lack of funds necessary to initiate payments.

Response: The Department agrees with the finding and has requested sufficient appropriations in its budget request to allow payments in a timeframe consistent with federal regulations.

Updated Response: Implemented. The Department has implemented payment procedures necessary to preserve federal enhanced funding through ARRA.

08-20. The auditors recommend DHFS implement procedures to ensure provider audits are performed and completed in a timely manner.

Findings: DHFS did not complete audits of providers of the State Children's Insurance Program (SCHIP) and Medicaid program in a timely manner.

During test work over 41 provider audits, auditors noted provider audits were not completed timely for twelve of the 41 audits tested. The number of days that had elapsed since the audit had been initiated ranged from 138 to 1,259 days. Additionally, of the 29 completed audits in the sample, the length of time to complete the audits after the audit start date ranged from 16 to 168 days.

There were significant time delays between the date DHFS determined a provider audit should be performed and the start date of the audit. Specifically, the number of days that had elapsed between the determination date and the audit start date ranged from 16 to 1,024 days for the 41 audits reviewed.

In discussing these conditions with DHFS officials, they stated there are extenuating circumstances from time to time that may extend the audit process and are outside the control of the OIG. In addition, the Department stated that federal guidelines do not stipulate an audit period or the number of audits to be completed.

Response: The Department partially agrees with this finding. It should be noted that there is no federally prescribed timeframe for completion of provider audits; however, the OIG strives to complete all audits in a timely manner. Further, the audits cited in the finding were completed within the 180-day time frame for which the auditors stated was an acceptable audit period. As with the nature of the audit profession, situations occur that may extend the time necessary to complete the audit such as: the type of audit being conducted (i.e., pharmacy, hospital, and individual practitioner), the size of the auditee (hospital vs. individual practitioner), a re-audit at the request of the auditee, and the availability of the information to be audited. There are also delays due to external entities, such as the Federal Bureau of Investigation or Illinois State Police, performing investigations on the same auditee. For these cases, the OIG is requested to extend the audit until the review is complete or the records are returned, which occurred in one of the cases sampled.

The OIG will review its policies and procedures to determine if changes should be made that would better define a provider audit period, as well as the time frame for the determination date and begin date of the audit.

Auditors' Comment: Although the audits selected in our sample were completed (measured from the start of fieldwork to the issuance of an audit report) within 180 days, the number of days that had elapsed between the determination date and the audit start date ranged from 16 to 1,024 days for the 21 audits reviewed in our test work. DHFS officials stated indicated the delays in starting audits stemmed primarily from a lack of resources to perform the audits.

Updated Response: Partially Accepted. Upon review of the OIG's audit policies and procedures, an audit period is measured from when the initiation correspondence is submitted to the provider and is considered complete when the audit report and determination correspondence is sent to the provider. An audit may be delayed or suspended as a result of actions required of external enforcement agencies, i.e., Illinois State Police, U.S. Attorney's office, or MFCU, which such delays would not be included in the time frame of the audit period.

08-21. The auditors recommend DHFS review its current process for performing Medicaid Eligibility Quality Control (MEQC) reviews and preparing summary reports and consider changes necessary to ensure reviews are completed in a timely manner and summary reports are submitted within the timeframes required by CMS.

Findings: DHFS did not complete Medicaid Eligibility Quality Control (MEQC) reviews in a timely manner. The DHFS Office of the Inspector General (OIG) is responsible for performing and reporting the results of quality control reviews of beneficiary eligibility determinations performed by the State for the Medicaid and SCHIP programs.

Auditors noted the review results for the Income review for the federal fiscal year ended September 30, 2006 (due in State fiscal year 2008) and for the Redetermination review for the federal fiscal year ended September 30, 2007 were not submitted within the timeframes required by federal regulations. Specifically, the Income review was submitted three months late (on October 30, 2007) and the Redetermination review had not been submitted as of January 30, 2009. Additionally, during a review of 15 Income reviews and 15 Redetermination reviews completed in FY08, auditors noted reviews were not completed within reasonable timeframes. The number of days to complete the reviews for the sample of Income and Redetermination reviews ranged from 106 to 551 days.

In discussing these conditions with DHFS officials, they stated that staff dedicated to the federal fiscal year 2006 MEQC reviews were also in the process of implementing a new case tracking system, which required a learning curve for employees. Reviewers were also performing case reviews associated with the next MEQC Pilot, as well as conducting customer service satisfaction surveys and on-site visits for new transportation and durable medical equipment providers.

Response: The Department partially agrees with this finding. It should be noted that the allowability of beneficiary payments is not impacted by the delay in MEQC reviews. The OIG has taken steps to ensure that required MEQC reports are submitted timely to the federal CMS. The OIG has ceased conducting client satisfaction surveys and on-site visits for new transportation and durable medical equipment providers have been assigned to another area within the OIG. In addition, staff is now adjusted to the case tracking system.

Auditors' Comment: Although the results of the MEQC may not directly result in the repayment of unallowable costs to USDHHS, errors or irregularities identified by the MEQC process generally result in policy and/or procedural changes designed to detect and/or deter future occurrences of similar errors or irregularities.

Updated Response: The part of the recommendation with which the Department agrees is implemented.

08-22. The auditors recommend DHFS review its process for identifying adjustments for post-partum services and implement procedures to ensure adjustments are accurately reported.

Findings: DHFS improperly reported adjustments for medical services provided under the “Unborn Amendment” waiver of the State Children’s Insurance Program (SCHIP).

DHFS received an “Unborn Amendment” waiver from USDHHS for the SCHIP program which allows the State to claim medical assistance payments made on behalf of expectant mothers for prenatal and labor and delivery services on the basis that the beneficiary of these services is the unborn fetus. Under this waiver program, upon the delivery of her newborn child, the mother’s medical benefits cease and only those medical services provided to the newborn child are covered by the program. As a result, DHFS is required to analyze medical services provided to expectant mothers each quarter to identify unallowable post partum services required to be eliminated from the quarterly SCHIP claim.

During test work over adjustments reported on the quarterly SCHIP claiming reports (CMS-21 report) submitted during the State’s fiscal year ended June 30, 2008, auditors noted DHFS inaccurately reported decreasing adjustments approximating \$1.8 million related to post partum medical services on the March 31, 2008 claiming report. Specifically, DHFS reported a decreasing adjustment of \$1.2 million on the March 31, 2008 claiming report for post partum medical services which had previously been reported on the December 31, 2007 claiming report. In addition, DHFS reported a decreasing adjustment of \$600,000 on the March 31, 2008 claiming report for post partum medical services which should have been adjusted on the December 31, 2007 claim.

In discussing these conditions with DHFS officials, they stated that the prior period adjustment for post partum services occurred due to a system programming error. Programming staff had automated a portion of the process used to capture the post partum claims. It was during this conversion from a manual process to an automated process that the error occurred.

Response: The Department agrees with the finding. The Department has reviewed the process used to identify the post partum services and initiated a new procedure to review any prior period adjustments that exceed a specified threshold. The Department will continue to test programming changes as they are made in the claiming reports.

Updated Response: Implemented.

08-23. The auditors recommend DHFS review its on-site monitoring procedures for subrecipients of its Child Support program and implement changes necessary to ensure procedures performed adequately address all compliance requirements that are direct and material to subrecipients.

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

During a review of the on-site monitoring procedures performed by DHFS for a sample of 15 subrecipients of the Child Support program with expenditures of \$13,135,000 during the year ended June 30, 2008, auditors noted DHFS has not developed adequate procedures to monitor all relevant fiscal and administrative processes and controls of its subrecipients. Specifically, on-site monitoring procedures are not performed to determine whether subrecipients are documenting administrative expenditures in accordance with the applicable cost principles or whether subrecipients are following appropriate procurement procedures. The on-site monitoring procedures performed by DHFS primarily focus on verifying information reported by the subrecipient relative to locating absent parents, assisting in establishing paternity, obtaining child support obligations, and enforcing support obligations owed by non-custodial parents and performing physical inventory procedures for CSE equipment purchases.

In addition, during the review of the 15 on-site monitoring files identified above, auditors noted two monitoring files identified discrepancies in physical inventory procedures performed by DHFS; however, the discrepancies were not reported in the final on-site monitoring reports for these subrecipients. Expenditures passed through to these two subrecipients during the year ended June 30, 2008 were \$5,048,850.

Total federal awards passed through to subrecipients of the Child Support program were \$19,851,000 during the year ended June 30, 2008.

In discussing these conditions with DHFS officials, they stated that they believe their procedures are sufficient to allow DHFS to evaluate with reasonable assurance that the costs meet the allowable costs criteria. These procedures include monitoring monthly expenditure claims along with documentation supporting the expenditures reported by the subrecipient, which have not been identified as deficient in previous audits.

Response: The Department agrees with the finding. The Department currently monitors all of our subrecipients through limited desk reviews or on-site monitoring, depending on the dollar threshold. This process has not been an audit risk in the past. However, in light of the auditor's concerns, the Department will reassess its subrecipient monitoring procedures and make the necessary improvements.

The Department notes that the Federal awards passed through to these subrecipients vary from \$181.00 to \$8,738,423.00. Of the 114 subrecipient Federal awards, there are 90 that are less than \$30,000.00, which account for 3.1% of the total Federal awards expended. Due to the low dollar amount of these Federal awards, it would not be cost effective to warrant an on-site review. The Department will continue to conduct limited desk reviews for these subrecipients and review its monitoring procedures further to determine if additional procedures are needed to ensure the Department evaluates them with reasonable assurance that the costs meet the allowable costs criteria as dictated by OMB Circular A-133.

Of the remaining 24 subrecipients, sixteen (16) account for \$1,854,243.00 or 8.9% of the total Federal award amounts expended while the remaining 8 make up 88%. Monthly limited desk reviews are currently completed on these subrecipients and periodic on-site reviews are conducted to ensure program compliance. In addition, the Department will conduct a full desk review on an annual basis and complete on-site visits on these subrecipients to ensure costs meet the allowable costs criteria as dictated by OMB Circular A-133.

08-24. The auditors recommend DHFS establish procedures to ensure management decisions are issued for all findings affecting its federal programs in accordance with OMB Circular A-133.

Findings: DHFS did not issue management decisions on OMB Circular A-133 findings for subrecipients of its Child Support Enforcement program and Low-Income Home Energy Assistance program (LIHEAP).

During test work over OMB Circular A-133 audit reports for 15 subrecipients of the Child Support Enforcement program and ten subrecipients of the LIHEAP program with expenditures of \$13,135,000 and \$89,862,000, respectively, during the year ended June 30, 2008, auditors noted the following:

- The A-133 audit report for one subrecipient of the Child Support Enforcement program reported questioned costs of \$93,375 for unallowable remodeling costs. Although DHFS acknowledged this finding and the corrective action in a communication of the acceptance of the subrecipient's A-133 report, DHFS did not issue a management decision relative to this finding or require reimbursement of the questioned costs identified in the finding. Amounts passed through to this subrecipient were \$11,945,000 during the year ended June 30, 2008.
- The A-133 audit report for one subrecipient of the LIHEAP program reported the subrecipient had not submitted an updated indirect cost rate proposal and improperly used a provisional indirect cost rate. Although this finding did not specifically list the LIHEAP program, the subrecipient reported administrative costs of \$3,548,000 during the year ended June 30, 2008 which may have been impacted by this finding. DHFS did not issue a management decision relative to this finding or follow up on the condition identified in the finding. Amounts passed through to this subrecipient were \$64,472,000 during the year ended June 30, 2008.
- The A-133 audit report for one subrecipient of the LIHEAP program reported the subrecipient had not deposited grant funds in a timely manner. DHFS did not issue a management decision relative to this finding or follow up on the condition identified in the finding. Amounts passed through to this subrecipient were \$4,102,000 during the year ended June 30, 2008.

Total federal awards passed through to subrecipients of the Child Support Enforcement and LIHEAP programs were \$19,851,000 and \$134,035,000, respectively, for the year ended June 30, 2008.

In discussing these conditions with DHFS officials, they stated although the Department did issue a management decision relative to the Child Support Enforcement Program, the Department agrees that they were not issued for the LIHEAP program.

Response: The Department partially agrees with the finding. The Department has implemented procedures to ensure management decisions are issued for all findings affecting its federal programs in accordance with OMB Circular A-133. These procedures include utilization of a Corrective Action Review Sheet identifying the applicable Department CFDA number along with a description of the entity's corrective action. Approval of the corrective action will be obtained prior to issuance of a management decision.

Auditors' Comment: As stated in the finding above, the management decision letter issued by DHFS personnel did not specifically address the finding or questioned costs identified in the subrecipient's OMB Circular A-133 report, nor did the letter address DHFS' acceptance of the subrecipient's proposed corrective action plan. The letter issued was simply an acknowledgement of the receipt of the report and related documents which does not constitute a management decision.

Updated Response: The part of the recommendation with which the Department agrees is implemented.

08-25. The auditors recommend DHFS revise its process for preparing financial reports to ensure that all adjustments are identified in a timely manner.

Findings: DHFS did not accurately report refunds from Local Administering Agencies (subrecipients) on the annual SF-269.

During test work over the annual SF-269 for federal FY07 (submitted in FY08), auditors noted DHFS reduced claimable expenditures by \$6,439,000 for refunds received from subrecipients. Of this amount, \$316,000 represented subrecipient refunds received for federal fiscal year 2006 awards which should have been used to reduce claimable expenditures on the SF-269 submitted for federal fiscal year 2006.

In discussing these conditions with DHFS officials, they stated that they were initially unaware that refunds occurred in the LIHEAP program.

Response: The Department agrees with the finding. The issue of subrecipient refunds was identified by the Department during their own internal reconciliation work. Upon identification of the situation, the Department took immediate corrective action by reducing the claim for federal fiscal year 2007. At that time, the Department also established a process for identifying all future subrecipient refunds so they would be handled in a timely manner. This process continues to be in place.

Updated Response: Implemented. The Department continued to identify subrecipient refunds to ensure they were handled appropriately on the claim until the program transitioned to DCEO in March 2009.

08-26. The auditors recommend DHFS review the process and procedures in place to identify expenditures to be used to meet the TANF MOE requirement and implement changes necessary to ensure only allowable costs are reported to IDHS. (Repeated-2007)

Findings: State funded energy assistance expenditures and certain State funded medical expenditures were improperly used to meet the maintenance of effort (MOE) requirement of the Temporary Assistance for Needy Families (TANF) program.

During test work of 60 TANF MOE expenditures (totaling \$74,252) reported to IDHS by DHFS, auditors noted the following exceptions:

- State funded energy assistance expenditures reported by DHFS as qualifying for the TANF MOE requirement included payments made on behalf of beneficiaries who were not eligible under the TANF regulations. Specifically, one beneficiary payment was paid on behalf of a family that is not TANF eligible. Upon further investigation, it was determined that the TANF beneficiary identification number for this family was incorrectly entered into the LIHEAP beneficiary system and payments to this family were improperly claimed. The unallowable payment selected in test work was \$128 and was the only payment made on behalf of the ineligible family identified that was used to meet the TANF MOE requirement during the year ending June 30, 2008.
- State funded medical expenditures reported by DHFS as qualifying for the TANF MOE requirement included medical payments made on behalf of beneficiaries who were not eligible under the TANF regulations. Specifically, auditors identified two beneficiary payments in test work which were paid on behalf of individuals that were not TANF eligible. Upon further investigation, it was determined that the households for these beneficiaries did not include a child under the age of 18. The unallowable payments selected in test work were \$25,763. Unallowable payments made on behalf of the ineligible individuals in the sample which were used to meet the TANF MOE requirement during the year ending June 30, 2008 totaled \$33,519.

In discussing these conditions with DHFS officials, they stated the use of the unqualified energy assistance payments resulted from data entry error of the TANF beneficiary number into the LIHEAP beneficiary system. In addition, use of the unqualified medical expenditures resulted from incorrect coding of a recipient's case by the Department of Human Services.

Response: The Department agrees with the finding. As the ineligible client's case continued to be coded with a category of assistance pertaining to a family after the only child on the case reached the age of 18, the medical expenditures for the identified client were reported by the Department for TANF MOE purposes. The Department's reporting system, which gathers expenditures to be reported for TANF MOE, is dependent upon, among other criteria, the client's category of assistance. Based upon the coding of the client's case, the Department's process for identifying TANF MOE expenditures functioned properly. Due to the error in coding of the client's case, however, the reported expenditures were, in fact, not eligible under TANF regulations. The Department notified the Department of Human Services of the coding error and appropriate action was taken on the case.

Updated Response: Implemented. The Department continues to review the procedures for identifying TANF MOE expenditures, and reports any changes to DHS when found.

