

LEGISLATIVE AUDIT COMMISSION



Review of
Federal Single Audit
Year Ended June 30, 2002

Limited Review Including
DCFS, DOT, DCCA, and DNR

622 Stratton Office Building
Springfield, Illinois 62706
217/782-7097

**REVIEW: 4190
FEDERAL SINGLE AUDIT
YEAR ENDED JUNE 30, 2002**

**Limited Review Including
DCFS, DOT, DCCA, DNR**

FINDINGS/RECOMMENDATIONS - 62

REPEATED RECOMMENDATIONS - 26

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 50

Beginning with FY2000, the Office of the Auditor General converted to a Statewide Single Audit approach to audit federal grant programs. The audit was conducted in accordance with the federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133. In prior years, audits of federal grant programs were conducted on a department by department basis.

The Statewide Single Audit includes all State agencies that are a part of the primary government and expend federal awards. In total, 39 State agencies expended federal financial assistance in FY2002. 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 \$13.022 billion for the year ended June 30, 2002. This represents an \$849.6 million increase over FY2001, or 7%. Overall, the State participated in 318 different federal programs; however, ten of these programs or program clusters accounted for approximately 80.1% (\$10.4 billion) of the total federal award expenditures as exhibited in the following table.

Federal Program Award	Total Expenditure	% of Total
Medicaid	\$ 4,686,500,000	36%
Unemployment Insurance	2,038,100,000	15.6%
Food Stamps	1,000,500,000	7.7%
Highway Planning, Construction	795,200,000	6.1%
TANF	474,400,000	3.6%
Title 1 Education Grants	353,000,000	2.7%
Special Education	298,500,000	2.3%

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Child Nutrition	296,000,000	2.3%
Title IV -E Foster Care	281,300,000	2.2%
Child Care	210,700,000	1.6%
All Others	2,587,800,000	19.9%
Total Federal Awards	\$ 13,022,000,000	

The funding for the 318 programs was provided by 20 different federal agencies. The table below shows the five federal agencies that provided Illinois with the vast majority of federal funding in FY2002.

Federal Funding Agency	Total Grant	% of Total
Health & Human Services	\$6,446,700,000	49.5%
Labor	2,272,500,000	17.5%
Agriculture	1,603,900,000	12.3%
Education	1,241,600,000	9.5%
Transportation	1,007,500,000	7.7%
All Others	449,800,000	3.5%

A total of 45 federal programs were identified as major programs in FY2002. A major program was defined as any that meets certain criteria when applying the risk-based approach. In FY2002, there were 33 of the 45 major programs with federal award expenditures exceeding \$30 million. The 45 major programs had combined expenditures of more than \$11.9 billion, and 273 non-major programs with combined expenditures of almost \$1.1 billion. Nine State agencies accounted for approximately 97.2% of all federal dollars spent in FY2002 as depicted in the table below.

State Agency	Federal Expenditures	% of Total
Public Aid	\$ 4,692,500,000	36%
Human Services	2,378,900,000	18.3%
Employment Security	2,253,400,000	17.3%
Board of Education	1,318,600,000	10.1%
Transportation	978,700,000	7.5%
DCFS	466,100,000	3.6%

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ISAC	202,800,000	1.6%
DCCA	199,200,000	1.5%
EPA	162,600,000	1.3%
All Others	369,200,000	2.8%

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

State Agency	Number of Findings	Repeat Findings
State Comptroller	1	0
Public Aid	7	6
Human Services	10	4
DCFS	9	5
Board of Education	9	2
ISAC	4	3
Transportation	3	0
Commerce & Community Affairs	2	0
Employment Security	3	1
Natural Resources	3	2
EPA	6	0
Criminal Justice Information Authority	3	2
Corrections	1	1
Public Health	1	0
TOTAL	62	26

RECOMMENDATIONS 1-13
Office of the Comptroller (Rec #1) and
DHS (Rec #2), DCFS (Rec #3), SBE (Rec #4), ISAC (Rec #5), DOT (Rec #6), DCCA
(Rec #7), IDHS (Rec #8), DNR (Rec #9), EPA (Rec #10), ICJIA (Rec #11), and
DPH (Rec#12)