08-27. The auditors recommend DHFS review its procedures for preparing cost allocation workpapers and implement any changes necessary to ensure allocation methods used are consistent with those approved in the Public Assistance Cost Allocation Plan (PACAP).

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

During a review of costs allocated to federal programs during the quarter ended March 31, 2008, auditors noted the allocation method used for the "Special Assistant for Hospital Policy" cost center was not consistent with the methodology defined in the PACAP. Specifically, DHFS used the

Central Indirect cost allocation method instead of the Medical Allocation methodology prescribed in the PACAP which resulted in costs improperly being allocated to all federal and state programs administered by DHFS. As a result, the Child Support Enforcement and Low Income Home Energy Assistance Program were erroneously allocated costs totaling \$17,045 and \$338, respectively, during the year ended June 30, 2008.

In discussing these conditions with DHFS officials, they stated that the allocation was not manually redirected to the correct allocation due to staff oversight.

Response: The Department agrees with the finding. Based upon the cost center, the position automatically defaulted to the Central Indirect allocation and was not manually redirected to the Supportive Medical allocation. The Department will review its procedures to ensure that costs are allocated in accordance with the PACAP.

Updated Response: Implemented. The Department has procedures in place to ensure that costs are allocated in accordance with the approved PACAP.

08-28. The auditors recommend DHFS follow procedures established to ensure interviews with custodial parents are performed on a timely basis. 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: DHFS 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 test work of 60 child support cases, auditors noted the following:

- Nine cases in which interviews with custodial parents were not scheduled for timeframes ranging from 29 days to 97 days after the referral or application had been received.
- One case in which the interview with the custodial parent was never scheduled due to an error made by an employee.

In discussing these conditions with DHFS officials, they stated that of the ten cases with errors noted, only two cases were actually errors and these two were caused by worker oversight.

Response: The Department partially agrees with the finding. The Department agrees that one case was not scheduled for an interview and that one case experienced a 34-day delay in scheduling. The Department will remind staff to ensure that cases needing a follow-up interview be placed in the scheduling queue in a timely manner

The Department respectfully disagrees with the findings for the other eight cases. The Federal regulations cited by KPMG in the audit, 45 CFR 303.2, (b), state: "For all cases referred to the IV-D agency or applying for services under Sec. 302.33 of this chapter, the IV-D agency must, within no more than 20 calendar days of receipt of referral of a case or filing of an application for services under Sec. 302.33, open a case by establishing a case record and, based on an assessment of the case to determine necessary action: solicit necessary and relevant information from the custodial parent and other relevant sources and initiate verification of information, if appropriate; and if there is inadequate location information to proceed with the case, request additional information or refer the case for further location attempts, as specified in Sec. 303.3."

The regulation requires that the solicitation of information be initiated within 20 days, but does not require that the solicitation be by means of an interview nor that the process be completed within 20 days. By placing the case in the Department's scheduling queue, the Department has initiated the process of soliciting and verifying information. The Department has verified compliance with the federal regulations with the federal Office of Child Support Enforcement. The Department begins solicitation and verification of participant information immediately upon the case being initiated in the KIDS statewide automated system. Cases are assessed for the sufficiency of information and are either placed in a scheduling queue or are referred for additional local locate activity. All case participants.

Auditors' Comment: Federal regulations require DHFS to open a case and determine necessary action, including to solicit necessary and relevant information from the custodial parent and other relevant sources and initiate verification of information within 20 calendar days of the receipt of a referral of a case or an application for services. Interviews of custodial parents were scheduled in all 60 cases selected for our test work. Accordingly, we believe interviews of custodial parents continue to be DHFS' primary source for soliciting necessary and relevant information from custodial parent and should be scheduled for completion within 20 calendar days of the receipt of a referral of a case or an application for services. This finding has existed since fiscal year 2004, and although Agency personnel have discussed this finding with federal program staff, the Agency has not received formal resolution of this audit finding.

Updated Response: The part of the recommendation with which the Department agrees is implemented. The Department has solicited and received additional policy interpretation of Sec. 303.2,(b) from OCSE which again affirms the Department's position that the action of scheduling the interview within 20 days of receipt of the signed application or transmittal meets this 20 day Federal requirement.

Department staff is reminded on a continuing basis through Regional office staff meetings, Informational or Policy issued memoranda regarding the necessity to document all actions taken on a case. In addition, the Department has reviewed its application processing through its Intake Continuous Process Improvement team and recommended changes to automatically schedule interviews for all new cases needing additional information weekly.

08-29. The auditors recommend DHFS review its procedures for managing interstate cases and implement any procedures necessary 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-2006)

Findings: DHFS 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).

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

- Two initiating cases were not referred to the responding state within the twenty day federal timeframe after DHFS had determined the non-custodial parent was located in another state. The delays in referring these cases were 11 and 27 days after the required federal timeframe.

- One initiating case was never referred to the responding state as required by federal regulations.
- One responding case was not properly coded as a responding interstate within the KIDS system until 377 days after the case was created due to an error made by an employee. The case was created when a previous responding interstate case was split into multiple cases.

In discussing these conditions with DHFS officials, they stated that of the four cases with errors noted, only two cases were actually errors and these two errors were caused by worker oversight.

Response: The Department partially agrees with the finding. The Department agrees that two cases cited were delayed in being referred to the responding state. The Department will remind staff to initiate the appropriate referral action to the responding states.

The Department respectfully disagrees with the other two cases cited as errors. One of the initiating cases was cited as delayed 11 days in referring to the responding state. This case was put into the scheduling queue to interview the Custodial Parent (CP) on the same date it was opened, thus meeting the Federal 20 day requirement for initiating the process of soliciting and verifying information. The appointment was scheduled for June 23, 2008 and the case was then referred to the responding state on that same date after the interview was completed.

The case that was cited as not properly coded as a responding interstate case within KIDS until 377 days after the case was created is not accurate. Contact with the initiating state to document the activities Illinois reported to them, revealed that this interstate case was canceled by the initiating state in 02/07 due to non-cooperation by the custodial parent. The initiating state disclosed that they failed to notify Illinois DCSE that they had canceled the interstate case. This case originally started as an interstate case on case #Cxxxxxx29. All interstate actions were being taken under this original case number. Since some of the children in this case had paternity established and some had not, actions were being taken to establish paternity on the original case and responses to the initiating state under the original case number were occurring since the interstate services were requested on February 4, 2003. The second child, for which paternity was not in question, was added to the Responsible Relative case which was reviewed by the auditor. Activities on this case were being reported to the initiating state under the original case number (alleged father case). The original responding case number is referenced on all case notes for this case number since August 8, 2002. This case was converted to a responding interstate case on March 3, 2008, after it was determined that the Non Custodial Parent (NCP) was the father of the oldest children. Notice was sent to the initiating state on the same date this case number was converted to a responding case.

Auditors' Comment: Although DHFS was able to provide documentation of information being reported on a related case with respect to the exception case identified in the third bullet point above, the case record assigned to the individual contained no information as to the activity on the related case(s), nor did the case file contain a reference to the related cases. As a result, we were not able to determine whether information for the case selected for test work was ever reported in to the initiating state.

Updated Response: Partially Accepted. The Department's Continuous Process Improvement team continues to review and update the Division's Interstate processes. The Department has mandated that staff review and process the CSENet transaction reports received daily. Training on UIFSA Initiating and Responding cases has been developed and provided to staff to improve

the accurate processing of the UIFSA cases. This training on CSENet is also available to staff as a tutorial guide and was published on our InfoNet delivery system April 1, 2008. The Department continues to develop better working relationships with other states and has created and issued to staff a resource when contacting other states. Clean-up of Interstate problem cases continues on an on-going basis.

08-30. The auditors recommend DHFS follow procedures established to ensure support orders are established within the required timeframes and ensure failed attempts to establish support orders are adequately documented. (Repeated-2004)

Findings: DHFS 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 60 child support cases, auditors noted one case for which DHFS never initiated support order procedures or documented unsuccessful attempts to serve process.

In discussing these conditions with DHFS officials, they stated that the error was caused by worker oversight.

Response: The Department agrees with the finding. The Department will remind staff to petition the court or administrative authority for medical support as appropriate.

08-31. The auditors recommend DHFS develop comprehensive written procedures for determining which subrecipients should be selected for on-site reviews.

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

DHFS passed through approximately \$54,505,000 in Medicaid funding to the Local Education Agencies (LEAs) during the year ended June 30, 2008 to assist DHFS in identifying students whose families may need Medicaid assistance and to monitor the coordination of the student's medical care.

During a review of the monitoring procedures performed by DHFS for 30 subrecipients, auditors noted DHFS has not established measurable selection criteria for determining which subrecipients will be subject to on-site monitoring procedures on an annual basis. Only 118 LEAs were subject to on-site reviews out of approximately 900 LEAs that received Medicaid funding during the year ended June 30, 2008.

In discussing these conditions with DHFS, officials stated that they do not believe that a specific score alone should determine when a site visit is warranted.

Response: The Department respectfully disagrees with the finding. A high-risk score initiates a desk review at which time a determination is made as to whether a site visit is warranted. However, the Department does not believe a specific high-risk score should automatically initiate a site visit. Such a standard is an inefficient use of resources, particularly when an LEA may have just received a site visit at the end of the previous fiscal year. In fact, most of the LEAs with high-risk scores that did not have site visits in fiscal year 2008, did receive site visits in fiscal year 2007.

These LEAs continued to receive additional scrutiny in fiscal year 2008 as a result of the prior site visits. In many cases, this included on-site training in lieu of a formal on-site visit.

The school year in which LEAs claims are prepared does not align with the required fiscal year audit cycle. Monitoring school claims is an on-going process that crosses fiscal years. Monitoring does not end with a site visit. Procedures for conducting a review often builds on previously completed work and may include additional training if such actions will be more effective in correcting a problem.

While the Department disagrees with establishing an automatic threshold triggering a site visit, additional review summaries have been developed to assist auditors with a better understanding of the on-going review process across fiscal years. Such summaries will document why a site visit may or may not be warranted for individual fiscal years.

Auditors' Comment: As noted in our finding above, DHFS has established a risk based selection method for performing administrative reviews of claims and for performing on-site monitoring procedures. The risk based approach used by DHFS involves the calculation of a numerical score which is used to identify higher risk subrecipients; however, we were unable to identify a correlation between the risk score (the risk assessment) and the subrecipients subject to administrative claim and on-site reviews.

08-32. The auditors recommend DHFS implement procedures to ensure allocation methodologies are included in its Public Assistance Cost Allocation Plan (PACAP) for all cost centers.

Findings: DHFS did not include an allocation methodology in the Public Assistance Cost Allocation Plan (PACAP) to allocate certain cost centers to the SCHIP and Medicaid programs.

During a review of costs allocated to federal programs during the quarter ended March 31, 2008, auditors noted the PACAP did not prescribe an allocation methodology to allocate costs for the "Special Assistant for HIPAA and Computer" cost center. As a result, DHFS used the Medical Allocation methodology prescribed for other cost centers allocated to the SCHIP and Medicaid Cluster to allocate these cost centers; however, this method was not approved for this cost center.

In discussing these conditions with DHFS officials, they stated the expenditures associated with the Special Assistant for HIPAA and Computer were appropriately charged using an approved allocation methodology – the supportive medical allocation.

Response: The Department respectfully disagrees with the finding. The Public Assistance Cost Allocation Plan (PACAP) does not contain a cost pool entitled "Special Assistant for HIPAA and Computer". Table 1-4-B in PART 1, Section 4 of the PACAP identifies the cost pools utilized in the cost allocation plan. HIPAA is a Medical APD and, per Table 1-4-E, should be allocated using the supportive medical allocation. PART 2, Section 2.2.0 will be revised from HIPAA to Supportive Medical Allocation under the charge section.

Auditors' Comment: As identified in our finding and DHFS' response, the PACAP did not clearly identify the cost allocation methodology to be used for the Special Assistant for HIPAA and Computer cost center as required by federal regulations.

Updated Response: The part of the recommendation with which the Department agrees is implemented. The Department amended its PACAP to reflect that the cost center should be allocated using the “Supportive Medical Allocation”.

08-33. The auditors recommend DHFS implement procedures to ensure cash draws are performed in accordance with the Treasury State Agreement.

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

During test work over 60 payments to subrecipients of the Medicaid Cluster program, auditors noted the State’s cash draws for payments to LEAs were performed on an advance basis (prior to paying the LEAs). Upon review of all cash draws for payments to LEAs during the year ended June 30, 2008, auditors noted the number of days cash was drawn in advance of actual cash outlays ranged from one to 125 days.

In discussing this condition with DHFS officials, they stated that claims for federal funding and the resulting cash draws do not precede payments to Local Education Agencies.

Response: The Department respectfully disagrees with the finding. The transactions reviewed by the auditors are not Medicaid payments and have no relevance to the Treasury State Agreement (TSA). The transactions reviewed are transfers of federal financial participation (FFP) that have been received by the department as a result of a prior Medicaid expenditure by the local education agency (LEA).

LEAs incur costs on behalf of the Medicaid program. The LEA transmits documentation on its costs incurred in support of the Medicaid program to the department. Those costs are included in the department’s federal claim and FFP is drawn once the claim has been accepted by the federal Centers for Medicare and Medicaid Services. The non-acceptance of an LEA expenditure as a claimable transaction is a fundamental misunderstanding of the Medicaid program on the part of the auditors. LEAs may, and do, provide necessary services (e.g., speech therapy) and administer certain portions of the Medicaid program. Section 2560.4(F) of the (federal) *State Medicaid Manual* states:

“For the purpose of expenditures for financial assistance under Title XIX, ‘State Agency’ means any agency of the State, including the State Medicaid agency, its fiscal agents, a State health agency, or any State or local organization which incurs matchable expenses . . .”

Paragraph (G)(1)(a)(1) of the same section states, “. . . the expenditure is made when it is paid or recorded, whichever is earlier, by any State agency. Public providers are those that are owned or operated by a State, county, city, or other local government agency or instrumentality.”

LEAs are local governments, as federally defined, incurring Medicaid expenditures. As the qualifying Medicaid program expenditures have already been incurred by the LEAs prior to reporting the same to the department, the department is able to comply with 31 *CFR* 205.11(b) and limit the draw to the exact amount required. The transfer of federal funds reviewed by the auditors has no bearing on the TSA. In addition, the audit finding includes contradictory statements regarding interest penalties. Since claims do not precede payments, there is no risk of interest penalties.

Auditors' Comment: As stated above, the TSA requires DHFS to draw Medical Cluster program funds passed through to LEA's (subrecipients) using a reimbursement based funding technique. The TSA specifically states: "The amount of the request shall be based on the amount of the actual cash outlays for direct administrative costs during the month." As the TSA governs the timing of cash draws between the State and the federal government, a reimbursement based funding technique requires funds to be paid to the LEA's by the State prior to requesting reimbursement from the federal government. Our testing and discussions with management identified that DHFS' practice is to draw these fund in advance of paying the LEA's which is in violation of the TSA.

Updated Response: Not Accepted. No change.

08-34. The auditors recommend DHFS work with the Governor's Office of Management and Budget to ensure the methods for calculating interest liabilities for all major federal assistance programs are included in the TSA.

Findings: DHFS did not include a method for calculating an interest liability for the Low Income Home Energy Assistance Program (LIHEAP) in the Treasury State Agreement (TSA) for the year ended June 30, 2008.

During test work over the June 30, 2007 interest liability calculation (submitted in fiscal year 2008), auditors noted the TSA does not include a methodology for calculating an interest liability for the LIHEAP program. As a result, DHFS calculated its 2007 interest liability using a methodology included in the TSA for another State agency (the Illinois Department of Commerce and Economic Opportunity), which followed the same funding technique for its federal programs. However, this interest liability calculation methodology has not been approved in the TSA for the LIHEAP program.

In discussing this matter with DHFS officials, they stated that when the LIHEAP program was transferred from the Department of Commerce and Economic Opportunity (DCEO) to the Department, the Treasury State Agreement was not updated to reflect the program move between agencies.

Response: The Department agrees with the finding. Upon transfer of the LIHEAP program from the Department of Commerce and Economic Opportunity (DCEO) the Department adopted the methodology of interest calculation previously approved for use by DCEO. The Treasury State Agreement for fiscal year 2009 has been revised.

Updated Response: Implemented.