The findings for the first 12 recommendations are very similar and relate to the timely compilation of a complete and accurate schedule of expenditures of federal awards (SEFA). The State's process for compiling the SEFA requires each State agency to complete a series of manual financial reporting forms (SCO forms) which detail by fund the federal program number, total program expenditures, funds passed through to subrecipients, and transfers of program funds between State agencies for each federal program. The SCO forms are collected by the Office of the Comptroller (IOC) and are reviewed for any discrepancies or errors. Once all errors and discrepancies have been resolved with the responsible State agency, the finalized SCO forms are forwarded to the Office of the Auditor General (OAG) for the compilation of the SEFA. Additionally, the OAG performs a series of analytical and verification procedures to ensure amounts reported are complete, accurate and properly presented.

Due to the complexity and manual nature of the SCO forms and delays in their submission by the agencies, and the Office of State Comptroller's review for completion, the majority of the final SCO forms were not completed or available to the OAG until late February. Although the information is due to the Comptroller on August 30, many agencies submit the information after that date. Corrected information continues to flow in for several more weeks. As a result, the compilation of the SEFA was not completed until April, nine months after the close of the fiscal year. Failure to prepare the SEFA in a timely manner prevents the State from completing an audit in accordance with OMB Circular A-133, which may result in the suspension of federal funding.

- 3. The auditors recommend that DCFS review the current process for reporting federal expenditures to the State Comptroller and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to US Department of Health & Human Services. Additionally, DCFS should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the Comptroller.**

Response: The Department is evaluating its process for timely completion of the required forms. Additionally, we will be assessing the process used to collect data in effort to increase the forms accuracy.

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

Updated Response: The Department has implemented a secondary review of the reports filed with the Comptroller to ensure federal expenditures are timely and accurately reported. For FY03 these reports were filed based on timeframes set by the Comptroller.

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

Updated Response: Implemented. In order to facilitate a more timely reporting of all payables attributable to each fiscal year, a report has been created to help identify additional payables. This report identifies obligations for re-appropriated accounts and identifies payments made against these accounts in July and August of the next fiscal year. The report identifies service dates and enables the Department to know if all payments have been received for the fiscal year being audited. The report may require additional modifications to ensure that the best information is being generated.

The Accounting Unit manager has always reviewed fund packages and associated reports to federal agencies. During FY 2002, the manager of the Accounting Unit had to prepare the fund packages due to the vacancy in the position responsible for the preparation of fund packages and financial reports. Therefore, the same person had to prepare and review the packages. During FY2003, this information is being prepared by the General Accounting Unit Manager and then is being reviewed by the Accounting Unit Manager.

All FY2003 fund packages have been submitted to the Comptroller's Office. The Department should be able to complete all required reports in a timely manner.

7. **The auditors recommended that DCCA (DCEO) review the current process for reporting federal expenditures to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, DCCA (DCEO) should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to the submission to the IOC.**

Response: Accepted. The Department agrees with the recommendation and will comply with any changes to the SEFA preparation process including following SAMS procedures to ensure the SCO forms are submitted with complete, accurate, and properly presented information. Accounting staff will also attend any State-sponsored training on SCO and SEFA reporting.

9. The auditors recommend IDNR review the current process for reporting federal expenditures to the IOC and implement changes necessary to ensure the timely submission of complete and accurate forms. This process should include a reconciliation of the reporting packages to the accounting system and reports submitted to federal agencies. Additionally, IDNR should ensure a supervisory review is performed by a person knowledgeable of the reporting requirements prior to submission to the IOC.

Updated Response: We concur. In 2003, IDNR established new methodologies to gather information to ensure the accuracy of our reporting of federal expenditures. Due to retirements and the resulting loss of staff knowledgeable in GAAP reporting procedures and the unavailability of data from existing automated financial systems by reporting due date, some of the Department's FY2003 GAAP packages were submitted up to one month late. The Department will strive to assign additional staff to the GAAP reporting process in FY2004 and will investigate potential revisions in existing accounting systems to ensure the timely submission of future information of federal expenditures.

**RECOMMENDATIONS 13-19
Department of Public Aid**

**RECOMMENDATIONS 20-28
Department of Human Services**

**RECOMMENDATIONS 29-36
Department of Children and Family Services**

29. Implement procedures to monitor whether or not permanency hearings have been performed for all beneficiaries within federally prescribed timeframes. Such procedures should include identifying children who are not eligible for assistance under the Foster Care program as a result of permanency hearings not being performed within required timeframes.

Findings: DCFS did not ensure that foster care permanency hearings were performed within the federally required timeframes. The auditors noted in testwork of 30 case files that permanency hearings were not performed within the required timeframes of 12 months for four beneficiaries.

Response: DCFS agrees. The Department has developed and implemented a procedure for identifying and notifying responsible management of delinquent permanency hearings. The Department will continue to work with the Illinois Court

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system to ensure permanency hearings meet the federal requirements. The department has made the appropriate claiming adjustment for the questioned cost noted.

30. Implement procedures to ensure:

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

Evaluate the current staffing of the Fiscal Monitoring Department to ensure resources are adequate. Consider revising on-site monitoring policy for federal programs to use a risk based approach for selecting subrecipients for on-site visits. (Repeated-1999)

Findings: DCFS is not adequately performing fiscal monitoring procedures for subrecipients who receive TANF, foster care and adoption assistance. In the auditors' sample of 50 of 108 subrecipient monitoring files, 30 submitted their required audit reports after the 180-day deadline. Additionally 30 subrecipient files did not evidence any review of the A-133 audit reports received. None of the 50 subrecipients had been subject to a fiscal on-site review within the last three years.

Response: The Department has developed and implemented a procedure to notify subrecipients of audit requirements, track the receipt of all required audits and follow-up on all audits that are not received within 180 days of year end.

The Department has also implemented a risk-based approach to prioritize the review of audits and the assignment of staff to on-site reviews. The Department has programmatic units who perform on-site compliance reviews of subrecipients. Information concerning non-compliance issues from these reviews is shared with the Office of Field Audit to aid in determining overall risk and assignment of limited staff resources.

Updated Response: The Department has established a process to identify those subrecipients whose audits have not been received within 180 days of their fiscal year end. This process includes follow-up contact with subrecipient.

DCFS has increased the funding for the desk review and field audit units by seven staff members. This increase in staff should allow the Department to review subrecipient audits in a timely manner.

31. Review procedures for documenting and executing adoption agreements and implement any changes necessary to ensure adoption assistance agreements exist for all children for whom adoption subsidy payments and nonrecurring adoption expenditures are claimed.

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Findings: DCFS could not provide documentation that adoption agreements had been executed prior to making payment for adoption subsidies and nonrecurring adoption expenses. When the auditors reviewed 140 case files, they discovered four instances of non-compliance.

Response: We agree that all adoption agreements should be executed prior to subsidy payments and nonrecurring cost being claimed. The Department has implemented a quality assurance procedure to verify that adoption agreements have been properly executed prior to payments receiving final approval for payment.

The Department has made the appropriate adjustment to claiming for the noted questioned costs.

32. Review procedures for coding expenditures with the affected region and implement any changes necessary to ensure that only allowable costs are claimed for reimbursement.

Findings: Unallowable costs were charged to the Adoption Assistance program. During testwork of 60 non-recurring adoption expenditures, the auditors noted eight expenditures for day care services, which do not appear to be allowable nonrecurring expenses. Nonrecurring adoption expenses are defined as adoption fees, court costs, attorney fees, and other expenses directly related to the legal adoption.

Response: We agree. DCFS is developing a procedure to review service coding to determine which codes warrant periodic analysis. This analysis will review changes in expenses, allowing staff to detect instances of material fluctuation to establish if a miscoding has occurred. In addition, we have informed the appropriate managers of the noted error and have verified that current payments are correctly coded.