RECOMMENDATIONS 35-41 Department of Children and Family Services

08-35. The auditors recommend DCFS review its procedures for retaining and documenting how beneficiaries have met eligibility requirements and implement changes necessary to ensure birth certificates and relevant court orders exists for all children for whom foster care benefits are claimed. (Repeated-2006)

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

In order to be eligible to receive benefits under the program, a child must meet specific financial and non-financial eligibility criteria. One of these criterion is that the child would be eligible for the former Aid to Families with Dependent Children (AFDC) program for which eligibility is based on a child's age, among other factors. In addition, DCFS was authorized by USDHHS to conduct a subsidized guardianship waiver demonstration project, which falls under the Title IV-E Foster Care program.

During testwork of Foster Care beneficiary payments, auditors reviewed 50 case files for compliance with eligibility requirements and allowability of related benefits and noted the following exceptions:

- In two cases, DCFS could not locate the child's "Order Appointing Private Guardian," evidencing that the subsidized guardianship had been granted to the child's private caregiver. DCFS claimed foster care payments on behalf of these children totaling \$5,338 during FY08. Subsequently, DCFS obtained and provided copies of the original court order.
- In one case, DCFS could not provide the initial court order removing the child from the relative's home. DCFS claimed foster care payments on behalf of this child totaling \$1,300 during FY08.
- In one case, DCFS could not provide the birth certificate evidencing the child met the age limitations of the program. DCFS claimed foster care payments on behalf of these children totaling \$6,817 during FY08. However, one of the cases has already been included in the previous bullets and only \$5,517 is additional questioned costs. Subsequently, DCFS provided the social security administration record as verification of the child's age.

In discussing these conditions with DCFS officials, they stated that the document requested for the case opened in 1992 was received a number of years ago and was thought to have been filed in the original foster care case file. When the file was retrieved, the initial court order was not included and apparently had been misplaced.

Response: The Department agrees and will review procedures for obtaining and retaining documents. Changes will be made, if necessary, to ensure copies of orders appointing private guardianship and other required documents are retained for all children. If, after further investigation by the Department and if obtaining a copy of the appointing order is not possible, the Department will make the appropriate claiming adjustment for actual amount claimed for the one beneficiary payment questioned by the auditor.

Updated Response: Implemented. The Department has reviewed the items identified by the auditor and its procedures for obtaining and retaining documentation. An adjustment for the questioned items after obtaining missing documentation was made on the December 2009 claim for \$1,300 beneficiary payment costs questioned by the auditor.

08-36. The auditors recommend DCFS review its procedures for obtaining and documenting whether judicial determinations have been made for all beneficiaries. Such procedures should include identifying children who are not eligible for assistance under the Foster Care program as a result of the required judicial determinations not being made. (Repeated-2005)

Findings: DCFS did not ensure that required judicial determinations were made in applicable court rulings, including those pertaining to “Reasonable Efforts” and “Contrary to the Welfare.”

The Foster Care Program provides funds to states for the purpose of providing safe, appropriate, 24-hour substitute care for children who are under the jurisdiction of the DCFS and need temporary placement and care outside of their home. To be eligible for reimbursement under the Foster Care program, DCFS is required to receive a court ruling within 60 days as to what living arrangement is in the child’s best interest and whether or not DCFS has made reasonable efforts to prevent removal by following the proper investigative procedures prior to removing the child from the home.

During testwork over Foster Care beneficiary payments, auditors selected 50 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits and noted in one case, DCFS could not provide a court ruling. DCFS claimed reimbursement for \$1,300 for this beneficiary for FY08.

In discussing these conditions with DCFS officials, they stated that the situation identified may be attributed in part to one or more procedural and court-related issues with which the Department has taken steps to work with the Illinois Courts to ensure required language is used and those hearings are held within required timeframes.

Response: The Department agrees and will continue to review procedures for obtaining and retaining documents pertaining to judicial determinations. Changes will be made, if necessary, to ensure determinations are made within the required timelines and that required language is included in agreements.

Updated Response: Implemented.

08-37. The auditors recommend DCFS implement procedures to monitor whether 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.

Findings: DCFS did not ensure that foster care permanency hearings were performed within the federally required timeframe of 12 months.

During testwork of 50 case files of the Foster Care program, in one case, DCFS could not provide the necessary documentation to substantiate that the permanency hearing was performed. DCFS claimed reimbursement for foster care maintenance payments made on the behalf of this child totaling \$1,300 during FY08. This amount is also included as questioned costs related to Finding 08-35. Subsequently, DCFS obtained and provided from the courts the permanency hearing order that was issued during October 2008.

Additionally, DCFS does not have an adequate process in place to ensure permanency hearings are completed within required timeframes.

In discussing these conditions with DCFS officials, they stated that the delay experienced, as indicated in the sample, may be attributed in part to one or more court-related issues with which the Department has taken steps to work with the Illinois Courts to ensure required language is used. The origin of the delay 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 the Illinois Court system to ensure permanency hearings meet the federal requirements.

Updated Response: Implemented.

08-38. The auditors recommend DCFS review its procedures for retaining and documenting how beneficiaries have met eligibility requirements and implement changes necessary to ensure judicial determinations, birth certificates, and adequate documentation of special needs exists for all children for whom adoption subsidy payments and nonrecurring expenditures are claimed. (Repeated-2005)

Findings: DCFS could not locate case file documentation supporting eligibility determinations for beneficiaries of the Adoption Assistance Program. The Adoption Assistance Program provides funds to states to support the payment of subsidies and non-recurring expenses on behalf of eligible children with special needs.

During testwork of Adoption Assistance beneficiary payments, auditors reviewed 50 case files for compliance with eligibility requirements and allowability of related benefits and noted the following exceptions:

- In two cases, DCFS could not locate the child's birth certificate evidencing the child met the age requirements of the program. DCFS claimed adoption assistance payments for these children totaling \$10,478 during FY08. Subsequently, DCFS provided the child's adoption decree as verification of the child's age.
- In two cases, DCFS could not locate the initial judicial determination effecting that the child's continuation in the residence would be contrary to the welfare of the child, or that placement would be in the best interest of the child. DCFS claimed reimbursement for adoption assistance benefits for these children totaling \$7,120 during FY08. Subsequently, DCFS provided a copy of the initial judicial determination.
- In one case, DCFS could not locate the final adoption decree for the child who had been placed into adoption. DCFS claimed adoption assistance payments for this child totaling \$2,669 during FY08. Subsequently, DCFS obtained and provided a copy of the original court order.
- In one case, DCFS could not locate the petition to terminate, order to terminate, or surrender of parental rights, evidencing that the child could not or should not be returned to the home of his/her parents. DCFS claimed adoption assistance payments on behalf of this child totaling \$2,460 during FY08.

In discussing these conditions with DCFS officials, they stated that issues may exist in adoption case files due to the fact that private agencies and DCFS adoption staffs have the responsibility to provide all of the required documents to the Post Adoption Unit at the point of adoption finalization.

If documents are missing at that time, there is little influence that the Post Adoption Unit can have to make the agencies produce the documents since they do not oversee their work. At the same time, the Post Adoption Unit has great pressure to open the adoption assistance case so the adopted child can continue to receive a subsidy. If they cannot obtain the documents at the point of finalization, it is very difficult to go back years later and try to retrieve them.

Response: The Department agrees and has established an inter-divisional committee that has developed new checklists that have been distributed to the private sector, DCFS staff, and post adoption staff. The Post Adoption Unit staff now will not accept new materials or open new adoption assistance cases until all of the materials on the checklist are included and delivered to the Unit. Additionally, a large portion of the subsidy requests will be sent to a central location for review before the payments are claimed.

For outstanding issues on files from the past, the staff will work to obtain the missing documents from various sources as they are identified. If, after further investigation by the Department, the issue remains, the Department will make the appropriate claiming adjustment for actual amount claimed for the one beneficiary payment questioned by the auditor.

Updated Response: Implemented. An adjustment was made on the December 2009 claim for the \$2,460 beneficiary payment costs questioned by the auditor.

08-39. The auditors recommend DCFS implement procedures to ensure on-site fiscal and administrative reviews include procedures over all compliance requirements that are considered direct and material to the Foster Care program. Additionally, the auditors recommend DCFS evaluate the current staffing of the fiscal monitoring department to ensure resources are adequate. DCFS should formally document its policy relating to the frequency of on-site monitoring for federal programs. (Repeated-1999)

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

In a sample of 50 subrecipient monitoring files out of a total of 195 subrecipients, auditors noted that on-site fiscal and administrative monitoring procedures have never been performed for 19 subrecipients. Upon further discussion with management, auditors noted that on-site monitoring procedures have only been performed for 17 of 195 total subrecipients of the Temporary Assistance for Needy Families, Foster Care Title IV-E, Adoption Assistance, and Social Services Block Grant programs during FY08. Additionally, fiscal and administrative monitoring procedures did not adequately address all direct and material compliance requirements.

In discussing these conditions with DCFS officials, they stated that the desk review, which is the annual review of audited financial statements, OMB A-133 audits, and related reports from the independent CPA's (annual audit package), is the principle basis for the fiscal monitoring of subrecipients. The annual audit package contains reports and findings issued by licensed accountants with professional credentials to review recipients of federal funding. Audit packages are received from all agencies that receive over \$150,000 during the State's fiscal year. Over 200 agencies are required to submit the annual audit package, and a desk review is performed on all annual audit packages required to be submitted. The desk review program is the most effective and cost efficient method for DCFS to monitor sub-recipients' activities, and provide reasonable assurance

that the sub-recipient administers federal awards in compliance with federal requirements. On-site reviews are also used when the assessment of risk so indicates the necessity, and staff resources are available. The majority of reports received do not contain major issues and DCFS providers do not make eligibility determinations for foster care services reimbursed by the Department which would be a primary cause for ineligible services. Those sub recipients selected for field visits are generated from the desk reviews completed in the prior year that have notable negative issues. Auditors contact the Department's programmatic monitors and the licensing representatives to discuss and share any potential problems at the sub recipients to aid in the scheduling of on-site visits, and prioritize on-site audit activities.

Updated Response: Accepted and partially implemented. The Department accepted the finding when it first appeared some years ago and has tried to increase the staff in the field audit unit. During the fiscal year 2009 and 2010, all but one of the 19 major sub-recipients who had not previously received an on-site review are expected to have been visited by DCFS. Future schedules for on-site reviews will prioritize visits to agencies not previously visited, or visited years ago.

The Department also began initiatives to increase productivity by improving efficiency of its monitoring staff and ways to increase the number of on-site visits. These efforts are on-going, and include coordinating efforts with other agencies and Departmental units that contract with the same providers. The Department also has a number of programmatic and contract monitoring units in place to monitor provider/sub-recipients.

All A-133 reports reviewed by the Field Audit unit have a corrective action plan; a process for issuing formal management decisions was implanted in FY06.

08-40. 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 testwork, auditors noted fifteen of the initial case plans were completed within a range of 1 to 128 days over the 60 day federal requirement.

In discussing these conditions with DCFS officials, they stated that timely preparation of case plans is always a concern. Unfortunately, due to staff changes and reductions, placement changes, and coordination with other procedures and agencies, there are times when case plans are not prepared within the established timeframes.

Response: The Department agrees and 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 has implemented an Integrated Assessment program that includes preparation of a comprehensive service plan where one cannot be completed without the other. A workgroup established a work plan to implement changes to procedures in order to timely prepare service plans and resolve the matters that cause delays as well as provide an on-going monitoring of timeliness. That implementation project is in progress. We continue to stress the importance of adequate and timely case planning as a key component of providing quality service to children.

Updated Response: Accepted and partially implemented. A workgroup implementation project is in progress.

08-41. The auditors recommend DCFS implement procedures to ensure recertification forms are received in accordance with the State's established process and maintained in the eligibility files for children receiving recurring adoption assistance benefits. (Repeated-2006)

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

During a review of the eligibility for 40 beneficiaries receiving recurring subsidy payments under the adoption assistance program, auditors noted four instances in which DCFS could not locate a recertification form submitted by the adoptive parent within the most recent two year period.

In discussing these conditions with DCFS officials, they stated that several efforts to improve and streamline this process have been made, however, adequate systems and staff support had not been available until recently to follow up on missing recertification requests.

Updated Response: Accepted and partially implemented. The recertification process was centralized in Springfield under the Division of Budget and Finance, Technical Support Unit during FY08. The new process provides for the sending and tracking of 1st and 2nd notices. Families that do not respond to either of these notices and require another 3rd form of outreach will be sent to the regional post adoption staff for follow-up. The project to ensure timely recertification is in progress. No claim adjustments were necessary.

RECOMMENDATIONS 42-44 Department on Aging

08-42. The auditors recommend IDOA perform periodic on-site reviews of all subrecipients which include reviewing financial and programmatic records, observation of operations and/or processes to ensure their subrecipients are administering the federal program in accordance with the applicable laws, regulations, and the annual area plan. (Repeated-2003)

Findings: IDOA is not adequately monitoring subrecipients receiving federal awards for the Aging Cluster. During testwork over eight subrecipients of the Aging Cluster with total expenditures of approximately \$32,008,000, auditors noted on-site monitoring procedures had not been performed since 1998 for any the subrecipients selected. Auditors also noted fiscal on-site monitoring procedures were only performed for one subrecipient during the year ended June 30, 2008. However, during the fiscal year, IDOA developed an internal control questionnaire that was sent to and completed by each of the thirteen subrecipients. The questionnaire was developed to identify the strengths and weaknesses of the subrecipient's internal control structure and to prepare all subrecipients for the on-site reviews which IDOA plans to start performing in fiscal year 2009. Total awards passed through to subrecipients were approximately \$41,218,000 during the year ended June 30, 2008.

In discussing these conditions with IDOA officials, they stated that the Department needed to update its review tool to be consistent with the latest standards outlined in OMB Circular A-133.

Updated Response: The Department concurs in the finding and recommendation. Although staffing shortages may be a given and certainly contribute to the finding, it is nonetheless important to monitor our subrecipients. The Department will continue the development of procedures concerning the responsibilities of the subrecipient review process.

08-43. The auditors recommend IDOA establish procedures to ensure that desk reviews are performed on a timely basis for all subrecipients and that expenditures reported by the subrecipients are reconciled to the schedule of expenditures of federal awards submitted in the OMB Circular A-133 audit reports. (Repeated-2006)

Findings: IDOA is not adequately monitoring the OMB Circular A-133 reports submitted by its subrecipients receiving federal awards for the Aging Cluster. During testwork of eight subrecipients of the Aging Cluster with total expenditures of approximately \$32,008,000, auditors noted the following regarding the desk review process:

- The expenditures reported by one subrecipient were not reconciled to the schedule of expenditures of federal awards in its OMB Circular A-133 audit report.
- A desk review was not performed for one subrecipient.

In discussing these conditions with IDOA officials, they stated that the missing reconciliation of federal expenditures and the desk review was not completed for this client due to insufficient staffing resources to perform detailed follow-up and review with the subrecipient. Staffing re-allocations are being implemented which will provide the additional resources needed to managing this complicated subrecipient.

Response: We agree with the audit finding and will complete our review of the singular missing reconciliation of expenditures of federal awards to the OMB Circular A-133 audit report. We will also complete the desk reviews for this same subrecipient in a more timely fashion.

08-44. The auditors recommend IDOA review its advance funding policies and techniques for subrecipients and implement a monitoring process to ensure subrecipients receive no more than 30 days of funding on an advance basis and that the subrecipient interest certified and remitted appears reasonable. (Repeated-2006)

Findings: IDOA does not have adequate procedures to monitor the cash needs of subrecipients and to determine whether subrecipients are minimizing the time elapsing between the receipt and disbursement of funding for the Aging Cluster program.

During testwork, auditors noted IDOA does not reconcile the estimated monthly accrual expenditures to the actual monthly expenditures and does not reduce the cash advance if the subrecipient is showing excess cash on hand. Additionally, IDOA does not have a process in place to determine if the interest remitted is reasonable. During the federal fiscal year ended September 30, 2007, subrecipients remitted approximately \$217,000 in interest earned on excess federal funds to IDOA.

In discussing these conditions with IDOA officials, they stated the subrecipients are not able to provide monthly expenditure reporting, therefore, the actual expenditures are reconciled on a quarterly basis.

Response: The Department concurs in the finding and recommendation. The Department will review its policies and procedures for advance funding with program managers and fiscal staff to develop a methodology that will assist in creating a more efficient projection of the 30 day advance funding.

Auditors' Comment: Although IDOA requires subrecipients to reconcile its expenditures each quarter, this information was not considered at the time IDOA advanced funds to its subrecipients as evidenced by earnings on excess funds in the amount of \$217,000 being remitted by subrecipients during the fiscal year.

RECOMMENDATIONS 45-53 DEPARTMENT OF PUBLIC HEALTH

08-45. The auditors recommend IDPH reviews its process for identifying vaccines disbursed under its federal Immunization Grants program and implement the changes necessary to ensure federal vaccine disbursements are identified and accounted for in accordance with the applicable program regulations. (Repeated-2006)

Findings: IDPH did not adequately control and account for vaccines distributed under its Immunization Grants program. IDPH was not able to distinguish between federally funded and State funded vaccines when recording disbursements in the CDC's Prevention's Vaccines management software (VACMAN). As a result, IDPH was not able to identify the amount of federally funded vaccines disbursed from inventory during the period from July 1, 2007 through May 13, 2008. IDPH stated that \$64,141,000 in vaccines were distributed from inventory during this period, of which \$62,794,000 was estimated to be federally funded.

In discussing these conditions with IDPH officials, they stated that vaccine purchases are separated by funding source and documented by CDC. Vaccines are not, however, separated by funding source at the provider level. Vaccines purchased as part of the federal entitlement Vaccines for Children (VFC) program are based on eligibility determined by population estimates provided by CDC and vaccines purchased with federal 317 direct assistance (DA) are utilized as discretionary support to supplement the VFC program.

Response: The department concurs in the finding and recommendation. The IDPH Immunizations Section has maintained a separate inventory tracking system independent of VACMAN in order to document vaccine purchase and distribution transactions by funding source. While vaccines transactions are not tracked separately by funding source at the provider level, aggregate federal and State funded vaccine purchases and distributions are available. Aggregate federal VFC vaccine purchases and subsequent distribution totals are determined based upon eligibility survey estimates provided by the CDC. Discretionary federal 317 DA vaccine purchases are likewise tracked by IDPH in aggregate.

It is important to note that in 2008, all federal Immunizations project grantees transitioned their distribution and inventory operations to a single federal 3rd party distributor contracted by CDC. As a result, the IDPH no longer maintains physical vaccine inventories and all reporting functions related to vaccine allocations, distribution, and inventory tracking are now the responsibility of the federal contractor, McKesson Specialty.

Updated Response: Implemented.

08-46. The auditors recommend IDPH establish procedures to identify and report MOE expenditures on a timely basis and to ensure federal and state expenditures incurred 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.

Findings: IDPH did not monitor the HIV Care Formula Grant (HIV) program maintenance of effort (MOE) requirement. At the time of testwork in October 2008, IDPH had not yet calculated the amount of qualifying MOE expenditures for the grant year ended March 31, 2008, nor had they determined whether they equaled or exceeded the MOE expenditures for the prior grant year ended March 31, 2007. Auditors also noted the following in testing of expenditures reported in the prior year to meet the HIV MOE requirement:

- IDHS expenditures were also claimed for federal reimbursement under the Medicaid Cluster program and Social Services Block Grant (SSBG) program.
- DCFS expenditures claimed consist of actual employee salaries and an estimated calculation of the expenditures related to HIV and youth in a placement home.
- DCFS and IDHS expenditures were reported in the improper period.

Subsequent to testwork, IDPH provided a schedule in December 2008 of what it believed was the qualifying State maintenance of effort expenditures for the year ended March 31, 2008. However due to the timing of receiving this calculation and the numerous errors identified in the prior year amounts (i.e. base years), auditors were unable to obtain sufficient and competent audit evidence to allow them to ascertain whether IDPH had complied with the MOE requirement for the HIV program. However, based on discussions with management, auditors noted that several of the errors and inconsistencies identified above were present in the schedule prepared for the year ended March 31, 2008, including reporting expenditures from other agencies in the improper period.

In discussing these conditions with IDPH officials, they stated that for prior reporting years, representatives from the DCFS and IDHS had been unaware that HIV program expenditures from their respective agencies were either attributed towards MOE requirements for more than one federal award, or were costs claimed for federal reimbursement under the Medicaid entitlement programs.

Response: The department concurs in the finding and recommendation. In the subsequent grant cycle, the Illinois Department of Public Health will assume much more intensive oversight of interagency reporting of MOE expenditures. The greater oversight of other State agency expenditures will ensure that non-IDPH appropriated State expenditures will not be otherwise claimed as MOE expenditures for the federal Social Services Block Grant, nor will State expenditures be claimed for the MOE requirement if those expenditures were eligible for federal Medicaid reimbursements.

In order to ensure better MOE oversight, the IDPH will require each State agency submitting MOE expenditures to IDPH designate specific staff who will respond to IDPH queries and who will attend reconciliation meetings as necessary. IDPH acknowledges that there have been reporting inconsistencies across multiple State agencies due in part to inadequate communication between

staffs at State agencies. Subsequently, designated IDPH staff will also ensure that reported MOE expenditures from other State agencies correspond to the appropriate grant reporting periods, thus establishing more effective internal controls of MOE requirements for the HIV Care Formula grants.

Updated Response: Implemented.

08-47. The auditors recommend IDPH implement procedures to:

- **Verify income and insurance information with third party sources (i.e. employers, third party insurers, etc.) and other state agencies,**
- **Perform recertifications of eligibility every six months, and**
- **Maintain records in accordance with federal regulations. (Repeated-2004)**

Findings: IDPH does not have an adequate process for performing client eligibility determinations for its HIV program. During testwork of benefits provided to HIV beneficiaries, auditors selected 60 eligibility files to review for compliance with eligibility requirements and for the allowability of the related benefits and noted the following:

- In seventeen cases, the beneficiary's application indicated the beneficiary had no income. Although the individual's income level was below 400% of the poverty level and IDPH confirmed the individual was not receiving benefits under Medicaid, a determination of Medicaid eligibility had not been performed. As a result, no income verification procedures were performed to determine whether the income reported (or lack thereof) was accurate.
- In one case, no recertification (redetermination) of eligibility was performed during the year.
- In one case, the beneficiary file was destroyed prior to the audit. Upon further discussion with management, this occurred because it is IDPH's procedure to destroy files for deceased beneficiaries at the time of termination of services.

Additionally, IDPH only recertifies (redetermines) eligibility of beneficiaries on an annual basis, instead of every six months as required by program requirements.

In discussing these conditions with IDPH officials, they stated that sound public health policy dictates presumptive eligibility for ADAP.

Response: The department concurs in the finding and recommendation. ADAP staff conducts regular monthly Medicaid enrollment verification with the Illinois Department of Healthcare and Family Services to ensure that ADAP clients are not dually enrolled. IDPH believes that Medicaid enrollment, not Medicaid eligibility, should be the appropriate criterion for determining a beneficiary's eligibility for ADAP which ensures that needed medicines are provided to clients at the earliest opportunity. ADAP staff will also ensure that recertifications will occur every six months.

08-48. The auditors recommend IDPH establish procedures to ensure all subrecipients receiving federal awards have audits performed in accordance with OMB Circular A-133. Additionally, desk reviews of A-133 audit reports should be formally documented using the A-133 desk review checklist which include procedures to determine whether the audit reports meet the audit requirements of OMB Circular

A-133, federal funds reported in the schedule of expenditures of federal awards reconcile to IDPH records, and Type A programs are audited at least once every three years. (Repeated-2005)

Findings: IDPH does not have an adequate process for ensuring subrecipients of the CDC Investigations and Technical Assistance program and HIV programs have complied with OMB Circular A-133 audit requirements.

During testwork over 30 subrecipients of the CDC Investigations and Technical Assistance program and 8 subrecipients of the HIV program, auditors noted the following:

- There were three subrecipients of the CDC Investigations and Technical Assistance program and two subrecipients of the HIV program for which no OMB Circular A-133 audit reports were received. The subrecipient files did not contain any evidence that follow up procedures were performed by IDPH to obtain the missing reports.
- There were five subrecipients of the CDC Investigations and Technical Assistance Program and one subrecipient of the HIV program whose A-133 reports were not obtained within the required nine months after the subrecipients year end, and there was no evidence of follow procedures performed by IDPH. Specifically, these reports were received between 6 and 100 days after the nine month requirement.

Additionally, a standard checklist was not used to document the review of subrecipient A-133 reports to determine whether: (1) the audit reports met the audit requirements of OMB Circular A-133; (2) federal funds reported in the schedule of expenditures of federal awards reconcile to IDPH records to ensure subrecipients properly included amounts in the SEFA; and (3) Type A programs were audited at least every three years.

In discussing these conditions with IDPH officials, they stated that staff shortages have limited their ability to meet these requirements.

Response: The department concurs in the finding and recommendation. The Division of Accounting Services does notify the subrecipient in writing to submit their A-133 to the department. If the subrecipient is not required to have an A-133 Single Audit completed, they are instructed to submit this to the department in writing. If the department does not receive any documentation, the subrecipient is contacted by phone. Reports are being reviewed for proper documentation and if related findings to the department are found, the audit is referred to the appropriate program office for follow-up with the subrecipient. Accounting Services will also contact other sister agencies to request copies of audits they may have received before the department, so audits may be reviewed within the time frame.

08-49. The auditors recommend IDPH revise the on-site monitoring procedures for the CDC Investigations and Technical Assistance program to include procedures to review the subrecipient's fiscal and administrative capabilities. IDPH should also evaluate the current staffing of its monitoring department to ensure resources are adequate to complete reviews within prescribed timeframes. (Repeated-2004)

Findings: IDPH is not adequately performing on-site monitoring of subrecipients receiving federal awards under the CDC Investigations and Technical Assistance Program.

IDPH does not perform on-site monitoring procedures to review the fiscal and administrative capabilities and internal controls of any of the subrecipients. Additionally, during testwork of 30 subrecipients of the CDC Investigations and Technical Assistance program, auditors noted one subrecipient was not subject to a regular on-site programmatic review. Total subrecipient expenditures for the CDC Investigations and Technical Assistance program were \$5,871,000 during the year ended June 30, 2008.

In discussing these conditions with IDPH officials, they stated staffing shortages continue to hamper some routine monitoring efforts.

Response: The Department concurs in the finding and recommendation. Although staffing shortages may be a given and certainly contribute to the finding, it is nonetheless important to monitor our subrecipients and fulfill its required federal grant oversight function. The Department will continue to review these responsibilities and important improvements in the subrecipient review process.

08-50. The auditors recommend IDPH review its advance funding policies and techniques for subrecipients and implement a monitoring process to ensure subrecipients receive no more than 30 days of funding on an advance basis. (Repeated-2007)

Findings: IDPH provided funds to subrecipients of the CDC Investigation and Technical Assistance program in excess of their immediate cash needs.

During testwork over 60 payments to subrecipients totaling \$1,739,000, auditors noted 8 payments tested totaling \$277,600 resulted in advances to subrecipients of more than 30 days of funding needs. The number of days advanced ranged from 90 to 360 days. Additionally, auditors noted IDPH does not have adequate procedures to monitor the cash needs of subrecipients and to determine whether subrecipients are minimizing the time elapsing between the receipt and disbursement of funding.

In discussing these conditions with IDPH officials, they stated that they have reduced advances from federal awards but a limited number of small dollar grants were provided an advance payment.

Updated Response: Implemented.

08-51. The auditors recommend IDPH review its current process for identifying and reporting interagency expenditures and implement monitoring procedures to ensure that expenditures of 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-2005)

Findings: IDPH does not have an adequate process for monitoring interagency expenditures used to satisfy the maintenance of effort (MOE) requirement for the HIV program. During testwork over MOE expenditures, auditors noted IDPH does not perform monitoring procedures to ascertain that the expenditures used to meet the MOE requirement meet the specific criteria applicable to the HIV program.

In discussing these conditions with IDPH officials, they stated that representatives from the DCFS and IDHS had been unaware that expenditures from their respective agencies had been either attributed towards MOE requirements for more than one federal award, or were costs claimed for federal reimbursement under the Medicaid entitlement programs.

Updated Response: The Department concurs with the finding and recommendation. The Illinois Department of Public Health has assumed a much more intensive oversight of interagency reporting of MOE expenditures. The greater oversight of other State agency expenditures has ensured that non-IDPH appropriated State expenditures were not otherwise claimed as MOE expenditures for other federal grants. In order to ensure better MOE oversight, IDPH staff met with other State agencies to ensure that reported MOE expenditures corresponded to the appropriate grant reporting periods, thus establishing more effective internal controls of MOE requirements.

08-52. The auditors recommend IDPH review the process and procedures in place to identify expenditures to be used to meet the matching requirement and implement changes necessary to ensure only allowable costs are reported.

Findings: IDPH did not obtain written approval as required by the grant agreement for the purchase of a vehicle that was claimed as a matching expenditure under the HIV program. During testwork over 40 matching expenditures totaling \$1,847,971, auditors noted one expenditure of \$23,495 was for the purchase of a vehicle for which prior written approval was not obtained from USDHHS. The total amount of matching expenditures claimed by the HIV program was approximately \$28,303,000 during the year ended June 30, 2008.

In discussing these conditions with IDPH officials, they stated this was an oversight.

Response: The department concurs in the finding and recommendation. This purchase, although permitted from the applicable State funded HIV line item, should have been excluded from the maintenance of effort totals.

Updated Response: Implemented.

08-53. The auditors recommend IDPH review its current process for investigating complaints received against Medicaid providers and consider changes necessary to ensure all complaints are investigated within the timeframes required by State law. (Repeated-2007)

Findings: IDPH did not investigate complaints received relative to providers of the Medicaid Cluster within required timeframes. During testwork over 30 complaints filed against Medicaid providers during the year ended June 30, 2008, auditors identified fourteen complaints that were not investigated within the timeframes required by the State's law. The delays in investigating these complaints ranged from 4 to 45 days in excess of required timeframes. Auditors also identified that two additional complaints had not been investigated as of the date our testwork was performed.

In discussing these conditions with IDPH officials, they stated that a larger than expected turnover in staff, especially in the Bellwood Regional Office, contributed to several complaints not being initiated in the required timeframes.

Response: The department concurs with the finding and recommendation with regard to several complaints being conducted outside of the required timeframes. The complaints were completed appropriately, just not in the required timeframe. The main reason for the lateness in conducting the noted complaint investigations was that of a continuing staffing shortage in the Bellwood Regional Office. Over the past year, we have hired 10 nurses but lost an additional 4 well trained nurses out of the Bellwood Office, for a net gain of 6 nurses. It is important to note that a new nurse is not able to do surveys on their own for a period of 6-9 months. This is due to the training curve for surveyors and required federal training courses. We will continue to use out of Region staff and overtime to complete complaints in the areas of the State where timeframes for complaints are an issue.

RECOMMENDATIONS 54-57 **Illinois State Board of Education**

08-54. The auditors recommend ISBE implement procedures to appropriately monitor and sanction LEAs not meeting the comparability of services requirement. (Repeated-2006)

Findings: ISBE does not take adequate measures to sanction a LEA that did not meet the comparability of services requirement under the Title I program. Based on information provided from a USDE audit and procedures performed during the audit in 2006, auditors noted one LEA which was not in compliance with comparability of services requirement. Specifically, this LEA appears to have had 16 schools receiving Title I funds that were providing educational services (based on both a teacher to pupil ratio and expenditure to pupil ratio) that are less than schools not receiving Title I funds. As of June 30, 2008, ISBE is still awaiting a response from ED on their program determination on the Inspector General's 2006 comparability finding relating to the LEA.

Furthermore, the USDE performed a review of ISBE's administration of the Title I program during fiscal year 2008, in which they reported that ISBE had not ensured that its LEAs have properly calculated comparability ratios. Specifically, one LEA did not include Title I schools identified as special education, special, alternative, performance or new charter schools in its comparability calculations as is required by federal regulations. This LEA also included improper salary information in the calculation.

Finally, during testwork of 40 LEAs for comparability in 2008, auditors noted two LEAs that did not properly complete all of the required comparability forms, and ISBE did not ask them to correct the missing documentation.

In discussing these conditions with ISBE officials, they state that this issue was first raised in the U.S. Department of Education (USDE) Office of the Inspector General Report on Comparability issued June 7, 2007. This report states that; "Determinations of corrective action to be taken, including the recovery of funds, will be made by the appropriate Department of Education officials, in accordance with the General Education Provisions Act." ISBE must wait to receive the ED determination of corrective action before the Agency can sanction the LEA. The Agency continues to work with the LEA cited in the USDE monitoring report to ensure their comparability compliance. For the two LEAs identified as not properly completing their comparability forms, both district's forms allowed ISBE to determine that they met comparability requirements. It would not be efficient to require the LEAs to submit another form when the portion that was not completed provided no information pertinent to the comparability calculation.