We have made the appropriate claiming adjustments for the noted questioned cost.

33. Stress the importance of preparing and completing the initial service plans timely to all caseworkers to comply with federal requirements. Consider disciplinary action for those caseworkers who do not comply with this requirement. (Repeated-1999)

Findings: DCFS did not prepare initial case plans within 60 days of the child's removal from their home. During a review of 50 case files, 12 initial case plans were completed from 10 to 51 days late.

Response: We concur. The Department continues to stress the importance of adequate and timely documentation for child case files. The Department has been developing Best Practices for Child Welfare, which is being used in the design of the

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federally funded SACWIS project. SACWIS will be an integrated system that will automate the preparation of case plans and other required documentation. In the interim, we continue to stress the importance of adequate and timely case planning as a key component of providing quality service to children.

34. Document the review and approval of cash draw calculations.

Findings: DCFS does not document the review and approval of cash draw calculations for the Foster Care and Adoption Assistance program. DCFS calculates its cash draw each month as the lesser of 1/3rd of the quarterly grant award or estimated monthly expenditures. The calculation is subject to supervisory review and approval; however, this approval is verbal and the review is not formally documented. All three of the cash draws tested appear to have been accurately performed.

Response: The Department has implemented a change in the cash draw review procedure. We are now requiring the independent reviewer to initial the report for the cash draw calculation.

35. Review process for determining eligibility under the TANF program, and stress the importance of accurately performing and documenting eligibility determinations to ensure only expenditures for eligible beneficiaries are claimed for reimbursement. (Repeated-2001)

Findings: DCFS claimed emergency assistance payments under TANF for one ineligible beneficiary among 40 cases tested. Expenditures reimbursed on behalf of the ineligible child totaled \$9,417.

Response: The Department agrees the eligibility determination process is of the utmost importance. We have taken steps to ensure the responsible employees are adequately trained. We have implemented a quality control process to review each employee's work proportional to his or her error rates.

The Department has adjusted TANF claiming for the noted questioned cost.

36. Utilize actual costs to calculate indirect cost rate. DCFS should ensure adequate documentation exists to support all cost pools included in the calculation of the cost rate. (Repeated-2001)

Findings: DCFS improperly used an estimate of equipment expenditures in calculating the indirect cost rate used during FY02.

Update Response: The Department's amended plan for FY02 as well as the FY03 and FY04 Indirect Cost Rate plans have been approved. These plans do not include an estimated expenditure for equipment.

RECOMMENDATIONS 37-44

State Board of Education

RECOMMENDATIONS 45-47

Student Assistance Commission

RECOMMENDATIONS 48 & 49

Department of Transportation

- 48. Implement procedures to require all subrecipients receiving federal awards from the Department either submit their OMB Circular A-133 reports, or submit a statement that they did not expend more than \$300,000 in federal awards and thus did not have an OMB Circular A-133 audit performed. Additionally, evaluate the current staffing of the internal audit department to ensure resources are adequate to review the OMB Circular A-133 audit reports within sixty days of receipt.**

Findings: DOT is not requesting OMB Circular A-133 audit reports from all subrecipients and is not reviewing the reports received within 60 days.

Response: OMB Circular A-133 requires that the reports should be reviewed within six months from receipt. All such reports tested were reviewed within the six month requirement.

The Department's Audit Section will plan to develop the appropriate monitoring system to request from all subrecipients their required OMB Circular A-133 audit reports. There were 581 such subrecipients noted for fiscal year 2002. The reports received from those subrecipients that are required to have such audits performed, will be reviewed within six months from the date they are received as required by OMB Circular A-133. The Department will, however, work at meeting the 60-day review requirement suggested by the auditors. If, however, the Audit Section's subrecipient monitoring responsibilities, capabilities, and personnel are transferred to the Department of Central Management Services (CMS) as is planned, subsequent audit follow-up regarding compliance and corrective action should be made with the appropriate CMS personnel.

Updated Response: For FY2003 Single Audit Reports, the Audit Section will be contacting all subrecipients that received any federal funds from the Department and review their single agency audit reports as required.