Response: The Agency concurs that the LEA was not comparable and that ISBE did not sanction the LEA. The Agency is awaiting the determination by the USDE Office of Elementary and Secondary Education of the appropriate corrective action to sanction the LEA. Upon receipt of this determination, the Agency will implement the corrective action. ISBE continues to work with the one LEA cited in the USDE monitoring report to ensure their comparability calculation is in compliance with regulations. Regarding the two LEAs identified as not properly completing their comparability forms, ISBE was able to determine these LEAs met comparability requirements based on their submitted forms. It was not considered efficient to require the LEAs to submit additional forms when the portion that was not completed provided no information pertinent to the comparability calculation. Instructions for comparability form completion will be revised for fiscal year 2010.

08-55. The auditors recommend ISBE evaluate the current staffing of the External Assurance Department to ensure resources are allocated to perform this on-site fiscal monitoring. Also, ISBE should re-evaluate its selection method for determining which subrecipients to perform on-site reviews to ensure that all subrecipients are properly considered when developing the monitoring plan. Finally, ISBE should review and update its monitoring instruments to ensure they include procedures for all direct and material compliance requirements. (Repeated-2007)

Findings: ISBE is not adequately performing on-site fiscal monitoring reviews of subrecipients of the Title I Grants to Local Educational Agencies, Special Education Cluster, Career and Technical Education, Twenty-First Century Community Learning Centers, Reading First State Grants, and Improving Teacher Quality State Grants programs (collectively referred to as the Education programs).

During audit procedures, auditors selected a sample of 30 subrecipients from each of the Education programs and noted the following number of subrecipients that were selected for an on-site fiscal and administrative review based on the criteria above for which an actual review was not performed:

Program	Number of Subrecipients Scheduled, but not Reviewed
Title I Grants to Local Education Agencies	15
Special Education Cluster	16
Career and Technical Education – Basic Grants to States	28
Twenty-First Century Community Learning Centers	19
Reading First State Grants State Grants	16
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Additionally, auditors noted in both the Special Education Cluster and the Twenty-first Century Community Learning Centers programs, one subrecipient included in the procedures was not included in subrecipient monitoring cycles established by ISBE. Therefore, it appears that ISBE does not have an adequate process for ensuring that all subrecipients are properly evaluated for monitoring purposes.

Finally, the monitoring tools used by ISBE for on-site reviews of subrecipients do not include any procedures designed to ensure 1) compliance with providing access to federal funding for new or significantly expanded charter schools, and 2) accuracy of information reported by the LEAs that is used by ISBE in the calculation of adequate yearly progress in order to properly identify LEAs and schools in need of improvement.

In discussing these conditions with ISBE officials, they stated that when the initial three-year monitoring plan was established, External Assurance had a staff of approximately 30 personnel. Less than 15 External Assurance staff was available to perform fiscal year 2008 monitoring. This reduction in staffing levels prevented the entire monitoring plan from being accomplished for fiscal year 2008. The monitoring instrument was modified for the fiscal year 2009 cycle to include charter school review, after the auditors cited this deficiency in Spring 2008, too late to modify the instrument for the 2008 monitoring cycle.

Updated Response: The Agency agrees that not all scheduled on-site fiscal monitoring visits included in the fiscal year 2008 monitoring plan occurred. ISBE is considering contracting out a portion of the monitoring schedule to CPA firms in order to accomplish scheduled monitoring visits. The firms would perform agreed-upon procedures consisting of the monitoring steps currently performed by External Assurance.

With regard to the quality of data submitted by districts and used by ISBE in the calculation of adequate yearly progress, ISBE will not include steps for ensuring the accuracy of student data as part of the External Assurance monitoring tool. Rather, data quality, including the accuracy of district supplied data used in determining adequate yearly progress, will be analyzed by Data Stewards. The Data Stewards are working in conjunction with the development of a data warehouse and longitudinal data system and are responsible for working directly with school districts on data quality issues in order to ensure that data are accurate and timely.

08-56. The auditors recommend ISBE evaluate the current staffing of the external assurance department to ensure resources are allocated to perform on-site programmatic monitoring. Also, ISBE should update its monitoring instruments (programs) to ensure that the subrecipients' compliance with certain program requirements is properly monitored and documented. (Repeated-2007)

Findings: ISBE is not adequately performing on-site programmatic monitoring reviews of subrecipients of the Title I Grants to Local Educational Agencies and Improving Teacher Quality State Grants programs.

Auditors selected a sample of 30 subrecipients for both Title I Grants to Local Educational Agencies and Improving Teacher Quality State Grants and noted 28 subrecipients that were selected for an on-site fiscal and administrative review for which an actual review was not performed

Additionally, the USDE performed a review of ISBE's administration of the Title I Grants to Local Education Agencies and Improving Teacher Quality State Grants programs. During this review, USDE identified several instances of noncompliance with program regulations at the subrecipient level, which have been attributed to deficiencies in ISBE's monitoring procedures for subrecipients of these programs.

In discussing these conditions with ISBE officials, they stated that when the initial three-year monitoring plan was established, External Assurance had a staff of approximately 30 personnel. Less than 15 External Assurance staff was available to perform fiscal year 2008 monitoring. This reduction in staffing levels prevented the entire monitoring plan from being accomplished for fiscal year 2008.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes and subrecipients not properly administering the federal programs in accordance with laws, regulations, and the grant agreement.

Updated Response: The Agency agrees that not all scheduled on-site monitoring visits in the fiscal year 2008 monitoring plan occurred. ISBE is considering contracting out a portion of the monitoring schedule to CPA firms in order to accomplish scheduled monitoring visits. The firms would perform agreed-upon procedures consisting of the monitoring steps currently performed by External Assurance.

08-57. The auditors recommend ISBE establish procedures to monitor the MOE requirement based on actual expenditures.

Findings: ISBE is not properly monitoring the maintenance of effort (MOE) requirement for the Special Education Cluster. During a review of the Special Education Cluster performed by the USDE Office of Inspector General in July 2008, it was determined that ISBE was using budgetary amounts (appropriations) rather than actual expenditures when monitoring its compliance with the MOE requirement (i.e. comparing fiscal year 2007 appropriations to fiscal year 2008 appropriations). ISBE subsequently recalculated the MOE requirements based on actual expenditures for both fiscal years 2007 and 2008 which demonstrated the State was in compliance with the MOE requirement for the year ended June 30, 2008.

In discussing these conditions with ISBE officials, they stated that this issue was first raised by the U.S. Department of Education Office of the Inspector General auditors during their review of the Special Education Cluster that started July 2008. The U.S. Department of Education provides limited guidance on the meaning of "State Financial Support" for making the determination that a State has met Special Education Maintenance of Effort requirement. The federal auditors acknowledged that State financial support is subject to interpretation and they checked with their Regional Office to ensure their interpretation was correct. ISBE understands the expenditure basis cited by the USDE Office of the Inspector General auditors and immediately recalculated State-level MOE based on their finding. ISBE met the State level Maintenance of Effort requirement under both interpretations.

Updated Response: The Agency does not agree that it did not adequately monitor the State-level Maintenance of Effort requirement. The issue in this finding is with the interpretation of the meaning of "State financial support" in determining whether Maintenance of Effort requirements, for which the USDE provides very limited guidance, are met. It is reasonable that the starting point for monitoring the Maintenance of Effort requirement would be properly based on appropriation figures. Based on discussions with the USDE Office of Inspector General auditors, ISBE will utilize the auditors' interpretation in making a final determination on meeting the Maintenance of Effort requirement, utilizing expenditure figures. The Agency notes that it met the MOE requirements utilizing both appropriation and expenditure figures. The finding did not repeat in FY09.

Auditors' Comment: As stated in the finding above, ISBE was improperly using budgetary amounts instead of actual amounts when monitoring its compliance with the Maintenance of Effort (MOE) requirement. The MOE requirement must be measured using actual expenditures.

RECOMMENDATIONS 58-60
Illinois Community College Board

08-58. The auditors recommend ICCB perform on-site monitoring of its subrecipients in accordance with its established monitoring plan.

Findings: ICCB did not perform on-site fiscal monitoring reviews of subrecipients receiving federal awards under the Perkins IV program. Auditors noted ICCB did not perform any on-site reviews during the year ended June 30, 2008.

In discussing these conditions with ICCB officials, they stated that all of the planned subrecipients that were scheduled to be reviewed in 2008 for fiscal on-site reviews, were moved to 2009 due to agency reorganization and the resulting staff adjustments and timing difficulties.

Updated Response: Implemented.

08-59. The auditors recommend ICCB:

- **Update its checklist to include additional criteria to ensure that a sufficient review is performed over the reports,**
- **Establish a process for updating the subrecipients files with the results of the findings follow-up review, and**
- **Require its subrecipients to certify that less than \$500,000 was expended in total federal awards if an OMB A-133 audit report is not submitted. (Repeated-2006)**

Findings: ICCB is not adequately reviewing OMB Circular A-133 audit reports that are required to be received from subrecipients of the Career and Technical Education post-secondary education program. ICCB reviews these reports to assess whether or not there are violations of program requirements (findings). As part of this review process, ICCB completes a checklist, which primarily consists of questions related to whether or not the subrecipient audit report discloses any audit findings. However, no documentation exists to support that:

- ICCB performs a thorough “desk review” of the report to determine whether the audits were performed in accordance with OMB Circular A-133.
- The federal funds reported in the schedule of expenditures of federal awards reconciles to funding notifications.
- ICCB program grants that are Type A programs (as defined by OMB Circular A-133) are being audited at least every three years.

In discussing these conditions with ICCB officials, they stated they have an A-133 checklist but will update it to include the additional items.

Response: The ICCB has updated its A-133 checklist to reflect the recommendations of the auditors. We have asked all providers not subject to A-133 to submit information regarding expenditures.

08-60. The auditors recommend ICCB establish procedures to monitor the cash position of subrecipients. These procedures should be designed to ensure subrecipients receive no more than 30 days of funding on an advance basis.

Findings: ICCB does not have adequate procedures to monitor the cash needs of subrecipients and to determine whether subrecipients are minimizing the time elapsing between the receipt and disbursement of funding for the Career and Technical Education – Basic Grants to States program. During testwork, auditors noted ICCB is not monitoring the cash position of the subrecipients throughout the year to ensure that the subrecipients do not have excess federal cash on-hand at the time of each payment.

In discussing these conditions with ICCB officials, they stated the payment schedule was adequate but will review the process.

Response: The ICCB is developing a cash management system which will ensure subrecipients receive no more than 30 days of funding on an advance basis. The ICCB anticipates the system being implemented with the Fiscal Year 2010 grant funds.

Recommendations 61-64 Illinois Student Assistance Commission

08-61. The auditors recommend ISAC establish procedures to ensure borrower payments from outside collection attorneys are received on a timely basis. (Repeated-2005)

Findings: ISAC does not deposit the federal share of borrower payments into the federal fund within the required 48 hours. During testwork over 30 borrower payments, auditors noted three instances where borrower payments were not deposited into the federal fund within the required 48 hours. The delays were approximately 1 to 20 days. ISAC is aware of the delay, and, as a result, calculates interest on funds remitted outside of the 48-hour requirement. During the year ended June 30, 2008, ISAC transferred approximately \$14,000 from the operating fund to the federal fund as interest payments on untimely remittances.

In discussing these conditions with ISAC officials, they stated that delays in receipt of borrower payments from outside legal collection agencies were the reason for non-compliance with the 48-hour rule.

Response: ISAC has thoroughly evaluated its deposit process and is working with the outside legal collection agencies to reduce processing time for remitting collections into the Federal Fund. In addition, ISAC continues to transfer interest on a monthly basis for those deposits that fall outside the 48-hour deposit period into the Federal Fund.

08-62. 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. (Repeated-2004)

Findings: ISAC does not have an adequate process to ensure all defaulted loans that meet the requirements specified in federal regulations are assigned to the USDE. Auditors noted there were approximately 6,353 defaulted loans that meet these criteria as of May 23, 2008 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: On May 1, 2008 the Department of Education placed a moratorium on the assignment of accounts to them. This moratorium is still in effect.

08-63. The auditors recommend ISAC review its policies and procedures in order to ensure that there are appropriate processes in place to ensure that the Forms 2000 report is accurate.

Findings: ISAC did not accurately report the amount of federal consolidation loans cancelled as of September 30, 2007 in the Guaranty Agency Annual Financial Report (Form 2000). During testwork over 30 federal consolidation cancellation loans selected from the NSLDS extract, auditors noted two instances in which the cancellation amounts included in the Forms 2000 report did not agree to the guaranty loan subsidiary ledger (guaranty system), resulting in an understatement of Federal Consolidated Loans Cancelled category of approximately \$27,000. As a result of these findings, ISAC reviewed the query used to calculate the Federal consolidation loans cancelled noting an error in the query. Based on an adjusted query, ISAC determined the amount of federal consolidation loans cancelled as reported on the September 30, 2007 Forms 2000 report was understated by \$974,000. Additionally, as this information is used to calculate the account maintenance fee earned by ISAC for the year ended September 30, 2007, this understatement resulted in a potential overpayment of the account maintenance fees of approximately \$51,666.

In discussing these conditions with ISAC officials, they stated the variances identified for federal consolidation loans were related to a query used for Form 2000 reporting process. The query erroneously calculated the cancellation of federal consolidation by subtracting the total disbursement amount from the original guarantee amount.

Response: ISAC has corrected the error in the loan cancellation logic being applied to loans in National Student Loan Data System (NSLDS) processing. The correction was implemented for ISAC's October 2008 month end submission to NSLDS.

ISAC agrees that a reconciliation of NSLDS data and the Forms 2000 report is a useful practice to ensure reporting accuracy. Procedures are in place to review the Annual Reasonability report provided by the USDE.

The Annual Reasonability report provides ISAC the ability to compare loan level data in NSLDS to the summary level data reported on the Forms 2000 report for select attributes. The report is a gauge to identify areas where there may be reporting issues on either the NSLDS or Forms 2000 reporting sides or in some cases both.

08-64. The auditors recommend ISAC review its process to ensure that loan information is properly verified and reported to the NSLDS.

Findings: ISAC does not have an adequate process to verify unreported loans. During testwork over the accuracy of the loan information included in the guaranty system, auditors selected a sample of 100 student loans to confirm the accuracy of the loan information with the lender and noted the following exceptions:

- For one loan, auditors were unable to obtain confirmation of any of the loan information. Upon further review, it was determined both the original guaranty agency and lender have gone out of business, and the borrower social security number (SSN) information in ISAC's guaranty system is a "dummy" (assigned) SSN established by ISAC when the loan was originally transferred to ISAC (because the actual SSN could not be determined). Additionally, there has been no activity reported on the loan since 1988. This loan should have been identified by ISAC as a "presumed paid" loan and excluded from ISAC's balance of loans in repayment status. It was subsequently determined that ISAC was improperly excluding loans with invalid information, such as a social security number, from the semi-annual report to identify loans that have been presumed to be paid. ISAC officials subsequently ran a modified report to identify all loans that met the presumed paid criteria and identified approximately 740 loans totaling \$2.0 million that should no longer be reported as loans in repayment status.
- For two loans in the sample, the lender indicated the loans had been paid in full through consolidation in July 2004 and July 2006, respectively. Upon further review, the loan information had not been updated by the lenders since May 15, 2004 and August 19, 2006, respectively. Both of these loans were included in November 2007 and May 2008 "unreported loans" report provided to lenders. However, no follow up was performed to ISAC to determine whether the lenders properly investigated the status of these loans.

In discussing these conditions with ISAC officials, they state when the presumed paid logic was first developed it did not take into consideration the NSLDS requirement to report assigned/"dummy" SSNs in a specific format. Therefore, the presumed paid logic was not applied to these loans with assigned SSNs. In discussing the unreported loans process with ISAC officials, they state that there is not a federal requirement for lenders to respond to the unreported loans report. The industry standard requests that lenders review the loans on the report and make the necessary corrections to ensure that those unreported loans are included in the lender's next monthly lender manifest submission.

Response: Presumed Paid Process - ISAC agrees that loans with assigned/"dummy" SSNs should not be excluded from the presumed paid process. Staff have responded to this omission in the presumed paid logic. Correct logic is being testing and will be implemented in May 2009 to include loans with assigned/'dummy' SSNs in this process.

Unreported Loans Process - Regarding follow up with lenders as to their updating of unreported loans, it is important to note that ISAC's Compliance staff includes the unreported loans report as part of regularly scheduled lender reviews.

In addition, because ISAC recognizes the importance of obtaining accurate and timely data from its lenders, a new procedure is being implemented in May 2009 to work with lenders on their unreported loans. This new procedure is described below.

Unreported Loans Follow Up - Beginning with the May 2009 Unreported Loans cycle, Lender Services will make follow up contact with lenders to determine their progress on resolving reporting issues for loans sent to them on the NSLDS Lender Manifest Report of Unreported Loans.

- 60-days following the distribution of the report - e-mail sent to remind lenders/servicers to make the necessary corrections and report loans on their Lender Manifest submission.
- 120-days following the distribution of the report - spot check loan updates and lender manifest submission for loans on the report. Phone call to lenders with little or no progress. Provide assistance where applicable.
- 150 days or 30 days prior to next Unreported loan report - e-message to make sure reporting loans and that issues for loans on the last report were resolved as a new Unreported report is upcoming.
- Specific agenda item for Lender Manifest -Unreported Loans on all Loan Partner Conference Calls.

RECOMMENDATIONS 65-74 **Department of Employment Security**

08-65. The auditors recommend IDES implement procedures to ensure adequate eligibility certifications are obtained from all claimants on a continuing basis throughout the period for which benefits are paid.

Findings: IDES does not obtain continuing certifications that claimants have not refused suitable work offers throughout the eligibility period prior to the payment of benefits under the Unemployment Insurance (UI) Program.

In discussing these conditions with IDES officials, they stated claimants were previously required to certify that they had not refused suitable work through Teleserve on a weekly basis; however, the refusal to work certification was removed eleven years ago due to a perceived confusion from the claimants in answering the question.

Updated Response: Accepted. The refusal of work question will be added to the Teleserve Interactive Voice Response (IVR) System and to the internet certification when the new benefit system is implemented. The scheduled go-live date is summer of 2010.

08-66. The auditors recommend IDES implement procedures to ensure all eligibility determinations are made within the prescribed timeframes.

Findings: IDES is not issuing eligibility determinations for individuals applying for Unemployment Insurance (UI) benefits in accordance with timeframes required by the State Plan.

UI eligibility determinations are made during the initial intake of the claim and are monitored throughout the benefit payment period. If the claimant does not meet certain eligibility criteria, the claim appears on a pending adjudication report. The claim is then assigned to a claims adjudicator for resolution. The pending adjudication report monitors the number of days the claim has been outstanding since the initial detection date, which is the date on which IDES detected an issue on the claim which could affect past, present, or future benefit rights.

During test work, auditors conducted unannounced site visits to three local offices and requested the most recent pending adjudication report as of the date of our visit. They noted a significant backlog in the resolution status of claims in the adjudication process. Specifically, 244 claims at the three local offices were outstanding for time periods ranging from 21 to 367 days.

Additionally, for the federal fiscal year 2008, IDES resolved only 70.3% of these determinations within 21 days of the detection date, which does not meet the acceptable level of performance as defined by the US Department of Labor.

In discussing these conditions with IDES officials, they stated the time lapse has been a problem for several years when IDES lost adjudication expertise to the early retirement incentive. The under funding of the UI program in recent years has worsened the situation by preventing Illinois from fully re-staffing those vacancies.

Response: We agree that the percentage of non-monetary determinations issued within 21 days of the issue detection date is below federal standards. The increased workload has created a backlog. IDES has hired more staff, tried clustering the adjudication sites, hired 75-day staff, and pulled staff from other areas of the Department to address the backlog. We continue to tweak the corrective action plan in the State Quality Service Plan in an attempt to eliminate the backlog.

We monitor backlog on a weekly basis; backlog reduction meetings are held periodically to share best practices on the elimination of the backlog.

Updated Response: Accepted. We agree that the percentage of non-monetary determinations issued within 21 days of the issue detection date is below federal standards. The increased workload has created a backlog. The Department continues to monitor the backlog on a weekly basis. We have used a statewide task force to address the backlog and have hired over 300 new front-line staff since October 2008. Currently, staff complete interviews in the new benefit system (IBIS) and then must enter the final result in the mainframe system (BIS). When IBIS is fully implemented, the time-consuming double entry will be eliminated which should impact timeliness.

08-67. The auditors recommend IDES implement procedures to ensure Alternative Trade Adjustment Assistance (ATAA) benefit payments are properly calculated and paid on at least a monthly basis.

Findings: IDES did not accurately calculate benefit payments for the Alternative Trade Adjustment Assistance (ATAA) grant administered under the Unemployment Insurance Program. From June 16-23 2008, reviewers from the U.S. Department of Labor conducted a review of the Trade Adjustment Assistance (TAA), ATAA, and Trade Readjustment Assistance (TRA) Grants. The reviewers examined 61 participant files, interviewed state office staff, and analyzed documents related to performance, policies, types of services provided, training contracts, and expenditures. The reviewers also matched the participant files to documents and files supporting the eligibility determinations and payments. The final audit report indicated in six cases the ATAA benefit calculations were not accurate and were not re-verified monthly based upon actual paychecks. Paychecks reflecting a change in employment status or incorporating shift differentials were not considered in the calculations, and in some instances payments were not made on at least a monthly basis.

In discussing these conditions with IDES officials, they stated during the period reviewed, a manual system was used to calculate payments.

Updated Response: Accepted. The administration of the ATAA program was moved to the Springfield Office under the direction of the Special Programs Manager. Two new staff have been hired and trained since October 2009. Payment subsidies are now calculated using excel spreadsheets. In addition, a form has been drafted including instructions for participants to complete and submit monthly along with employment and wage verification information. The form and instructions will be incorporated into formal procedures that are under development.

08-68. The auditors recommend IDES reinforce procedures to ensure all eligibility determination documentation is complete and properly maintained. (Repeated-2006)

Findings: IDES did not maintain complete documentation supporting client eligibility determinations made for the Unemployment Insurance program. During test work of the UI program, auditors selected 60 beneficiary payments to review for compliance with eligibility requirements and for the allowability of the related benefits, and noted the following exceptions:

- In one case, the claimant's application contained insufficient documentation to determine if the claimant had dependents and provided over half the support, however the benefit payment included a dependent allowance. IDES was able to verify that the claimant had a dependent.
- In two cases, the UI application could not be located. The claimants had been filing transitional claims electronically for seven years. IDES' records retention policies allow applications to be purged after seven years even if the claimant is still receiving benefits. In each case, eligibility criteria was verified through information in the electronic files.
- In nine cases, the claimant was not registered on the Illinois Skills Match system. In each of these cases, auditors determined that the individuals were actively seeking employment through the weekly certifications made to IDES.
- In one case, the claimant did not indicate on the application whether any suitable work offers had been refused since the claimant had been laid off.

Additionally, auditors noted that copies of claimant identification (e.g. driver's license and social security card) were maintained at certain locations, but not others.

In discussing these conditions with IDES, they stated the errors in completing the applications were oversights and claimants are advised to register in the Skills Match System, but do not always do so. Applications are retained in accordance with the agency's record retention policy.

Updated Response: Accepted. The importance of reviewing and monitoring claimant eligibility was discussed with the Region and Local Office Managers in the fall of 2009. The agency's Plan of Service continues to require Local Office Managers to review applications for completeness and provide corrective action plans for individuals who do not adequately complete the application forms. Automatic partial registration of all claimants in the Skills Match System will take place when Release 4 of IBIS is implemented.

08-69. The auditors recommend IDES implement procedures to ensure all required documentation is retained in the Benefits Accuracy Measurement (BAM) unit case files.

Findings: IDES did not maintain adequate documentation to support conclusions of eligibility reviews performed by the Benefits Accuracy Measurement (BAM) unit for the Unemployment Insurance (UI) program.

IDES is required to operate a BAM Program to assess the accuracy of UI benefit payments and denied claims. Specifically, IDES' BAM unit selects a weekly sample of payments and denied claims and performs procedures to determine whether claims were properly paid or denied. During the year ended June 30, 2008, IDES' BAM unit reviewed a sample of 957 claims out of a total of 753,698 claims.

During test work over the BAM program, auditors selected 50 claims reviewed during the year and noted the following:

- One investigation summary document did not contain the case worker's signature.
- One file for a claimant deemed to have been improperly paid UI benefits did not include a copy of the claimant's identification.
- Four files for claimants deemed to have been properly paid UI benefits did not include a copy of the claimant's identification.
- Four files for claimants deemed to have been properly paid UI benefits did not include evidence supporting the dependency allowance paid.

In discussing these conditions with IDES officials they stated that attempts are made to obtain documentation from the claimant, but they don't always respond. In addition, the BAM unit has a number of new staff.

Response: We agree. All BAM staff will be retrained on the documentation requirements for Paid and Denied Claims.

Updated Response: Implemented.

08-70. The auditors recommend IDES formalize policies and procedures for applicable claim exception and monitoring reports, clearly complete and document the resolution of each claim in a timely manner on the exception and monitoring report (including supervisory review), and retain the reports as considered necessary to comply with federal audit requirements. IDES should also consider automating the claim exception and monitoring edit reports into the Benefits Information System in future years to facilitate a more efficient and effective process for claims exception resolution documentation. (Repeated-2005)

Findings: IDES has not adequately documented policies and procedures to work all claim exception and monitoring reports. Additionally, the local offices did not clearly document the resolution of the issues identified on the claim exception and monitoring reports, and the reports did not always indicate that a supervisory review had been performed.

The IDES Central Office generates several system (exception and monitoring) reports to facilitate proper benefit payment that are utilized at the local office level and monitored by local office and/or regional office management. Per federal program emphasis, several of the common reports reviewed locally are designed to report claims with unresolved issues that are preventing payment, as a tool to ensure payments to eligible individuals are made timely. These reports include the following:

- SSN Verification From SSA
- Sensitive Changes Report
- Immigration Record Check For Unemployment
- Combined Application Error Report
- File Maintenance Error Report and Rejected Transaction Report
- Media Transfer Report
- Daily Rejected Report
- All Transactions Report
- Claims Application Error Report
- Internet Claim Deletions Report
- First Certification Report
- Certification Summary Report
- Pending Adjudication Report.

During test work, auditors noted policies and procedures had not been established for the Media Transfer Report, the All Transactions Report, the Claims Application Error Report, the Internet Claims Deletion Report, the First Certification Report, and the Pending Adjudication Report. Additionally, IDES only retains claim exception and monitoring reports (except for the sensitive changes report) for a period of three months after the end of the quarter.

Auditors conducted unannounced site visits to three local offices and requested the above claim exception and monitoring reports for the most recent date that had been reviewed by the local office staff. From each report, auditors reviewed exceptions to determine whether they had been properly resolved and noted that resolution of exceptions and supervisory review was not consistently documented.

In discussing these conditions with IDES officials, they note all reports and/or items on reports require resolution and supervisory review; therefore, formal procedures have not been established for all reports.

Updated Response: Partially accepted. IDES has reviewed and revised their procedures. Not all reports and/or items on each report require resolution. Not all reports and/or items on reports require supervisory review. The review of reports was discussed at the UI Program Managers meeting to ensure that all are required reports are properly reviewed.

Currently, the reports are hardcopy and we do not have adequate space to maintain and secure the reports for more than three months. Once the required items are resolved, it is not necessary internally to retain the reports any longer. With the implementation of IBIS and real time processing, errors can be corrected immediately. As a result, many of the error and file maintenance reports will be eliminated.

08-71. The auditors recommend IDES reinforce procedures to ensure all effort reports are properly signed and certified by the employees.

Findings: IDES did not have adequate procedures in place to ensure effort (time) reports are signed by employees.

During test work of 60 payroll expenditures charged to the Employment Services Cluster (ES) and Unemployment Insurance (UI) programs, auditors noted three effort reports were not signed by the employee. Payroll charged to the ES and UI programs related to these effort reports was \$4,185 and \$760, respectively.

In discussing these conditions with IDES officials, they stated one local office was using outdated policies and procedures when completing the effort reports.

Response: Implemented. The two individuals in question did sign daily on the Time and Attendance Reports which document the hours worked daily; however, they failed to sign the individual Time Distribution and Attendance Reports (Effort Reports). The employees have now signed the reports. Cost Center Managers will be reminded of the importance of ensuring that employees sign/certify the Time Distribution and Attendance Reports.

08-72. The auditors recommend IDES establish procedures to ensure earmarking requirements are properly calculated based on total grant awards.

Findings: IDES did not properly calculate the earmarking requirement applicable to the Employment Services (ES) program.

IDES is required to expend 10% to provide certain specified services including performance incentives for public employment service offices and programs, services for groups with special needs, and the extra costs of exemplary models for delivering services. IDES monitors this earmarking requirement by establishing a budgetary reserve in the system, which tracks actual expenditures compared to the budgetary reserve. During test work of the grant award beginning October 1, 2007, auditors noted IDES improperly calculated the budgetary reserve (earmarking requirement) as \$2,907,353, which was \$56,241 less than the required amount of \$2,963,594. As of the date of testwork, actual expenditures for the required specified services exceeded the ten percent earmarking requirement and, accordingly, IDES appeared to be in compliance with the earmarking requirement.

In discussing these conditions with IDES, they stated the agency received a grant modification that included additional funding for the program to cover postage costs which have historically been paid directly by USDOL. The earmarking requirement was calculated shortly after receipt of the initial grant award and did not include the additional funds subsequently awarded for the program.

Response: Implemented.

08-73. The auditors recommend IDES review the process and procedures in place to prepare the ATAA Special Report to ensure expenditures are accurately reported and reconciled to the general ledger. (Repeated-2007)

Findings: IDES did not accurately report expenditures in the Alternative Trade Adjustment Activities (ATAA) Special Report.

During a review of the June 30, 2008 quarterly ATAA Special report, auditors noted IDES did not reconcile the total expenditures reported for the ATAA to the general ledger. Also, the ATAA special report was prepared and submitted by the same individual and was not sufficiently reviewed by a supervisor prior to submission. Upon request, IDES reconciled the expenditure amounts to the general ledger for each quarter and noted the variances at the end of each quarter ranging from (-\$72,235) to \$27,370.

In discussing these conditions with IDES officials, they stated during the audit period, a manual system was used to compile the report data.

Updated Response: Accepted. In January 2009, the Department revised its process for completing the ATAA Special Report and re-assigned payment processing and reporting to the Special Programs Manager. Beginning with the ATAA Report for the quarter ending 12/31/08, an ATAA Reconciliation Worksheet was created to compare total payments processed via the check register to total ATAA disbursements for the month/quarter on the ATAA Disbursement General Ledger as reported by Accounting. The worksheets and totals are submitted to the UI Program Manager for review and approval prior to the submission of the ATAA Report. The Department is working with USDOL to confirm that these changes adequately address this finding.

08-74. The auditors recommend IDES ensure that information system policies and procedures are adequately documented, updated, and consistently followed. (Repeated-2005)

Findings: IDES does not have adequate documentation of access and program development controls over the information systems that support the Unemployment Insurance (UI) Program.

During test work over the access, program change and development, and computer operations controls of the mainframe system, auditors noted the following:

- The policy in place for terminating access rights was not consistently followed. One employee terminated during FY08 still had active system access.
- One retired individual still had active administrative access.
- One administrator password account used to move changes into production is shared by two individuals.
- Powerful system IDs and accounts (Super User IDs) were being used on a non-emergency basis to resolve transaction or application related problems that occurred during the regular day or night batch processing.
- Three individuals had inappropriate access to the computer resources room.
- A data recovery test was not performed during the fiscal year ended June 30, 2008.
- Policies and procedures are not updated in a timely manner. The Program Development Methodology has not been updated since 1991.

In discussing these conditions with IDES officials, they stated:

- Technical Services and Security (TSS) automatically revokes access as terminations appear in the Payroll system. Access rights may not be timely terminated if HRM does not

update employee status in the payroll database and the employee's manager does not notify TSS of the termination.

- The administrative access was maintained for the employee cited in the test work notes in anticipation of his returning as a 75-day employee within one month of his retirement.
- The shared ID had not been used in many years by other than the primary user and should have been changed to a non-shared status.
- TSS was unaware (until the audit finding) that at least one individual identified as having inappropriate access to the computer room had changed positions and, therefore, no longer required access.
- Staffing resources are often not available to follow the normal process for fixing data errors, particularly errors occurring when converting benefit transactions in the Benefit Information System (BIS) to benefit charges in the Benefit Charging System (BCS). The use of Super IDs is the most expeditious method for ensuring that benefit transactions are processed correctly in BIS. Correcting such errors is critical as benefit charges are a key component of employer tax rate calculations.
- The Department has decided not to conduct data recovery testing of the legacy benefit system until after cutover to a new benefit system.
- Until recently, no one was identified as being responsible for update of the Department's program development methodology procedures.

Updated Response: Accepted. We completed updating the program development methodology procedures which include the Task Order Deliverables and Customized forms. The specific instances cited in the audit on facility and system access rights and the sharing of administrative passwords have been corrected. With respect to Super ID's, the Department will soon hire a consultant to study staffing in the IT area. Given the record volume of unemployment claimants in the current environment, the Department may occasionally need to use extraordinary measures to ensure timely service to claimants. In these cases, the Department will continue to leverage the compensating controls which are in place and currently provide detailed system access logs. The Department will also develop a reasonable annual data recovery testing schedule, which will be implemented after the go-live of the IBIS application.