- 49. Establish procedures to review and certify the accuracy of the clearance pattern for administrative draws at least once every five years. Such procedures should include performing a statistical study to compute the actual clearance pattern of each program.**

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Findings: DOT has not reviewed or re-certified the accuracy of the clearance patterns specified in the Treasury-State Agreement related to administrative cash draws for the Highway Planning and Construction Program. The current pattern was established in 1993 and has been used without review.

Response: The Department's Audit Section will plan to develop the appropriate procedures to test and certify to the accuracy of the clearance pattern for payroll warrants. If, however, the Audit Section's Cash Management Improvement Act compliance and monitoring responsibilities are transferred to the Department of Central Management Services (CMS) as is planned, subsequent audit follow-up regarding compliance and corrective action should be made with the appropriate CMS personnel.

Updated Response: For the FY2003 Cash Management Improvement Act calculation, the Audit Section will be testing and re-certifying the administrative labor costs clearance patterns.

RECOMMENDATION 50 Department of Commerce and Community Affairs (Department of Commerce and Economic Opportunity)

50. Obtain effort certifications or personal activity reports for all payroll and fringe benefit expenditures charged to federal programs.

Findings: Adequate supporting documentation does not exist to substantiate payroll and indirect costs claimed for federal reimbursement under the LIHEAP and CSBG programs administered by DCCA. The auditors reviewed a sample of 10 CSBG payroll and fringe benefit expenditures noting the effort certifications on file indicated the individual had spent 100% of his or her time working on programs and activities of the Division of Economic Opportunity, but did not indicate the specific federal programs on which the individual had worked.

Employees who perform activities for both the LIHEAP and CSBG programs were charged 100% to LIHEAP or CSBG instead of allocating these costs in proportion to the costs incurred by each of the programs. If an employee works solely on one federal program and 100% of their salary or wages are charged to the program, DCCA must obtain a certification from the employee or their direct supervisor that 100% of their time is spent on the single federal program.

Updated Response: Accepted. Time sheets are being prepared by LIHEAP and CSBG staff. The agency has an automated timekeeping system under development that will replace the manual system.

RECOMMENDATIONS 51 & 52
Department of Employment Security

RECOMMENDATIONS 53 & 54
Department of Natural Resources

- 53. Continue to seek determinations of issues concerning the Fish and Wildlife Programs and upon receiving the determinations, if necessary, modify activities and grant operations to ensure compliance. (Repeated-1999)**

Findings: An audit conducted by the federal government of grants awarded to DNR's during FY96 and FY97 revealed questions regarding expenditures of license revenues, appropriate federal cost principles, and indirect cost reimbursements.

Response: We concur. In April 2003, the U.S. Fish and Wildlife Service issued its Corrective Action Plan (CAP) for the audit performed by the Defense Contract Audit Agency. In this CAP, the Service did not sustain the Defense Contract Audit Agency's recommendations relating to the application of cost principles and indirect costs rates for grant projects awarded to the Illinois Natural History Survey. Thus, these issues have been resolved without repayment of questioned costs. The Service also did not sustain many of the Defense Contract Audit Agency's conclusions regarding the diversion of license revenues. The Service's CAP defines the actions IDNR has agreed to take to resolve all sustained findings, and IDNR is currently working with the Service to implement these actions in a timely manner.

- 54. Direct the Division of Mine and Water Resource Finance of the Office of Fiscal Management to ensure all federally funded equipment include the "F" prefix in the Department's property records. (Repeated-2001)**

Findings: DNR did not identify equipment purchased or reimbursed by the Federal Mining program. Equipment not properly identified as federally funded totaled \$218,710 in FY02.

Response: We concur. Action to include the required "F" prefix in the Department's property records for all federally funded equipment currently is in progress. Such action is scheduled to be completed by September 2003.

RECOMMENDATIONS 55-59
Environmental Protection Agency

RECOMMENDATIONS 60 & 61
Criminal Justice Information Authority

RECOMMENDATION 62
Department of Corrections

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