RECOMMENDATIONS 75-77

Department of Commerce and Economic Opportunity

08-75. The auditors recommend DCEO review the process and procedures in place to prepare the Performance and Evaluation Report to ensure amounts are reported correctly and are reconciled to the general ledger and supporting schedules. (Repeated-2007)

Findings: DCEO did not accurately report financial information in the Performance and Evaluation Report for the Community Development Block Grant (CDBG) Program.

During testwork of the Performance and Evaluation Report for the year ended December 31, 2007, auditors noted amounts included in the report did not agree (reconcile) to the general ledger and supporting schedules.

In discussing these conditions with DCEO officials, they stated although a corrective action plan was implemented as a result of the prior year audit, the plan was deficient in that it only required a review of financial elements provided from the DCEO Accounting system and did not address

programmatic information. The review process has since been redesigned to include a full verification of the report by Accounting staff prior to filing by program staff.

Response: Implemented. The department has redesigned the review process to include all elements of the report by Accounting staff prior to official filing by program staff.

08-76. The auditors recommend DCEO implement procedures to ensure waiver forms are properly issued and evaluated every 30 days. Additionally, the auditors recommend DCEO implement procedures to ensure job search allowances are properly calculated.

Findings: DCEO did not properly issue and evaluate training waivers and did not properly calculate the job search allowance for the Trade Adjustment Assistance (TAA) Program.

During the period June 16-23, 2008, the U.S. Department of Labor – Employment and Training Administration conducted a review of the Trade Adjustment Assistance (TAA), Alternative Trade Adjustment Assistance (ATAA), and Trade Readjustment Assistance (TRA) Programs. The reviewers examined 61 participant files, interviewed State office staff, and analyzed documents related to performance, policies, types of services provided, training contracts, and expenditures. The reviewers also matched the participant files to documents and files supporting the eligibility determinations and payments. The final audit report indicated the following:

- In four cases the waiver effective dates did not match the waiver issue dates. This indicated waiver forms were being signed without actually evaluating the claimant's current circumstances, and then were issued at a later date.
- In two cases, the waiver date in the system did not match the waiver date on the paper form.
- In one case, the waiver was effective for 12 months.
- In three cases, the files did not indicate that a review of the conditions upon which the waiver was granted had taken place every 30 days.
- In two cases, the job search allowance was calculated incorrectly. In one case, the cost of gas was reimbursed rather than using a mileage rate. In another case, the claimant was paid 90% of the cost of gas to travel to the location of the interview, rather than being paid at the appropriate mileage rate.

In discussing these conditions with DCEO officials, they reaffirmed that these issues were identified previously in the audit period during a federal review of the program. The deficiencies were caused by grantee(s) not adhering to established procedures and program requirements regarding client assistance.

Updated Response: Implemented. The Department held several training sessions for local workforce investment areas on the Trade Adjustment Assistance Program in August and September 2009. The Department's training covered procedures for properly issuing waivers and calculating job search allowances. In regards to the U.S. Department of Labor (USDOL) review, the Department provided technical assistance to the local workforce investment areas and the issues have been resolved. No disallowed costs were identified by the USDOL review and the Department has communicated the corrective action to the USDOL.

08-77. The auditors recommend DCEO adequately document supervisory reviews and communicate findings and management recommendations for on-site reviews on a timely basis.

Findings: DCEO did not adequately document supervisory reviews of on-site monitoring procedures and did not communicate the resulting findings on a timely basis for the Workforce Investment Act Cluster (WIA) program.

DCEO passes through federal funding to 55 formula and discretionary grantees (subrecipients) throughout the State. Each of these agencies works with DCEO to develop an annual area plan detailing how funds will be used to meet the goals and objectives of the WIA program. DCEO has established policies and procedures for monitoring its subrecipients, which includes: performing fiscal and programmatic on-site reviews, reviewing periodic financial, programmatic, and single audit reports, and providing training and guidance to subrecipients as necessary.

During testwork of 14 subrecipients of the WIA program with total expenditures of \$83,000,000, auditors noted:

- Supervisory reviews of monitoring procedures were not documented for three fiscal and three programmatic on-site reviews.
- The findings and management recommendations for four fiscal and two programmatic on-site monitoring reviews were not communicated to the subrecipients as of the date of testwork.
- The findings and management recommendations for three fiscal and two programmatic on-site monitoring reviews were not communicated to the subrecipients in a timely manner. The number of days elapsed between the exit conference and the communication of the findings ranged from 126 to 347 days.

Total awards passed through to subrecipients of the WIA program were approximately \$134,309,000 during the year-ended June 30, 2008.

In discussing these conditions with DCEO officials, they stated that the untimely communication of on-site monitoring findings was attributed to program staff vacancies during a critical period of time with increased program activity, funding and training participant levels. Monitoring staff witnessed an increased activity level as a result of the overall downturn in the national and state economy as they attended more Rapid Response events (plant closings) during this period. In addition monitoring resources were also assigned to the program's annual DOL data validation efforts which required review of approximately 1,500 participant files during this time period. The implementation of the program's new automated monitoring system during this time period also impacted the timeliness of the monitoring and staff completing new procedures for data entry into the system for validation of supervisory review.

Response: The department agrees with the recommendation and will review existing procedures and implement necessary changes to ensure program staff adequately documents supervisory reviews and communicates findings and management recommendations for on-site reviews on a timely basis. The department has also developed a plan to hire additional program staff to meet the requirements of the program and the additional funding provided by the American Recovery and Reinvestment Act of 2009.

Updated Response: The Department has reviewed existing procedures and is in the process of revising them to ensure program staff adequately documents supervisory reviews and communicates findings and management recommendations for on-site reviews in a timely manner.

RECOMMENDATIONS 78-84
Department of Transportation

08-78. The auditors recommend IDOT develop formal policies and procedures to perform periodic on-site reviews to ensure subrecipients are administering the federal program in accordance with the applicable laws and regulations. (Repeated-2005)

Findings: IDOT is not performing on-site reviews of subrecipients receiving federal awards for the Airport Improvement program and has not developed formal policies and procedures for on-site reviews.

IDOT passed through approximately \$50,734,000 to 39 subrecipients of the Airport Improvement program during the year ended June 30, 2008. The majority of the subrecipient grants pertain to construction projects for airport improvement or noise abatement projects. As a pass through entity, IDOT monitors subrecipients of the Airport Improvement program primarily by reviewing grant applications, receiving periodic expenditure reports, reviewing invoices for noise abatement projects, and receiving OMB Circular A-133 Audit Reports. However, IDOT does not perform on-site reviews of its subrecipients.

In discussing this condition with IDOT officials, they state that although the Division of Aeronautics has always “informally” monitored local let projects, a verifiable procedure was not in place to document these reviews during fiscal year 2008.

Response: Implemented. We have implemented a procedure that documents on the Form AER 50 “*Local Let Project Tracking Worksheet and Documentation*” was utilized for all local let projects that began in fiscal year 2009. Although the Division has always “informally” monitored local let projects, a verifiable procedure is now in place.

08-79. The auditors recommend IDOT establish procedures to ensure grantees receiving individual awards for \$25,000 or more certify that their organization is not suspended or debarred or otherwise excluded from participation in Federal assistance programs.

Findings: IDOT did not obtain required certifications that subrecipients were not suspended or debarred from participation in Federal assistance programs for the Highway Planning and Construction Program.

During a review of 30 grant agreement notifications to subrecipients of the Highway Planning and Construction Program, auditors noted IDOT did not include a suspension and debarment certification in one of the grant agreements. As a result, IDOT did not receive a certification that this subrecipient of the Highway Planning and Construction Program was not suspended or debarred from participation in Federal assistance programs. Additionally, IDOT did not perform a verification check with the “Excluded Parties List System” (EPLS) maintained by the General Services Administration for its subrecipients.

In discussing these conditions with IDOT officials, they state that one division was using an outdated grant agreement that did not include the suspension and debarment certifications.

Updated Response: We implemented procedures to ensure compliance for individual awards over \$25,000 or more are not suspended or debarred or otherwise excluded from participation in federal assistance programs. In regards to the Excluded Parties List System, the department is developing an automated system to check each grantee against the EPLS prior to execution of an award.

08-80. The auditors recommend IDOT implement procedures to ensure the OMB Circular A-133 audit reports are reviewed within sixty days of receipt. Additionally, the auditors recommend IDOT implement procedures to ensure amounts reported by subrecipients in the schedule of expenditures of federal awards are reconciled to departmental records. (Repeated-2002)

Findings: IDOT does not have an adequate process to review subrecipient OMB Circular A-133 reports on a timely basis. IDOT passed through \$104,027,259, \$50,733,583, and \$123,329 to subrecipients of the Highway Planning and Construction, Airport Improvement, and Homeland Security Cluster programs, respectively, during the year ended June 30, 2008.

During testwork, auditors selected 15 subrecipient monitoring files and noted one subrecipient report was received on February 21, 2008 and had not been reviewed as of the date of testwork. In addition, the checklist used by IDOT to perform A-133 desk reviews does not address procedures to reconcile funds sent by IDOT to the schedule of expenditures of federal awards reported by the subrecipient.

In discussing these conditions with IDOT officials, they state that with respect to the one report that was received in February of 2008 for which a review had yet to be issued, this report was purposely being held pending the completion of a site audit of the subrecipient. The Department is revising procedures to reconcile funds sent by IDOT to the schedule of expenditures of federal awards reported by the subrecipient; however, the procedures were not fully implemented in the audit period.

Response: Implemented. The Department implemented procedures to incorporate a process to reconcile the Department's cash payments with subrecipients' schedules of expenditures of federal awards. The checklist has also been revised to reflect procedures to reconcile funds sent by IDOT to the schedule of expenditures of federal awards reported in the subrecipients' OMB Circular A-133 audit reports.

08-81. The auditors recommend IDOT review its current process for preparing subrecipient funding notifications to ensure all required information is properly communicated to its subrecipients. (Repeated-2004)

Findings: IDOT did not provide required program information relative to federal funds passed through to the subrecipients of the Highway Planning and Construction, Airport Improvement, and Homeland Security Cluster programs for the year ended June 30, 2008.

During testwork of 16 subrecipients who received \$45,222,115 in Highway Planning and Construction program funds, 16 subrecipients who received \$48,768,799 of the Airport

Improvement program funds, and three subrecipients who received \$123,329 in Homeland Security Cluster funds, the auditors noted the following:

- IDOT did not communicate the specific program or CFDA number under which federal funding had been provided in grant award documents or in funding notification letters sent to subrecipients.
- IDOT did not communicate the need for an audit in accordance with OMB Circular A-133 or program regulations for 13 of the 16 subrecipients tested who received funding from the Highway Planning and Construction program, or for 7 of the 16 subrecipients tested who received funding from the Airport Improvement Program.
- Two subrecipients who received funding from the Homeland Security Cluster were not identified as subrecipients on the list used to track the receipt of the OMB Circular A-133 reports and as such, did not receive a letter from IDOT requesting the OMB Circular A-133 report.

In discussing these conditions with IDOT officials, they state that corrective action had not been implemented as thoroughly as it should have been with regard to both new and already active project agreements.

Response: We concur. The details of this repeated finding, as well as the corrective action and appropriate language to include in all active and new project agreements, has been shared with appropriate personnel in a department-wide memorandum issued on May 13, 2009. This memorandum revised and reiterated the corrective action requirements issued previously by the department. In addition, we will establish and implement monitoring procedures to ensure contracts comply with the memorandum.

Updated Response: Implemented.

08-82. The auditors recommend IDOT implement procedures to ensure cash drawn in advance is disbursed in accordance with program regulations, federal funds received are deposited in an interest-bearing account, and interest is calculated and remitted to the U.S. Treasury as required under the regulations. (Repeated-2006)

Findings: IDOT did not minimize the time elapsing between the draw down of federal funds from the U.S. Treasury and their disbursement for program purposes, and did not deposit the Homeland Security Cluster funds into an interest-bearing account.

During a review of 25 expenditures totaling \$683,016 related to federal fiscal 2005 Homeland Security Cluster grants, auditors noted a warrant was not issued for one expenditure totaling \$16,895 within 120 business days of receiving federal funds intended to finance the expenditure. Specifically, the warrant was issued 322 days after receiving the federal funds. Additionally, IDOT did not deposit the funds in an interest bearing account and did not track the interest earned on those funds.

In discussing these conditions with IDOT officials, they stated that the prior year's audit corrective action plan including the funding procedures and separate appropriation account for Homeland Security funds were not implemented until July 2008. With regard to the \$16,895 expenditure resulting in a lengthy delay in the issuance of the warrant, this event was due to an unfortunate issue with the vendor that needed to be resolved before payment could be processed.

Response: We concur. We will also implement procedures to ensure the homeland security funds received in advance are deposited in an interest bearing account and will track the interest earned in accordance with the regulations.

Updated Response: Implemented.

08-83. The auditors recommend IDOT implement procedures to ensure cash draws are performed in accordance with US Treasury Regulations. (Repeated-2007)

Findings: IDOT does not have procedures to ensure cash draws are performed in accordance with the Treasury-State Agreement. During a review of 60 expenditures totaling approximately \$36,856,165, auditors noted warrants were not issued for 13 expenditure vouchers totaling approximately \$4,980,000 within three business days of receiving the federal funds intended to finance these expenditures. The number of days between receipt and the issuance of warrants ranged from four to 20 business days.

In discussing this condition with Department officials, they state that the Office of the Comptroller requires IDOT to draw down the federal funds and have them available at the time the vouchers are presented to the Comptroller for processing and payment. In order to comply with the Treasury-State Agreement (TSA) requirement that IDOT draws funds for the Airport Improvement Program by using the pre-issuance method requiring the requested funds are deposited in a State account not more than three days prior to the day the State makes a disbursement, the Division of Aeronautics has adopted a procedural change to draw down the federal funds from ECHO/Delphi after confirmation with the Bureau of Business Services FOA system to determine that the schedule has been vouchered before processing a Letter of Credit draw down from ECHO/Delphi. This is the last step before the funds need to be available before dispersing the funds.

Response: We concur. We will recalculate our clearance pattern for inclusion in the TSA agreement.

Updated Response: Implemented.

08-84. The auditors recommend IDOT implement procedures to ensure all information systems are adequately secured. (Repeated-2005)

Findings: IDOT does not have adequate access, change management, and computer operations controls over the key systems that support the IDOT Integrated Transportation Project Management system.

The information technology systems that support the IDOT Integrated Transportation Project Management system include the following:

- The Electronic Contract Management System (ECM)
- The Electronic Letting Management System (ELM)
- The Illinois Construction Records System (ICORS)
- The Bureau of Contract Management System (BCM)
- The Fiscal Operations and Administration System (FOA)

- The Federal Payment Control System (FPC)

During testwork over the access, program change and development, and computer operations controls of the systems, auditors noted the following:

Plans, Policies and Procedures:

- The IDOT RACF Administration Guide was updated in 2008; however, it is still in draft form.

Change Management Control:

- IDOT does not have a process in place to follow-up with CMS to review program changes requested by IDOT and migrated into production by CMS.

Access Control:

- Two of 25 terminated users tested still had active RACF IDs.
- Developers have access to move changes into production on the NOMAD platform, where the FPC system resides.

During testwork over access to specific applications, auditors obtained an overall list of users with access to the ELM, BCM, FOA and FPC systems and noted the following exceptions:

- Four users had access to the ELM system but did not have any job responsibilities related to the bidding process that would require such access.
- Twenty-one users had access to the BCM system, however it appears access may not be necessary as the IDs had not been used over an extended period of time, ranging from 10-18 months.
- Thirty-four users had access to the FOA system, however it appears access may not be necessary as the IDs had not been used over an extended period of time, ranging from 10-18 months.
- Three users tested had access to the FPC system but did not have any responsibilities related to the federal billing that would require such access. None of these users had accessed the FPC system during the audit period.

In discussing these conditions with IDOT officials, they state that IDOT has begun efforts to resolve the issues noted in the audit and implement improved RACF security measures to address the control items above.

Response: The Department agrees with the finding. The Department is working on enhancements to the RACF Security Manual and policies to verify separated employees access has been removed from the systems within a designated timeframe. The Department continues to work with CMS pursuant to Public Act 93-0839 in which CMS has assumed responsibility for the statewide Information Technology infrastructure. The Department continues to work with CMS on communication notifications related to program changes CMS implements into production.

Updated Response: Implemented.

RECOMMENDATIONS 85-89
Illinois Emergency Management Agency

08-85. The auditors recommend IEMA deposit all federal funds received in an interest-bearing account and calculate and remit interest owed to the U.S. Treasury.

Findings: IEMA did not deposit Homeland Security Cluster program funds received in advance of issuing warrants into an interest-bearing account. During the year ended June 30, 2008, IEMA received approximately \$37,066,000 in draws under the Homeland Security Cluster program that were not deposited into an interest bearing account. Additionally, IEMA did not calculate or remit any potential interest liability owed to the U.S. Treasury on funds received in advance of disbursement.

In discussing these conditions with IEMA personnel, they stated that the Agency believed that the intent of program guidance requiring the deposits into interest bearing accounts was for cash advancements and not payments considered to be reimbursements. IEMA had followed its procedures of weekly drawdown of federal funds to ensure that minimum cash is on hand for immediate payment or within 72 hours.

Response: Accepted. The Agency will pursue the establishment of an interest bearing account through legislation as required by state law.

08-86. The auditors recommend IEMA establish procedures to ensure vendors certify that their organization is not suspended or debarred or otherwise excluded from participation in Federal assistance programs.

Findings: IEMA did not obtain required certifications that vendors were not suspended or debarred from participation in Federal assistance programs for the Homeland Security Grant program.

In discussing these conditions with IEMA officials, they stated they believed the suspension and debarment language included in the contract which referred to the Illinois Compiled Statutes was adequate.

Response: Accepted. The Agency has implemented procedures and now includes language to specifically refer to the federal law in all contracts that involve the use or disbursement of federal (Homeland Security) funds. The Agency is requiring its internal bureaus to more clearly indicate whether Federal funds are being used to procure goods and services. Further, Agency personnel may investigate via EPLS to verify whether a potential vendor is debarred or suspended from doing business with the Federal Government.

08-87. The auditors recommend IEMA perform periodic on-site reviews to ensure subrecipients are administering the federal program in accordance with the applicable laws and regulations.

Findings: IEMA is not performing on-site reviews of subrecipients receiving federal awards under the Homeland Security Cluster.

In discussing these conditions with IEMA officials, they stated they had recently developed on-site subrecipient monitoring procedures, however those procedures had not been implemented during the fiscal year ended June 30, 2008.

Response: Accepted. IEMA believes that a good subrecipient monitoring program has been established. We acknowledge that additional site visits could be conducted, and the ITTF has

established a policy for conducting them as well as developing a reporting form for the visits. However, we also believe that subrecipients are monitored by a variety of alternate means that are in some ways more effective than site visits. These methods include deployment exercises to stage response equipment at a central location for review and inspection and hands-on validation exercises for the special teams created, equipped, and trained by ITTF.

Additionally, IEMA has a robust informal monitoring program where program managers and other staff remain in close contact with subgrantees through telephone and e-mail interactions in addition to monthly ITTF meetings and subgrantee policy board meetings. In 2008, a staff member was assigned to the Chicago area to act as a direct point of contact for the Non-Profit and Transit subgrantees and as a resource for Chicago and Cook County UASI. Finally, IEMA pays most grant funds on a reimbursable basis after the subrecipient submits a valid vendor invoice or documentation of administrative costs, minimizing the risk of funds being expended for unallowable purposes.

Neither OMB Circular A-133, or any guidance from the awarding agency specifies that on-site monitoring is mandatory. The Compliance Supplement to Circular A-133 suggests that the SAA can review financial and progress reports submitted by subrecipients or schedule site visits to review records and observe operations. In addition they can review sub recipient's Single Audit reports. The level of scrutiny and type of monitoring activities are based on the risk assigned to the subgrantee and the complexity of the individual grant's compliance requirements. We believe that our interaction with subgrantees already has reduced that risk.

08-88. The auditors recommend IEMA review its current process for preparing award notifications in interagency agreements to ensure all required information is properly communicated.

Findings: IEMA did not provide accurate federal award information to the Illinois Department of Transportation (IDOT) resulting in an incorrect Catalog of Federal Domestic Assistance (CFDA) number being reported to subrecipients of the Homeland Security Cluster Program.

In discussing these conditions with IEMA officials, they stated that based on conflicting information from the federal government, they believe that the CFDA number that was included in the grant agreement with IDOT was correct at the time the grant was issued.

Updated Response: Implemented.

08-89. The auditors recommend IEMA review its advance funding policies and techniques for subrecipients and implement policies, techniques and a monitoring process to ensure subrecipients receive no more than 30 days of funding on an advance basis.

Findings: IEMA provided funds to a subrecipient of the Homeland Security Cluster Program in excess of its immediate cash needs during the year ended June 30, 2008.

During the October, 2008, the Illinois Office of Internal Audit (IOIA) conducted a review of the Homeland Security Cluster Program. The draft audit report indicated on July 11, 2008 IEMA made a duplicate payment to a subrecipient totaling approximately \$2,600,000 and did not formally

request the funds be returned until October 30, 2008, approximately 111 days after the duplicate payment was made.

In discussing these conditions with IEMA officials, they stated the duplicate payment was the result of the City of Chicago submitting some invoices that previously had been submitted and reimbursed.

Updated Response: Implemented.

RECOMMENDATION 90 Illinois State Police

08-90. The auditors recommend State Police deposit all federal funds received in an interest-bearing account and calculate and remit interest owed to the U.S. Treasury.

Findings: State Police did not deposit Homeland Security Cluster program funds received in advance of issuing warrants into an interest-bearing account.

In discussing these conditions with State Police personnel, they stated individuals responsible for the draws of these funds failed to notice this requirement.

Response: We concur. The State Police will work with the lead agency in determining a resolution.

RECOMMENDATIONS 91-93 State Board of Elections

08-91. The auditors recommend SBOE develop and implement formal monitoring procedures to perform on-site reviews to ensure subrecipients are administering its HAVA program in accordance with the applicable laws and regulations. (Repeated-2006)

Findings: SBOE is not performing on-site reviews of subrecipients receiving federal awards under the Help America Vote Act Requirements Payments (HAVA) program.

In discussing this condition with SBOE officials, they state that the agency is presently unable to do extensive on-site monitoring of sub-recipients due to the extremely limited staff resources available within the agency. In addition, the agency continues to feel that the extensive monitoring activities already performed by SBOE staff at the office level (desk reviews, documentation requirements and other policies/procedures) provide reasonable assurance of sub-recipient compliance with program guidelines.

Updated Response: We have previously requested guidelines from the USEAC for performing site-visits of HAVA grant sub-recipients but to date have received no substantial guidance in this area. Despite the lack of guidance or instructional material available, the HAVA Operations Division began conducting site-visits in December of 2009 with the substantive goal of verifying equipment purchased and proper usage of HAVA grant monies by local jurisdictions. Site visits will

be conducted as often as possible within the limited resources available in the HAVA Operations area – most likely one local jurisdiction per month.

08-92. The auditors recommend SBOE develop and implement procedures to ensure all subrecipients receiving federal awards have audits conducted in accordance with OMB Circular A-133. Such procedures should include provisions for:

- following up on delinquent reports
- performing desk reviews over the reports
- issuing management decisions within required timeframes
- following up on the subrecipient's implementation of its corrective action plan. (Repeated-2007)

Findings: SBOE did not obtain or review OMB Circular A-133 audit reports for subrecipients of the Help America Vote Act Requirements Payments (HAVA) program.

In discussing this condition with SBOE officials, they state that qualifying sub-recipients are now required to submit copies of their A-133 audit reports to SBOE, per notification sent to all sub-recipient entities in August 2008.

Updated Response: HAVA Operations division distributed a memo to all election jurisdictions reminding them of their responsibility to have audits conducted in accordance with OMB Circular A-133 (which was also provided to them) and to submit them to the SBOE for review. If follow-up is required the HAVA Operations Manager makes contact with the jurisdiction to ensure that proper implementation of any corrective action plan has taken place.

08-93. The auditors recommend SBOE deposit the required State matching contribution, as well as lost interest, into the Vote Fund. (Repeated-2006)

Findings: SBOE failed to meet the matching requirement of its Help America Vote Act Requirements Payments (HAVA) program.

During testwork, auditors noted the State appropriated \$5 million for the HAVA program; however, the amount appropriated was not sufficient to meet the matching requirement of \$5,189,000. The amount appropriated was incorrectly calculated as five percent of the federal portion of program funding versus five percent of total program expenditures. In addition, the matching contribution was not deposited into the Vote Fund when HAVA funding was received. As a result, SBOE did not meet the matching requirement applicable to the HAVA program as of June 30, 2008.

In discussing these conditions with SBOE officials, they stated that sufficient additional appropriation to fund this reimbursement was received in August 2008, and that refunding of the underfunded match payment (plus appropriate interest) was in process to the dedicated HAVA fund.

Updated Response: Implemented.

RECOMMENDATIONS 94-97
Department of Central Management Services

08-94. The auditors recommend DCMS establish a process for evaluating internal service fund balances and implement the necessary procedures to ensure these fund balances do not exceed the 60 day threshold allowed under OMB Circular A-87. DCMS should also implement procedures to ensure only expenditures meeting allowable cost criteria are used in establishing rates for expenditures charged to federal programs. (Repeated-2006)

Findings: DCMS did not establish adequate procedures to identify fund balances in excess of maximum amounts allowed under OMB Circular A-87.

Auditors noted DCMS had accumulated fund balances in its Communications Revolving Fund (CRF) and Statistical Services Revolving Fund (SSRF) funds in excess of amounts allowed under OMB Circular A-87 during state fiscal years 2004, 2005, 2006, and 2007. Upon further review, the FY08 fund balances of these funds were determined to be in excess of amounts allowed under A-87. The excess fund balances, including prior year carryforward balances were estimated to be \$3,533,000 and \$9,789,000 as of June 30, 2008 for the CRF and SSRF, respectively.

Additionally, DCMS is not properly reconciling federal internal service fund reports to its GAAP based financial statements as evidenced by the following unidentified reconciling items:

- Commission income totaling \$1,410,000 earned in CRF was not reported as revenue in the 2007 GAAP basis financial statements, but was reported for federal purposes in 2007;
- Encumbrances in the CRF totaling \$1,667,000 were not properly reported in the 2007 GAAP basis financial statements, but were reported for federal purposes in 2007;
- Increases of \$270,000 and \$161,000 in the compensated absences liability balances in CRF and SSRF, respectively, were reported in the FY07 GAAP basis financial statements, but were not reported for federal purposes in 2007;
- Equipment totaling \$2,869,000 purchased in the CRF during the FY07 lapse period was reported in the fiscal year 2007 GAAP basis financial statements, but was expensed in fiscal year 2008 for federal purposes;
- Equipment totaling \$715,000 purchased in the SSRF during the FY07 lapse period was reported in the FY07 GAAP basis financial statements, but was expensed in FY08 for federal purposes; and
- Accrued interest expense of \$1,041,000 in the Facilities Management Revolving Fund was reported in the FY07 GAAP basis financial statements, but was not reported for federal purposes in 2007.

The majority of the differences identified above represent timing differences which may have significantly altered the annual calculation of excess fund balances. As the reconciling items identified above have not been associated with a specific billed service, we are unable to determine the impact of these items on the federal share of the excess fund balances.

In discussing these conditions with DCMS officials, they stated that they believed they were in compliance with the federal guidelines.

DCMS Response: The Department concurs with the recommendations.

Fund Balances: The Department believes that its adjustment methods are acceptable. The Department does agree that adjustments should be timely. DCMS continues to adjust rates annually (c) and adjust central service cost allocations annually (d) to reduce exposure to excess balances. However, these annual adjustments cannot guarantee that excess balances will be entirely eliminated, since rates and costs are projections and are usage-sensitive. Billing credits (b), like cash refunds, take multiple years to apply, so the adjustment occurs no faster than a negotiated payback and requires significantly more up-front cash which the state does not have. Therefore, direct negotiated paybacks (a) have always been, and will likely continue to be, a part of the remedy for excess balances. The timeliness of direct paybacks is dependent on the federal review cycle. USDHHS includes imputed interest in the payback calculations in recognition of, and as compensation for, any delay in remedying the excess balances.

Reconciling Items: We have developed a more clear presentation of the reconciliation process for fiscal year 2008, and we are adjusting our practices where feasible to reduce the total number of reconciling items.

Updated Response: Implemented. The Department is settling with DCA for FY06-07-08, and has significantly reduced rates in FY08 and FY09 to adjust for excess balances.

08-95. The auditors recommend DCMS obtain effort certifications or personal activity reports where required for payroll and fringe benefit expenditures allocated to its federal programs through internal service fund charges. (Repeated-2007)

Findings: Adequate supporting documentation does not exist to substantiate payroll costs paid by the Communications Revolving Fund (CRF) and Statistical Services Revolving Fund (SSRF) which are allocated for reimbursement under federal programs operated by the State.

During testwork, auditors noted DCMS does not obtain effort certifications from employees who perform activities or services applicable to CRF and/or SSRF to verify that payroll expenditures reported in each of these funds correlate to the costs assignable to these funds. Specifically, DCMS allocated 50% of the payroll costs for approximately 61 employees paid from SSRF to CRF and allocated 50% of the payroll costs for approximately 21 employees paid from CRF to SSRF.

In discussing these conditions with DCMS officials, they stated that they believed they were in compliance with the federal guidelines.

Updated Response: Implemented. The Department revised its methodology for the FY08 SWCAP filing to be more consistent with treatment of overhead staff allocation elsewhere in the SWCAP.

08-96. The auditors recommend DCMS implement procedures to ensure only expenditures meeting allowable cost criteria are used in establishing rates for expenditures charged to federal programs. (Repeated-2007)

Findings: DCMS recorded costs that are not allowed under OMB Circular A-87 in its internal service funds.

Auditors noted other auditors had identified that DCMS had recorded unallowable costs in each of its internal service funds. Specifically, the auditors judgmentally selected a sample of 30 cash

disbursements (totaling \$1,510,022) from DCMS' internal service funds and found five of the disbursements tested (totaling \$1,433) were for costs that did not pertain to the fund in which they were recorded or were not necessary or reasonable in relation to the services provided by the fund. Total expenditures recorded in these funds approximated \$686,450,000.

In discussing these conditions with DCMS officials, they stated that they believed they were in compliance with the federal guidelines for the majority of these expenditures.

DCMS Response: The Department concurs with the recommendation. For administrative purposes, certain small expenditures supporting multiple funds are targeted to individual appropriations, but only allowable expenditures pertaining to fund operations are included in cost recovery/rates.

Updated Response: Implemented. The Department continues to identify and exclude unallowable costs from cost recovery calculations.

08-97. The auditors recommend DCMS ensure that all State agencies are billed internal service fund costs in a consistent manner in accordance with OMB Circular A-87. (Repeated-2007)

Findings: DCMS does not have an adequate process in place to bill State agencies for the use of services from the Statistical Services Revolving Fund (SSRF).

During testwork, auditors noted certain State agencies using SSRF information technology services were billed in an inconsistent manner. Specifically, State agencies whose information technology services were consolidated into DCMS during FY07 in accordance with Public Act 93-25, were billed the payroll and fringe benefit costs of the information technology personnel previously assigned to the State agency in a consolidated amount rather than at the rates established by CMS for the specific unit of service provided. The units of services and rates calculated for each of the affected State agencies were specific to the State agency and were not calculated using the same methodology used to establish the standard SSRF billing rates. The amounts billed to State agencies using the consolidated billing approach totaled \$8,817,000 for the year ended June 30, 2008.

In discussing these conditions with DCMS officials, they stated that they believed they were in compliance with the federal guideline.

DCMS Response: The Department partially concurs. The auditor's assertion is that any form of pass through charges is unallowable. We can find no language in A-87 prohibiting such billings. A direct billing is an individual rate for a dedicated service, and includes measured usage of that service. Further, the Department generally describes its billing methodology for pass through charges in its SWCAP submission.

The Department does agree that pass through charges should be minimized, and the charges referenced in the finding above were entirely eliminated in fiscal year 2009.

Auditors' Comment: Section II of the Cost Allocation Agreement dated July 23, 2008 (covering the year ending June 30, 2008) categorizes services from the Statistical Services Revolving Fund as billed services and Section III of this Agreement states that billed cost services are required to be billed in accordance with the rates established by the State. Billing agencies directly for all

payroll and fringe benefit costs associated with certain SSRF employees is not consistent with the rate setting methodology used to establish standard SSRF billing rates for similar services to other State agencies.

Updated Response: Implemented. The Department has completely eliminated these pass through billings in FY09.